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Sent by email to [economicregulation@caa.co.uk](mailto:economicregulation@caa.co.uk)

**Re. Strategic outcomes for the economic regulation of NERL 2020-2024: Discussion document (CAP 1511)**

Dear Matt,

British Airways (BA) welcomes the opportunity to respond to the CAA's discussion document on the CAA's proposed strategic outcomes for NERL in the 2020-2024 period and the CAA's proposed timetable for development of the EC RP3 Performance Plan.

1. BA supports the 3 strategic outcomes as proposed by the CAA for the economic regulation of NERL in the 2020-2024 period. The focus on accountability, cost and service outcomes are aligned with how BA manages its suppliers and so at a high-level we agree with the CAA's position.
2. The key priority for the 2020-2024 period is that LAMP2 needs to be delivered as soon as possible within this timeframe. It has already been delayed from RP2 and airspace users, both consumers and airlines, are having to absorb the consequences of increasing congestion and delay for a longer period of time than previously envisaged. BA is clear that LAMP2, whilst it may need to be cognisant of runway expansion, is a separate issue.

*Effective accountability mechanisms*

3. Developing 'effective accountability mechanisms' should be a key priority for the CAA. The fundamental changes to the RP2 capital programme, which were effectively imposed on airspace users due to changing circumstances, and the scale of the upcoming changes to both complete delivery of DSESAR technology modernisation and the long overdue airspace modernisation for LAMP2 and runway capacity expansion make these a priority. Whether these take the form of a capital delivery trigger or some other mechanism this should be a key area for debate in the development of the UK RP3 performance plan. We look forward to hearing the CAA's proposals for such mechanisms during the development of the performance plan.

4. BA welcomes the CAA's proposals on investment planning and delivery<sup>1</sup> and the recognition that a "greater level of regulatory scrutiny and meaningful consultation"<sup>2</sup> is expected by stakeholders, and we agree that we should be able to make "meaningful inputs"<sup>3</sup> to NERL investment decisions. Ongoing consultation through the interim SIP process and the deep-dives held by NERL on key topics support this.
5. The status of existing and future funding from Europe is unclear at this time and we note that until we have clarity the impact on NERL deliverables and potentially on prices is unknown.

*Efficient prices*

6. For 'efficient prices' BA wants the CAA to regulate NERL in a manner that delivers similar outcomes as if NERL was operating in a competitive market, i.e. delivering operating expenditure and capital expenditure efficiently with the aim of controlling and possibly reducing prices where the opportunity exists. The approaches identified by the CAA will all contribute to delivering efficient prices.
7. BA agrees that pension obligations will clearly be an area of debate during development of the performance plan. We have supported the CAA's approach in using independent benchmarking to inform policy in this area and will continue to engage on this issue which is impacting NERL, BA and other companies.
8. Cost of capital will be a key regulatory debate and we would expect development of the performance plan to take account of prevailing market conditions and the impact of other changes such as the extension to the NERL licence notice period to 15 years which should have a beneficial impact in this area.

*Continued improvement in service quality*

9. BA supports 'continued improvement in service quality' and agrees strongly that resilience should be explicitly prioritised within this, particularly as there is significant upcoming technological change and when airspace modernisation has been pushed back in to the RP3 period.
10. A review of how best to measure NERL capacity and delay performance is supported by BA and we will look to input on what we believe are metrics that best reflect the impacts and costs imposed by performance levels in this area.
11. The identification of resilience as priority is welcomed and this should be linked to the development of the CAA's metrics for enforcement proposed in CAP 1512. In particular we welcome the proposal that such a resilience metric could focus on providing an effective/resilient service where there are demand and capacity imbalances and that NERL should "act in the interests of the air traffic management network as a whole". BA believes that

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<sup>1</sup> Para 2.4

<sup>2</sup> Para 2.5

<sup>3</sup> Para 2.6

such a metric could better reflect the importance of the London airport system and airspace to the performance of the wider UK air traffic system and would welcome further consideration of this during discussions ahead of the 2020-2024 period.

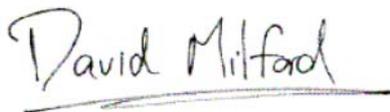
12. Changes to policy on noise will need to take account of the wider policy issues in this area relates to airspace redesign and runway expansion. Mitigating noise impacts needs to be considered alongside delivery of new capacity and ongoing and future operating costs for airspace users.
13. BA recognises that the European Commission's work on the SES performance framework incentives will inform service quality incentives. Whilst we are open to the question of whether SEASR arrangements provide incentives to innovate we would expect that the current regulatory framework should support this, incentivising NERL to innovate and realise cost savings that can deliver benefits for them by making savings within the regulatory period and for wider stakeholders in the long-term.

*Proposed timetable*

14. The proposed timetable shown in the discussion document, aligned with the European Commission's key milestones, is supported by BA and we will work with the CAA, NERL and other stakeholders to refine this as the programme develops. We would suggest that consultation work during the programme aligns with the proposed strategic outcomes. BA will engage with the CAA on how its work on regulatory innovations in other sectors could be applied to NERL in the 2020-2024 period.

If you have any queries on this response please contact me at [david.milford@ba.com](mailto:david.milford@ba.com).

Yours sincerely,



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