

Request for further information to NERL for the NR23 Business Plan submission: cost and revenue building blocks

CAP2306

Published by the Civil Aviation Authority, 2021

Civil Aviation Authority
Aviation House
Beehive Ring Road
Crawley
West Sussex
RH6 0YR

You can copy and use this text but please ensure you always use the most up to date version and use it in context so as not to be misleading, and credit the CAA.

First published December 2021

The latest version of this document is available in electronic format at: www.caa.co.uk

Contents

Contents	3
Purpose and background	4
Background and context	4
Detail we expect to see in the business plan for cost and revenue building blocks	6
Overview	6
Examples of detailed evidence	7
Next steps	12

Purpose and background

1. This document sets out the CAA's request for further information (RFI) and detail in relation to the operating expenditure, capital expenditure and non-regulatory revenue building blocks to be included in NERL's NR23 business plan, which we expect to be submitted by 7 February 2022.
2. This is to support the CAA, and its consultants, in assessing the efficiency of NERL's costs and non-regulatory revenue forecasts for the NR23 period (1 January 2023 to 31 December 2027). This guidance does not include other building blocks, like pensions costs, depreciation and cost of capital, where NERL should refer to our previous guidance in terms of what should be included in its business plan.

Background and context

3. The CAA is the economic regulator for NATS En Route plc (NERL) in accordance with a licence issued to NERL under the Transport Act 2000 (TA00). This licence includes conditions relating to prices, service quality and financial and operational resilience, amongst other things. The CAA monitors compliance with NERL's licence and has powers under the TA00 to issue enforcement orders to rectify a breach of the licence.
4. As part of this role as economic regulator, the CAA sets the price control conditions in NERL's licence which constrain the charges that NERL can apply to the provision of its services. In August 2019, the CAA published its final decision on the terms of NERL's price controls for the five year period from 2020 to 2024 (known as Reference Period 3, or RP3).¹ NERL rejected the CAA's proposed licence modifications and in November 2019 the CAA made a reference to the Competition and Markets Authority (CMA). During the period when the CMA was considering the reference, covid-19 emerged as a pandemic, with the resulting severe and unprecedented downturn across the aviation sector.
5. The CMA established price controls covering the period January 2020 to December 2022 and decided that due to the uncertainty created by covid-19, we should review the price control to take account of the impact of the covid-19 pandemic when better information had become available. The CMA said a reconciliation review would be appropriate with reference to actual flight volumes and costs over the period from 2020 to 2022, with the new price control set to start in 2023 or before.

¹ [CAP1860](#)