

Virgin Atlantic response to CAP2394 – Initial Proposals for the next price control review (NR23)

Introduction

1. Virgin Atlantic welcomes the opportunity to comment on the initial proposals for NR23 set out in CAP2394 and associated annexes.
2. We have worked collaboratively with IATA and other stakeholders on the review of CAP2394. As a result, we fully support the content of IATA Europe's official response and the answers given to the specific views invited by the CAA. However, we would like to make comment on some specific elements on the proposals, for emphasis.

Traffic Forecast and changes to macroeconomic environment

3. While it clearly remains challenging to provide accurate forecasts in the current environment, it is imperative that the most up-to-date data is used when determining the final content of the NR23 price control. Therefore, we believe in the use of the STATFOR October 2022 base scenario for this purpose along with the most current wider economic indicators or forecast data. The oceanic forecast assumptions are still a cause for concern, as ICAO EFFG group data remains unavailable, and the community remains reliant on NATS derived forecast in this area. However, we do understand that due to an absence of certain ANSP data from the EFFG process, they are also largely reliant on data provided by NATS regardless.
4. We advise the CAA to use the most up to date forecasts available when reaching its final determination.

Traffic Risk Sharing revenue recovery period

5. We remain supportive of the 10-year recovery period for the Traffic Risk Sharing mechanism (TRS) debtor for en-route, and agree that, on balance, the 50/50 split for recovery over both NR23 and NR28 offers the best trade-off between the affordability of charges and ensuring the longer-term certainty to support financeability. However, the concern from our previous response to NERL's initial business plan remains – namely that airlines are being used as the primary vehicle for covering pandemic revenue shortfalls for NERL, with no financial support forthcoming from elsewhere. The pandemic was an exceptional circumstance, and we would expect other stakeholders to also help share the burden of ensuring the financeability of the regulated entity moving forward.

Oceanic Traffic Risk Sharing

6. We welcome the CAA's indication that there is no intention to extend the TRS mechanism to the Oceanic price controls at this stage. We would like to reiterate that we would not support the extension to the Oceanic environment if this was to be revisited in future.

ADS-B review

7. We remain full supportive of the need for an independent review of the cost and benefits of the Space-Based ADS-B service and the development of appropriate metrics as outlined by both the CMA and CAP 2351.

Capacity – exemption days

8. We are pleased that the CAA have proposed a reduction in exemption days from 150 to 100, as we had previously indicated that we felt this was too generous. This seems more appropriate given the size of the CAPEX programme in NR23.

WACC /RAB

9. We support the methodology associated and proposed range for the RPI-real vanilla post-tax WACC of 2.04%-3.59%, with a point estimate of 2.81%. However, in order to make the final determinations as accurate as possible, we advise that the CAA takes account of the latest available evidence when developing its decisions.

New airspace users

10. We are pleased with the CAA's statement that they intend to create an obligation on NERL to work with, develop and consult across all relevant stakeholders on a new charging mechanism for recovery of efficient and appropriate costs for new user services. We urge the CAA to set out an indicative timeline for this work within NR23, given the proliferation of new entrants possible in the short to medium term.

Other

11. The CAA must fulfil its role as an independent economic regulator with a statutory duty to protect consumers and as part of a formal review, we will of course make ourselves available to provide detailed evidence as required.
12. Virgin Atlantic fully reserves its legal position and will vigorously challenge any outcome that materially harms consumers and airlines.