

NERL Oceanic Charges: Proposals for a charge cap - 2015-2019

A consultation document

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CHAPTER 1

Introduction

Purpose

- 1.1 The purpose of this document is to consult users on the CAA's proposals for a charge cap on NATS En Route plc (NERL)'s Oceanic services for the period 1 January 2015 to 31 December 2019.

Background

- 1.2 The CAA currently regulates the maximum that NERL can charge users for Oceanic services by means of a condition in the NERL En Route Licence issued under the Transport Act 2000. The current charge control was set in December 2010. The maximum charge per Oceanic Flight was £64.92 in the year April 2011-March 2012. This maximum was then constrained to fall (in real terms) by the increase in the Retail Price Index (RPI) minus 4 percent (RPI-4%) in each of the three succeeding years until the year ending March 2015.
- 1.3 If adopted, the proposals in this consultation document would be included in a new charge condition that would apply for the five years from 1 January 2015 to 31 December 2019. It should be noted that these proposals would end the current charge condition three months earlier than originally specified in order for it to be aligned on a calendar year basis with NERL's other regulated charges. (It is anticipated that in these circumstances NERL would also change the charging year for Oceanic charges to a calendar year.)
- 1.4 The price base used in this document is 2012 prices unless otherwise stated.

Why is Oceanic being considered separately from other en route services?

- 1.5 A joint UK-Ireland FAB Performance Plan setting out targets for safety, environment, capacity, and cost efficiency for domestic en route and terminal services has been prepared in accordance with EU Single European Sky (SES) legislation.¹ The Oceanic services are not covered by this legislation. Moreover, the service is sufficiently different from the service in UK domestic airspace to merit a separate treatment from the approach mandated under SES.

1 Regulation (EC) No 549/2004 of the European Parliament and of the Council of 10 March 2004 laying down the framework for the creation of the single European sky, available from: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2004R0549:20091204:EN:PDF>

- 1.6 The assumptions behind the proposals for Oceanic services in this consultation document are, however, intended to be fully consistent with the traffic and financial projections for the UK-Ireland FAB Performance Plan.

Views invited

- 1.7 Any representations and comments should be sent, if possible, by e-mail, to NATSoceanic@caa.co.uk by **25 September 2014**. Alternatively, comments may be sent by post to:
- Stephen Gifford
Head of Economic Regulation
Markets and Consumers Group
CAA, 4th Floor, CAA House, 45-59 Kingsway, London WC2B 6TE
- 1.8 The CAA expects to make responses available on its website² for other interested parties to read as soon as practicable after the period for written comments expires. Any material that is regarded as confidential should be clearly marked as such. Please note that the CAA has powers and duties with respect to information under section 102 of the Transport Act 2000 and the Freedom of Information Act 2000.
- 1.9 If you would like to discuss with the CAA any aspect of this document, please contact Mike Goodliffe at 020 7453 6226, mike.goodliffe@caa.co.uk or Anna Zalewska at 020 7453 6291, anna.zalewska@caa.co.uk.

Next steps

- 1.10 The CAA is planning to hold an industry seminar for NERL and its users where the CAA will make a presentation on this document and invite questions and initial comments. The seminar will take place on **1 September (10:00-12:00) at the CAA's offices** at 45-59 Kingsway, London WC2. Those wishing to attend should send an email to NATSoceanic@caa.co.uk by 22 August 2014.
- 1.11 The CAA does not currently intend to hold any subsequent formal hearings given the relatively small scale of the Oceanic business. The CAA intends to rely largely on the written responses from stakeholders and feedback received at the industry seminar.
- 1.12 After allowing sufficient time to consider all responses to this consultation, the CAA anticipates that it will issue a notice setting out its intended licence modifications in mid October 2014. The CAA would then publish a final decision in early December to allow the changes to have effect from 1 January 2015. It should be noted that the Transport Act 2000 gives the licence holder the right of appeal to the Competition and Markets Authority (previously the Competition Commission).

2 www.caa.co.uk/natslicence

- 1.13 It is envisaged that this licence modification process will take place at the same time as and alongside other modifications to the licence arising from the parallel SES process.³

3 The adopted UK-Ireland FAB Performance Plan for RP2 (2015-2019) is available from: <https://www.gov.uk/government/publications/single-european-sky-performance-scheme-2015-to-2019>.



CHAPTER 2

NERL's Oceanic business

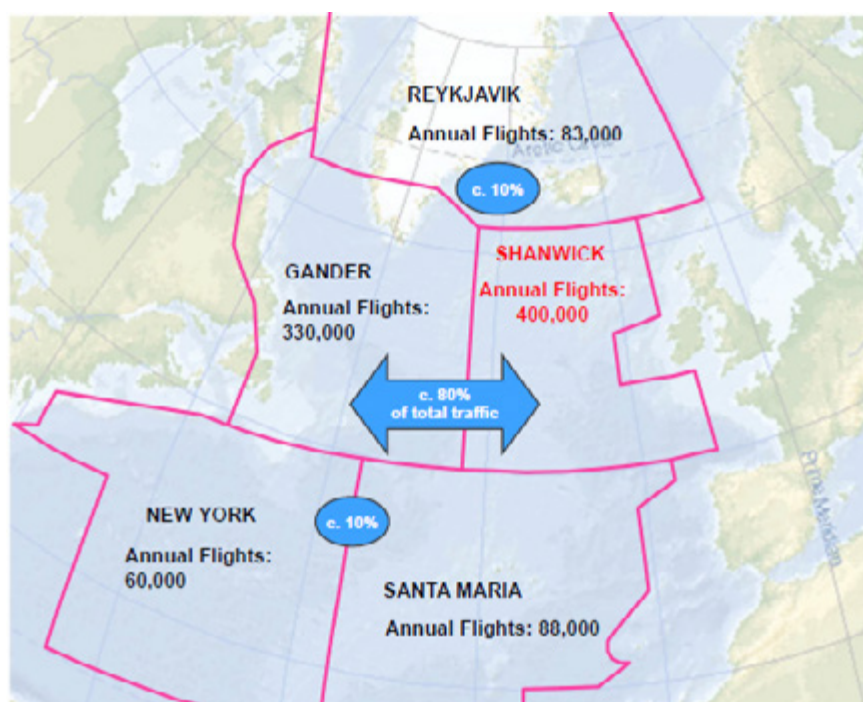
Introduction

- 2.1 This chapter sets out the characteristics of the Oceanic business including those that distinguish it from UK domestic Air Traffic Control services (UKATS), which include the Eurocontrol business⁴.

Background

- 2.2 The management of the Shanwick area of oceanic airspace over the North Atlantic is delegated to the UK and Ireland by ICAO⁵. The UK is responsible for air traffic service and datalink communications while Ireland is responsible for high frequency communications.

Figure 2.1: service providers in the North Atlantic



Source: NERL

- 4 Eurocontrol business is defined in the NATS Licence as "the business of the Licensee consisting in the provision of services for which Eurocontrol Charges are paid."
- 5 International Civil Aviation Organisation - an agency of the United Nations Organisation.

- 2.3 As shown in Figure 2.1, the Shanwick area is one of five service providers across the North Atlantic. The management and development of airspace governed by ICAO is through the North Atlantic System Planning Group (NATSPG) and sub-groups. The vast majority of flights (c.80%) are handled by a combination of the Shanwick service and the service provided by Nav Canada from Gander.
- 2.4 Oceanic is a non-surveillance operation (i.e. there is no radar coverage). Separation of aircraft is assured through clearance and management of planned flight trajectories. For transatlantic flights there is an organised track system (OTS), planned on a daily basis, depending on the position of the prevailing Jetstream, to minimise the adverse effect on westbound flights and maximise the benefit to eastbound flights.
- 2.5 There is considerable collaboration between NATS and Nav Canada at both a strategic and a tactical level. NATS has a long-term strategic relationship with Nav Canada for the provision of the Oceanic flight data processing system and supporting datalink systems. This technology is currently being upgraded and replaced under the COAST programme (collaboration of Oceanic airspace and system tools) based on a high level of commonality with the equivalent systems being implemented by Nav Canada. At a tactical level NATS and Nav Canada share planning of the OTS for Shanwick and Gander with NATS focusing on westbound and Nav Canada on eastbound flights.

Scale of the business

- 2.6 Figure 2.2 illustrates the small scale of the Oceanic business with costs and revenues representing about 4% and the regulatory asset base representing about 3% of the NERL business.

Figure 2.2: Scale of Oceanic business

	£ million (2013/4 out-turn prices)	As Percentage NERL
Total revenue	26.8	3.6%
Total cost	25.5	3.8%
Total operating profit	1.3	2.0%
Average Regulatory Asset Base	31.6	2.6%

Source: NERL regulatory accounts and CAA calculation