

## **Virgin Atlantic Airways (VAA) response the CAA Discussion Document - Strategic Outcomes for the Economic Regulation of NERL 2020-2024 (CAP 1511)**

31<sup>st</sup> May 2017

Dear Mr Claydon

VAA welcomes the opportunity to respond to the CAA's discussion document: "Strategic Outcomes for the Economic Regulation of NERL 2020-2024" including the CAA's proposed timetable for development of the European Commission RP3 Performance Plan.

### *Summary*

1. VAA supports the three strategic outcomes as proposed by the CAA for the economic regulation of NERL in the 2020-2024 period.
2. We believe the "delivery" priority for the 2020-2024 period is that the LAMP2 programme should be delivered as soon as possible within this timeframe. Having been delayed from RP2, airspace users will have to deal with the consequences, including increasing airspace congestion and air traffic delays for longer than previously envisaged.
3. Efficient prices, including a scrutiny of "value for money" will be essential for RP3.

### *Effective accountability mechanisms*

4. Due to the changes to the RP2 capital programme, which were effectively imposed on airspace users due to changing circumstances, developing 'effective accountability mechanisms' should be a key priority for the CAA. This reflects the proposed scale of the upcoming changes to complete the delivery of DSESAR technology modernisation and the long overdue airspace modernisation for LAMP2 and runway capacity expansion plans. Whatever forms these take, 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 plan.
5. VAA welcomes the CAA's proposals on investment planning and delivery and the recognition that a "greater level of regulatory scrutiny and meaningful consultation" is expected by all stakeholders. We agree that we should be able to make "meaningful inputs" to NERL investment decisions and the consultation through the interim SIP process and the recent "deep-dives" held by NERL should support this.

6. We understand and accept that the status of existing and future funding from Europe is unclear at this time and we note that until this situation becomes clear the impact on NERL deliverables and potentially on prices is unknown.

#### *Efficient prices*

7. For 'efficient prices' VAA requests that the CAA regulates NERL in a manner that delivers operating and capital expenditure efficiently, with the aim of controlling and where possible reducing prices where the opportunity exists. The approaches identified by the CAA should all contribute to delivering efficient prices, whilst enabling "value for money".
8. VAA agrees that pension obligations will likely be an area of debate during development of the performance plan and support the CAA's approach in using independent benchmarking to inform policy in this area.
9. The cost of capital will be a key regulatory debate and we 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*

10. VAA supports 'continued improvement in service quality' and agrees that resilience should be prioritised within this. This is particularly important taking into account the proposed significant upcoming technological changes.
11. We support a review of how best to measure NERL capacity and delay performance and will look to input on what we believe are metrics that best reflect the impacts and costs imposed by performance levels in this area.
12. The identification of resilience as a priority is welcomed. In particular we welcome the proposal that 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".
13. Changes to policy on noise will need to take account of the wider policy issues in this area related to airspace redesign and runway expansion. Mitigating the impact of noise needs to be considered alongside delivery of new capacity and ongoing and future operating costs for airspace users.
14. VAA acknowledges that the European Commission's work on the SES performance framework incentives should guide or inform service quality incentives. Whilst we are open to the question of whether SESAR arrangements provide incentives to innovate, we would expect that the current regulatory framework should support this, incentivising NERL to innovate and realise cost savings within the regulatory period and in the long-term for all stakeholders.

*Proposed timetable*

15. We support the proposed timetable shown in the discussion document and the alignment with the European Commission's key milestones for the development of the RP3 Performance Plan. We would be happy to engage with the CAA on how its work on regulatory innovations in other sectors could be applied to NERL in the 2020-2024 period.