



British Airways plc
Waterside
PO Box 365
Harmondsworth UB7 0GA

Civil Aviation Authority
Westferry Circus
Canary Wharf
London EH14 4HD

cc: economicregulation@caa.co.uk

9th July 2021

**British Airways response to Civil Aviation Authority ("CAA")
Consultation on NATS En-Route ("NERL") capex engagement incentives**

Dear Matt,

Thank you for the opportunity to respond to your latest consultation on the NERL capex engagement incentives; we set out below our views on the proposed incentive structures and implications for the wider policy environment.

Executive Summary

Our detailed responses are set out in the following sections, and a summary of those responses is as follows:

- a) From the three options presented on the programmes to be scored under the capex engagement incentives, **our preference is for Option 1, incorporating all eight programmes forming NERL's baseline capex programme**
- b) **We agree that the six assessment criteria outlined should provide a reasonable basis for assessing the quality** of NERL's engagement on its capex plans, and we **support the proposed timeline** to assess NERL's engagement after each iteration of the iSIP and SIP over the course of 2021 and 2022
- c) However, we believe **there is merit in considering the engagement score at each update to the SIP**, which contribute to a final assessment of engagement over the whole period, to ensure that any underperformance is not masked by averaging
- d) **We are concerned that capex programmes that are smaller by value might be underrepresented** under the proposed scoring approach, and that the scoring might be better weighted by value derived for customers, weighting the incentive



toward those programmes where engagement therefore drives the greatest customer value

- e) Whilst recognising that the baseline for performance scoring and is already based upon CMA guidance, the **baseline definitions around average performance (scored as three out of five) appears to be a relatively weak incentive** in ensuring the incentives drive high quality engagement and continuous improvement over time

1. Programmes and projects for consideration

- 1.1. In our opinion, the **none of the options presented offer the optimal combination of programmes and/or projects to be scored**; this is largely due to the fact that some programmes with relatively low monetary value deliver outsized benefits to airlines, whilst others with high monetary value have less immediate benefit
- 1.2. Whilst we appreciate that each stakeholder will have their own priorities within the capex portfolio and finding a combination acceptable to all parties requires compromise, **we are reluctant therefore to exclude some of the smaller programmes from any scoring**
- 1.3. For example, **Oceanic represents just 2% of value when considering all eight programmes in NERL's baseline programme, yet this is of great importance to airline customers**, where the costs and benefits of ADS-B have yet to be established, and when costs of oceanic crossings have increased significantly
- 1.4. Under the proposed scoring approaches, such **capex projects and programme of smaller monetary value are inherently underrepresented**; given that **value generation for customers is not directly related to cost**, programmes might instead be weighted in related to value generation as defined in a programme terms of reference, or by benefit delivered if programme delivery significantly changes through its implementation
- 1.5. The CAA should also consider the incentive to categorise projects in a certain way in future based upon how this incentive is set; those **projects that deliver disproportionate customer value – especially where relatively low monetary value in the total capital programme – should continue to be reported separately**; the opportunity for fuller capital efficiency incentives to be implemented on those projects, as measured by delivery obligations, could also be considered in future
- 1.6. Therefore, we are of the view that the most amenable option from those presented by CAA is to **consider all eight programmes in NERL's baseline programme when scoring its engagement (Option 1)**
- 1.7. Irrespective of the fact that some programmes represent a lower weighting by value under the proposed methodology, these **lower-cost projects must be**

- considered as part of any assessment due to the disproportionality higher value of their outputs** for airlines and consumers
- 1.8. Within this Option 1, the CAA should be aware that **there is a lower relative value derived from customer engagement in both the Sustainment and Surveillance and Facilities Management ("FM") programmes** when compared to the substantial benefit that can be realised from customer engagement in some of the other programmes, such as such as "Airspace" or "Oceanic"
 - 1.9. The Sustainment and Surveillance and FM programmes are undoubtedly critical enablers delivery within the overall capex programme, therefore this is not to diminish their necessity as part of the overall capex programme; **whilst engagement on these projects is still required, the incremental gains to be realised through a deeper engagement of airline customers is inherently more limited** in these areas
 - 1.10. As a result, **a combined 25% weighting attributable to the Sustainment and Surveillance and FM programmes is disproportionate to the value derived from customer engagement** consideration might be given to reducing the relative weighting of those programmes if they must be incorporated within the incentive
 - 1.11. Consideration should be given to providing penalty coverage for any potential occurrence of actual spend being minimised or negated on a programme as a result of unilateral action or unsatisfactory engagement by NERL

2. Assessment timescale

- 2.1. We **support the proposed timeline to assess NERL's engagement after each iteration of the iSIP and SIP** over the course of 2021 and 2022
- 2.2. However, we believe **there is merit in considering the engagement score at each update to the SIP**, which contribute to a final assessment of engagement over the whole period, to ensure that any underperformance is not masked by averaging; this approach would **place weight on ensuring consistent levels of acceptable engagement throughout the period**
- 2.3. The **profile of spending should be considered in this process, rather than excessive reliance on the iSIP 2022 to establish final scores**, since capital is continuously invested throughout the price control and engagement should be incentivised not only be consistent but improve where possible
- 2.4. Alternatively, the **CAA might consider the process supporting each SIP and iSIP as having equal contribution to the overall assessment**, with each iteration forming a portion of the score



3. Assessment criteria

- 3.1. We agree that the six assessment criteria outlined should provide a reasonable basis for assessing the quality of NERL's engagement on its capex plans; the criteria set out should enable a broad assessment and address the key factors of any successful engagement program
- 3.2. Whilst recognising that the baseline for performance scoring and is already based upon CMA guidance, the **baseline definitions around average performance (scored as three out of five, defined as Average) appear relatively weak** in ensuring the incentives drive high quality engagement and continuous improvement over time
- 3.3. Given these definitions, **the minimum standard NERL should be aiming for, and penalised for failing to achieve, would be more appropriately set as those outlined for a scoring of four (defined as Good)**; these descriptions better reflect the level of performance we expect from NERL's engagement with customers and stakeholders

Please feel free to approach us with any questions on our response to this consultation

Yours sincerely,



Alexander Dawe
Head of Economic Regulation
Networks & Alliances
British Airways Plc