



Consumers and Markets Group

Heathrow Airport Limited (HAL), NATS (En Route) plc (NERL) and Airline stakeholders

By email

13 August 2024

Dear Stakeholder

UPDATE ON TIMETABLE AND CONSTRUCTIVE ENGAGEMENT FOR THE NEXT PRICE CONTROL REVIEWS FOR HAL AND NERL

In February 2024, we consulted on the scope of the review of our approach to setting price controls (including the lessons learnt from H7 and NR23), which will inform our overall approach to future price controls (H8 and NR28).¹ We received a number of responses from stakeholders and we will be publishing the findings of this review in due course.

In the findings, we will also set out our current view on the timetable for H8 and NR28 and approach to Constructive Engagement between HAL, NERL and its airline customers. However, given that the publication of our final lessons learnt document has been delayed and the relatively tight timescale for the H8 price control review, this letter provides an update for stakeholders on our thinking on the H8 timetable and Constructive Engagement. We hope that this will facilitate further engagement on these matters and support the delivery of the wider H8 programme in a timely way.

Timetable

In the February 2024 Consultation, we set out an indicative timetable for the next price control reviews for HAL and NERL. We received a number of responses from stakeholders, including that there is a need for a clear and realistic timetable for H8.

We have considered the comments on the timetables and evaluated different options for the next HAL and NERL price control reviews. Following a review of different timetable

¹ Setting future price controls – review of approach, CAP 2618, February 2024

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options, we consider the current timetables for H8 and NR28 provide the clearest protections for the interests of consumers and discharge of our statutory duties.

We recognise that there will remain risks to the timetable, in particular the availability of CAA resources. Nonetheless, we will seek to avoid undue delays and inform stakeholders as early as practicable if delays occur. Stakeholders will also have an important role to play in working together in an appropriate way during Constructive Engagement, providing high quality business plan information and timely responses to our consultations.

This is a relatively tight timetable and experience from H7 and NR23 showed that overlap between price controls requires careful management. To meet the overlapping timetables for H8 and NR28, we are seeking to put in place effective and streamlined governance, recruit sufficient resources in the CAA economic regulation team, appoint external advisors to provide assurance and technical support and/or delivery partner roles. These matters are important to the timely delivery of H8, and there will be material risks to the timely delivery of the programme if we are unable to successfully deliver on these initiatives.

In addition to the issues set out above there remain other risks, including in relation to unforeseen circumstances. We will, therefore, need to be flexible in our approach and work with stakeholders to explore alternative options at an early stage if the timetable no longer seems to be deliverable.

Our current view is that the draft timetable for H8 should include:

- the following CAA publications relatively early in the process
 - draft guidance on the approach to Constructive Engagement at the end of August 2024 for consultation and discussion with stakeholders in September 2024,
 - draft method statement for H8 in October 2024. This would provide guidance for business planning, though any detailed guidance and templates may need to be developed separately. This would be for consultation over four weeks, and
 - final method statement in February 2025;
- multiple rounds of Constructive Engagement between HAL and airlines, including:
 - round 1 between October and December 2024 on high level issues of service quality and investment,

- round 2 between January and March 2025 on more detailed building block issues, but excluding areas such as cost of capital and cost efficiency,
 - round 3 between June and August 2025 on HAL's business plan submission, and
 - round 4 between January and February 2026 on the CAA's Initial Proposals;
- a single business plan submission from HAL in June 2025. This should follow the CAA's guidance and provide detail on forecast traffic, costs, investment and prices for the H8 period;
 - CAA Initial Proposals in December 2025 for consultation. This would include draft licence modifications;
 - CAA Final Proposals and statutory consultation on licence modifications in July 2026;
 - CAA Final Decision and statutory notice on licence modifications in October or November 2026; and
 - Licence modifications coming into effect in January 2027.

We anticipate that the timetable for NR28 will follow a year behind the H8 review and there will overlap between these processes. We will discuss NR28 further in our final document on the lessons learnt review.

We would like to engage with HAL, NERL, airlines and any other interested stakeholders during August 2024 to seek your views on the draft timetables for H8 and NR28, before we finalise these in the H8 and NR28 method statements.

Constructive Engagement

Constructive Engagement between HAL, NERL and their airline customers continues to be an important part of the price control reviews.

Following stakeholder feedback, we consider that Constructive Engagement should be carried out at an earlier stage and in multiple rounds to provide a greater opportunity for airlines to influence HAL's and NERL's business plans, and to comment on our initial proposals. We set out our initial views on stages of Constructive Engagement above.

There will be advantages in focusing Constructive Engagement on areas where dialogue is likely to be most productive, for instance in relation to investment programmes, service quality and resilience. We will also consider how to take account of the views of other stakeholders in addition to the Constructive Engagement with airlines.

On the role of the CAA, we consider that we could more actively participate during the Constructive Engagement, providing input where appropriate. However, it will remain appropriate that stakeholders attempt to resolve or narrow differences during the Constructive Engagement process.

We will set out more detail on our expectations and approach to enforcement in guidance on Constructive Engagement to be published later this summer. We would like to engage with HAL, NERL and airlines during August 2024 to seek your views on the approach to inform this guidance.

Next steps

Following this letter, we will be in touch with HAL, NERL and airline stakeholders to arrange sessions in August 2024 (or as early as possible) to seek views on the timetable as summarised above and the best approach to Constructive Engagement, to inform our draft H8 method statement (which we intend to publish in October) and the further guidance on H8 Constructive Engagement (which we intend to publish at the end of August).

Yours sincerely

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