UK Civil Aviation Authority

Economic regulation of NATS (En Route) plc: Appendices to initial proposals for the next price control review ("NR23")

CAP2394c

Published by the Civil Aviation Authority, October 2022

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First published 2022
First edition

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

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APPENDIX H

Eurocontrol reporting tables

Introduction

This appendix reproduces the information required to be submitted to the CRCO under the Eurocontrol Principles.

The information is provided as draft and will be submitted to the CRCO on 1 November 2022, in accordance with the Eurocontrol Principles.

The remainder of this appendix contains the “Additional information” that accompanies the charging tables. The Excel reporting tables will be published at www.caa.co.uk/cap2934d.

ADDITIONAL INFORMATION TO REPORTING TABLES 1 – TOTAL COSTS AND UNIT COSTS

This November 2022 submission of the CRCO reporting tables updates our June 2022 submission with the Final UK 2023 unit rate as set out in our Initial Proposals (Draft Performance Plan 2022) – "CAP2394", which was published for consultation with stakeholders in October 2022. The Draft Performance Plan 2022 consults on:

(a) the outcome of our Reconciliation Review for 2020-22 (RP3); and
(b) a new five-year reference period commencing from January 2023 (NR23).

Alongside the Draft Performance Plan (2022), we have published the CRCO reporting tables and this additional information document.

Following consultation, the UK will adopt and submit a Final Performance Plan by Q3 2023 – after the start of the NR23 period. Consistent with the Eurocontrol Principles, we will make any necessary adjustments to the unit rate to reflect differences between our draft and final 2023 charges (paragraph 3.3.1.4).

The NERL component of the UK RP3 Performance Plan was referred to the Competition and Markets Authority (CMA) pursuant to section 12 of the Transport Act 2000. The CMA concluded its review in 2020 and made a final determination revising the determined costs over 2020-22 (RP3 CMA FD). The determined costs reported in the reporting tables for 2020-22 reflect the RP3 CMA FD.

In agreement with the CRCO, the UK's cost reporting tables have been amended to reflect the UK's regulatory periods (RP3 being 2020-2022, and NR23 being 2023-2027). The design and functionality of these tables continue to be under review as the UK works with Eurocontrol to ensure that the template works as it needs to. We note that references in the cost reporting tables have also been amended to reflect the Eurocontrol Principles instead of the EU performance regulation, to indicate that the UK complies with the Eurocontrol Principles and is not subject to the EU performance scheme.

We have confirmed with the CRCO that our revised approach to the calculation and recovery of NERL 2020-22 TRS revenues is consistent with the Eurocontrol Principles, and our statutory duties. These changes include:

Annex E. Revision to the TRS mechanism such that the 2020-2022 costs are calculated on the basis of actual efficient NERL costs over 2020-22. See Chapter 3 of CAP 2394.

Annex F. A proposed uniform recovery of TRS revenues over NR23 and the following reference period (NR28). See Chapter 6 of CAP2394.

Following the UK's exit from the European Union on 31 December 2020, the UK is the only Eurocontrol State, not subject to the EU performance scheme, that follows the determined cost methodology under the Eurocontrol Principles. The UK presented a flimsy at the enlarged Committee for Route Charges in November 2021 confirming our intention to continue to collaborate with Eurocontrol and fellow member states to ensure that the Eurocontrol Principles and determined cost method remain sufficiently flexible to meet the requirements of both EU and non-EU members of Eurocontrol – including in the respect of exceptional measures to address the impact of covid-19.

Determined costs and unit costs

The approach to the UK determined costs and unit costs for the period 2023-2027 – "NR23" – is set out in CAP2394.

a) Description of the methodology used for allocating costs of facilities or services between different air navigation services, based on the list of facilities and services listed in ICAO Regional Air Navigation Plan, European Region (Doc 7754) as last amended, and a description of the methodology used for allocating those costs between different charging zones;

The UK cost base is prepared under 4 separate organisations:

1. The Department for Transport ("**DfT"**) is the responsible government department. The Department incurs the UK's Eurocontrol Member State costs as well as its own related administrative costs.

2. The Civil Aviation Authority ("**CAA**", the UK National Supervisory Authority) supervises the economic regulation of NERL, the en route ANSP, and the Meteorological Office's Civil Aviation-related services. Its cost base includes the costs of its airspace strategy, policy and oversight activities and the associated policy, legal and financial support to the route charges system. For NR23, the CAA's determined costs also include its economic regulation of ATS costs. Currently the CRCO tables combine CAA and DfT costs.

3. The Meteorological Office ("**MET**") allocates a percentage of its core costs to Civil Aviation and is governed by a fixed pricing algorithm which guarantees year on year efficiencies.

4. NATS (En Route) Plc, ("NERL"), is subject to charge controls set by the CAA, following extensive consultation and engagement, and implemented through its licence. NERL's charge controls are developed to be consistent with the determined cost method under the Eurocontrol Principles. The last control period (RP3) expires in December 2022 and a new control period has will be set for the period January 2023 to December 2027.

NERL provides two en route services covering the the UK FIR and the Shanwick Oceanic area. Costs are allocated to each using an activity management process. This includes separate reporting of the asset bases. In accordance with its licence, NERL produces annual audited regulatory accounts for each charging area, together with a reconciliation of each Regulatory Asset Base (on a calendar year basis for both charging areas). NERL also produces Statutory accounts prepared under IFRS. NERL's Shanwick Oceanic activities are not within scope of the Eurocontrol Principles.

NATS Services Limited ("NSL"), a NERL sister company, provides terminal ATS, engineering and consultancy services. NSL's activities are not subject to economic regulation under the UK Transport Act 2000, nor within scope of the Eurocontrol Principles.

As part of the Licence arrangement, the revenue from other services NERL provides is offset against the en route cost base to reduce the overall charges to en route users. This is applied against staff, other operating and depreciation costs. This does not include NSL's terminal and consultancy activities.

b) Description of the methodology and assumptions used to establish the costs of air navigation services provided to VFR flights, when exemptions are granted for VFR flights in accordance with Article 31(3), 31(4) and 31(5);

Not applicable

c) Criteria used to allocate costs between terminal and en route services, in accordance with Article 22(5);

In addition to its UK and Oceanic en route services described above, NERL also provides a regulated London Approach service. London Approach's operational characteristics have elements of both terminal and en route functions. In line with the prevailing regulatory framework at the time, since RP2 the London Approach was considered as a separate terminal charging zone (Charging Zone C). To reflect that London

Approach has both terminal and en route elements, around a third of the cost of the service is allocated to Charging Zone C, with the remainder allocated to NERL's en route charge. For RP3, alongside its business plan, NERL submitted to the CAA evidence on the allocation of approach functions between en route and terminal charges used by other ANSPs in Europe. NERL noted that en route charges do not apply within a 20km boundary from airports. NERL presented analysis that allocated its Radar Manoeuvring Area between en route (>=20km) and terminal (<20km less the area estimated to be handed over to TANS). It found that the resulting allocation was consistent with the cost allocation used in RP2. Following consultation with users, we have retained the current charging arrangements for London Approach for RP3 and NR23 – a separate terminal charge with the current approach to the allocation of costs. More information on our approach to cost allocation in NR23 can be found in chapter 8 of CAP2394.

For RP3 and NR23, we have included Biggin Hill airport in scope of the London Approach regulated charge. Under this approach, the services NERL provides to Biggin Hill airport will be acknowledged as operationally similar to those in scope of London Approach and will therefore be considered a commercial approach service that is treated as 'other revenue, and therefore netted off the London Approach regulated charge with nil impact on airports in scope of the London Approach charge or their users.

NSL reports separately, including on costs for terminal operations.

d) Breakdown of the meteorological costs between direct costs and the costs of supporting meteorological facilities and services that also serve meteorological requirements in general ('MET core costs'). MET core costs include general analysis and forecasting, surface and upper-air observation networks, meteorological communication systems, data processing centres and supporting core research, training and administration;

The Met Office has been Designated to provide a number of MET forecast and warnings services as part of the UK's obligations under ICAO Annex 3, Meteorological Service for International Air Navigation. The arrangements for MET comprise a number of elements including Core and Direct Services. Direct Services includes a Research and Development programme and support for Volcanic Ash operations.

Core costs are the en route share of the underpinning infrastructure costs of providing a weather forecasting service (e.g. supercomputer, numerical weather prediction model etc.) and calculated in accordance with the guidance contained within ICAO Document 9161, Manual of Air Navigation Service Economics.

Direct costs are the costs associated with providing the specific products and services required as part of the UK's obligations under ICAO Annex 3. This includes human resources (e.g. aeronautical meteorologists, IT specialists etc.), IT systems (e.g. post-processing systems to turn raw numerical weather prediction data into specific aeronautical data) and managerial support.

Chapter 9 of CAP2394 provides an overview of Met Office Determined Costs and planned activities for NR23. These include:

1. International Subscriptions – the shared commitments from several countries to support a shared capability. For example, weather satellite programmes operated by the European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT), the UK contribution to the European Centre for Medium Range Weather Forecasting (ECMWF) and the UN body the World Meteorological Organisation (WMO) through which most of the cross-boundary sharing of observation data is determined.
2. National Capability – the costs include infrastructure such as the UK radar network, UK weather observations, a UK and global Numerical Weather Prediction (NWP) or weather modelling capability, and core science research and development.
3. Service Delivery and Development – the costs associated with the delivery of aviation specific MET services and their ongoing improvement. For example, the World Area Forecast System (WAFS) and the Volcanic Ash Advisory Centre (VAAC and aeronautical meteorologists).

The total MET Office costs for NR23 (2023 – 2027) are set out below and can be found in chapter 10 of the Draft Performance Plan (2022).

Met Office NR23 Determined Costs (nominal and in 2020 prices)

£m	2023	2024	2025	2026	2027
National Capability	£18.8	£23.3	£25.9	£26.4	£26.4
MET Service development and delivery	£15.6	£15.4	£13.5	£13.5	£13.4
Total determined costs (nominal)	£34.3	£38.6	£39.5	£39.9	£39.9
Total determined costs (2020 prices)	£29.9	£33.2	£33.3	£33.0	£33.0

Source: Met Office

e) Description of the methodology used for allocating total meteorological costs and MET core costs referred to in point (d) to civil aviation and between charging zones;

Please see response above to (1d).

f) For each entity, description of the composition of each item of the determined costs by nature and by service (points 1 and 2 of Table 1), including a description of the main factors explaining the planned variations over the reference period;

Determined costs by nature and by service

In the Draft Performance Plan 2022, we set out our proposal for NR23 Determined Costs and any factors that might impact determined cost items over the reference period.

In reaching a view on NERL Determined Costs for NR23, the CAA considered a range of evidence and inputs including:

1. NERL's NR23 business plan
2. historical analysis/trends (top down analysis);
3. independent in-depth consultant studies (bottom up analysis);
4. the results of NERL's customer consultation process, including the Co-Chairs' Report and bilateral meetings with airspace users; and
5. we are now conducting stakeholder consultation process on draft proposals.

Entity: NERL (ANSP)	
1. Detail by nature (in nominal terms)	
1.1 Staff costs	This includes pay costs, allowances, Employers national insurance and pension contributions. Chapter 3 of the Draft Performance Plan (2022), explains the impact of Covid-19 pandemic (the lower traffic volumes and NERL's actions to reduce costs) on NERL's actual and forecast staff costs over 2020-22, and compares them with RP3 CMA FD. In 2020, NERL actual UKATS staff costs (including pension costs) were 12% higher than the RP3 CMA FD in real terms. This was mainly due to the cost of the voluntary redundancy programme. In 2021, costs were 17% lower than the RP3 CMA FD, as a result of NERL actions to reduce staff costs. Chapter 4, sets out our assumptions for efficient costs for NR23, including those relating to staff costs, and highlights differences to NERL's NR23 business plan. It considers the key drivers of staff costs and summarises the evidence that has informed CAA's view of NR23 staff costs. Our Initial Proposals include an assumption of £1,296 million in 2020 prices (compared to £1,325 million for staff costs in NERL's business plan).

	While the CAA necessarily makes assumptions about the level of efficient operating costs in establishing Determined Costs, it is for NERL to manage its business and best determined how to allocate resources including staff numbers and remuneration.
of which, pension costs	This includes pension contributions for NERL's defined benefit (DB) and defined contribution (DC) schemes. The DB costs include payments to repair the estimated scheme deficit. Pension costs rise slightly in 2020 in real terms vs 2019 (2%), and in 2021 falls in real terms vs 2019 (-3%). We propose NR23 assumptions for pension costs are £436 million in 2020 prices (vs £542 million proposed by NERL in their 2022 business plan). The key drivers of NERL pension costs and CAA's proposals for NR23 are set out in chapter 4 of the Draft Performance Plan (2022).
1.2 Other operating costs	This includes non-staff related costs, including 3rd Party programme cost (not capitalised), facilities, asset management and engineering support. NERL took actions to reduce non-staff costs in 2020. As a result, in 2020 UKATS non-staff costs were 34% below the RP3 CMA RP3 FD in real terms, and in 2021 37% below. More information on non-staff costs can be found in chapter 4 of the Draft Performance Plan 2022 In the Draft Performance Plan 2022, non-staff cost assumptions increase annually between 2023 and 2026, falling slightly in 2027. The increases are due to legacy systems not being decommissioned when previously anticipated and cost pressures such as inflation rates and a tight labour market. The Draft Performance Plan includes an assumption of £737 million in 2020 prices (compared to the £746 million proposed by NERL) for total non-staff opex Chapter 4 of the Draft Performance Plan refers.
1.3 Depreciation	This includes depreciation based on the regulatory asset base (RAB) value, with assets depreciated over 15 years on a straight-line basis. The regulatory depreciation allowance relates to capital expenditure in RP3 and previous reference periods. They also include backlog adjustments that true-up for differences in the level of actual capital expenditure and the level assumed in setting previous price controls. The increase in 2020 mainly reflects higher backlog adjustments as NERL has accelerated DSESAR. The reduction from 2021 is mainly due to the ending of the depreciation of the opening RAB from when NERL was privatised, which will have been fully depreciated over 20 years. Detail on the depreciation over RP3 and NR23 and also on capital expenditure can be found the Draft Performance Plan (2022), chapter 3 (reconciliation review) and chapter 5 (Financial framework).
1.4 Cost of capital	The cost of capital is the allowed "vanilla" weighted average cost of capital (2.81% in real terms, deflated by the retail price index (RPI)) on the average regulatory asset base (RAB). The vanilla weighted average cost of capital is the weighted average of the post-tax cost of equity and pre-tax cost of debt. At RP3, we previously estimated the cost of capital on a "pre-tax" basis (by making an upwards adjustment to the vanilla cost of capital to account for NERL's expected tax liabilities. We now provide NERL with a separate allowance for tax, and so no longer include an adjustment for tax in the cost of capital.

	The NR23 vanilla cost of capital is lower than the equivalent RP3 vanilla cost of capital, primarily due to a reduction in NERL's cost of debt following its financial restructuring in 2021. The cost of capital for NR23 is set out in chapter 5 of the Draft Performance Plan (2022)
1.5 Exceptional items	This includes the adjustment for military TSUs, restructuring costs and specific programmes' contingency. The cost in NR23 mainly relates to the adjustment for military TSUs.
2. Detail by service (in nominal terms)	
2.1 Air Traffic Management	This reflects the share of Determined Costs in 2020 (81%) as applied to total Determined Costs during NR23.
2.2 Communication	This reflects the share of Determined Costs in 2020 (7.6%) as applied to total Determined Costs during NR23.
2.3 Navigation	This reflects the share of Determined Costs in 2020 (2.7%) as applied to total Determined Costs during NR23.
2.4 Surveillance	This reflects the share of Determined Costs in 2020 (5%) as applied to total Determined Costs during NR23.
2.5 Search and rescue	This is assumed to be zero in NR23
2.6 Aeronautical Information	This reflects the share of Determined Costs in 2020 (0.6%) as applied to total Determined Costs during NR23.
2.7 Meteorological services	This is assumed to be zero in NR23.
2.8 Supervision costs	This reflects the share of Determined Costs in 2020 (0.7%) as applied to total Determined Costs during NR23.
2.9 Other State costs	This reflects the share of Determined Costs in 2020 (2.5%) as applied to total Determined Costs during NR23.
Adjustments beyond the provisions of the International Financial Reporting Standards adopted by the Union pursuant to Regulation (EC) No 1126/2008	
n/a	

Details on adjustments beyond the provisions of the International Accounting Standards:

NERL has prepared its annual accounts on the basis of International Accountancy Standards (IAS) since 2005/6. The Determined Costs for NERL have however been prepared on a regulatory building-block basis. The CAA takes an economic approach to its regulation of NERL. While the economic and accounting valuation and treatment of items is often the same or very similar, there are situations in which differences arise because of the different conceptual viewpoints of economics and accountancy.

The consistency of the calculation of determined costs with IAS is considered below. Unless otherwise stated below, the CAA considers that its calculation of Determined Costs is consistent with IAS.

Appendix HRevenue discounting: IFRS requires discounting of long-term receivables. These are adjusted in statutory accounts for the impact of recoveries beyond the years to which they relate (e.g. traffic risk sharing, inflation, incentive schemes). The Determined Costs exclude this adjustment.

Appendix ILease reinstatement provisions: until a new lease IAS was introduced in 2019, the rental cost associated with NERL's leases (mainly for property, plant and machinery) was charged as an expense to its profit and loss account on a straight-line basis over the lease term. From 2019, IAS requires leased assets and the commitment to lease rental obligations to be reported on the company's balance sheet and for the profit and loss account to reflect a charge for the depreciation of leased assets and a finance cost relating to lease obligations. The new IAS does not change the company's cash flows. Determined Costs for RP3 excludes the aggregate of the depreciation charge and finance cost reported under IAS and includes the lease rental cost within the allowance for Other Operating Costs. This is consistent with the basis for Determined Costs in previous reference periods and provides better transparency as to the regulatory building blocks. Also, over the lease term the overall cost will be the same.

Appendix JAccounting for Leases (IFRS16). Leases previously classified as operating leases and which are now classified as right of use assets under IFRS 16 are treated as operating costs for the purposes of the regulatory settlement and are excluded from the Regulatory asset base.

Appendix KPension costs: The amounts included in Determined Costs in respect of the defined benefit pension scheme are the forecast cash costs as set out in the latest independent actuarial triennial valuation of the defined benefit scheme (as at 31 December 2017). These forecast cash costs are consistent with the schedule of contributions agreed with trustees of the pension scheme in accordance with the governance of the scheme and national law (which includes a margin for prudence). The CAA has included the forecast cash costs in Determined Costs rather than the forecast accounting charge, calculated under IAS, included in NERL's forecast profit and loss account. In the short to medium term the cash costs may be different to the profit and loss account charge (IAS19), although in the long-run it is expected that they would converge on the same actual cost.

Appendix LRegulatory asset base (RAB): The RAB is a measure of the amount invested in NERL that has yet to be returned through revenue allowances, and therefore represents capital employed. The RAB is indexed to inflation (measured using the retail price index, RPI) and is, therefore, presented on a current cost accounting basis. The RAB includes:

1. Fixed assets. This comprises most of the RAB and IAS allows fixed assets to be valued at current costs.
2. Working capital (excluding cash balances). The RAB includes small working capital asset necessary for the operation of the business. No cash balances are included. Working capital is stated on a current cost basis. This represents an immaterial departure from strict IAS current cost accounting but is consistent with other regulatory approaches;
3. Pensions pass through asset. The pension pass-through mechanism relates to Determined Costs that can be exempted from the cost sharing mechanism, arising in RP3 and earlier periods. The CAA allows NERL to include in, and depreciate from the RAB, a pensions asset depending whether actual exempt pension costs are higher or lower than allowed costs. The pensions asset is being depreciated over 12 or 15 years depending on when the asset was accrued. The depreciation charge on the pensions pass through asset from RP2 is not included in the Determined Unit Cost, but is included in the en route unit rate via the carry-overs from the previous reference period resulting from the application regulation at the time - Article 14 of Regulation 391/2013 Annex IV, paragraph 2.2 (v).

Appendix MCapitalised finance costs: These arise for two reasons. First, when the forecast capital expenditure is updated for actual capital expenditure any differences (including timing differences) give rise to additional finance costs (or benefits). This adjustment keeps NERL whole and ensures that NERL does not benefit from delaying capital expenditure. Second and similarly, the pensions pass-through mechanism also gives rise to timing differences and therefore finance costs (or benefits). Capitalised finance costs on the pension pass through makes sure that NERL does not gain or lose due to the timing difference. This concept could be considered consistent with IAS which allow the value of assets and liabilities that crystallise in the future to reflect the time value of money.

Appendix N Netting off of non-regulatory revenues against costs: NERL's licence allows it, within specified limits, to provide air navigation services in addition to the en route business. NERL is only able to provide these services because it has the en route business and, therefore, the CAA considers that it is appropriate and in the interest of users that income from these services should be used to reduce Determined Costs and the unit rate. Netting of revenues and costs is not consistent with International Accounting Standards but necessary to reflect this single-till approach. The valuation of these revenues is consistent with IAS.

Appendix OGoodwill: IAS requires goodwill to be included in the balance sheet and any impairment to be expensed to the profit and loss account. Determined Costs do not

include allowances for the impairment of goodwill. NERL's goodwill arose from privatisation in 2001. To include goodwill impairment charges in Determined Costs would, therefore, be of benefit to shareholders and to the detriment of airline customers. For this reason, the CAA does not allow these charges in setting the unit rate.

Appendix PBorrowing costs incurred on borrowings to fund capital expenditure: With the introduction of IAS23: Borrowing Costs, the option to expense borrowing costs which are attributable to the acquisition, construction or production of fixed assets was removed. As a result, under IAS, borrowing costs relating to the development of fixed assets are capitalised as part of the cost of the asset and subsequently depreciated. The CAA does not permit the capitalisation of these borrowing costs as to do so would be to remunerate NERL twice, once through the cost of capital applied to the RAB (to calculate the allowed returns) and again through the inclusion of interest costs on assets in the course of construction in the RAB (which would be recovered through regulatory depreciation). To ensure that this is not remunerated twice, borrowing costs are excluded from fixed assets for regulatory purposes.

Met Office

The Met Office consulted directly with stakeholders on its NR23 Determined Costs in 2021 and early 2022 using a mixture of written consultation and submissions and a specific NR23 stakeholder event. The feedback received was largely supportive of the Met Office's plans.

Entity: MET	
1. Detail by nature (in nominal terms)	
1.1 Staff costs	Staff costs remain broadly level over NR23.
of which, pension costs	Projected as 20.1% of total staff costs
1.2 Other operating costs	Growth of £1.1m in 2023 driven predominantly by increases in international satellite subscriptions.
1.3 Depreciation	Growth over 2022 and 2023 driven by increases in international satellite subscriptions
1.4 Cost of capital	Fixed over RP3. Calculated as 5.3% of the share of fixed assets employed to deliver aviation services.
1.5 Exceptional items	In light of the impact of Covid-19 impact on the industry, approximately £1.2 million to be returned to users in NR23 to reflect delta between actual and determined costs in 2020.
2. Detail by service (in nominal terms)	
2.1 Air Traffic Management	n/a
2.2 Communication	n/a
2.3 Navigation	n/a
2.4 Surveillance	n/a
2.5 Search and rescue	n/a
2.6 Aeronautical Information	n/a
2.7 Meteorological services	The Determined Costs are fully attributed to Meteorological services
2.8 Supervision costs	n/a
2.9 Other State costs	n/a
Adjustments beyond the provisions of the International Financial Reporting Standards adopted by the Union pursuant to Regulation (EC) No 1126/2008	
n/a	

NSA

Comprise the Department for Transport element of en route costs (representing the UK's share of costs for the running of the Eurocontrol Agency) and the CAA staff, other operating and capital costs associated with our airspace and ATS responsibilities.

Entity: NSA (CAA and DfT)

1. Detail by nature (in nominal terms)	
1.1 Staff costs	This includes staff costs in respect of the CAA's airspace strategy, policy and oversight activities and the associated policy, legal and financial support to the route charges system. For NR23, these costs also staff costs associated with economic regulation of ATS. A significant driver in NR23 are the additional staff costs associated with growth in and complexity of Airspace Change Proposals (ACP) and airspace modernization and the transfer of economic regulation costs
of which, pension costs	The costs of meeting CAA pension obligations in respect of staff involved in activities referred to above.
1.2 Other operating costs	This includes non-staff related costs, including Costs of IT systems, consultancy services and travel and related expenses associated with the CAA's airspace activities. In addition to the airspace costs described above, the CAA costs include an AMS Support Fund (ASF) of approximately £10 million over NR23, a continuation of the fund created for RP3.
1.3 Depreciation	Depreciation costs in respect of the building refurbishment at Aviation House for the change in location of Safety Regulation staff brought down prior to the closure of CAA House in December 2019. The costs are depreciated over the life of the assets using the straight-line method applied to historic costs.
1.4 Cost of capital	Cost of capital in connection with the Aviation House building refurbishment project
1.5 Exceptional items	Additional annual cash payments to the CAA's pensions scheme to fund the Pensions Benefit Obligation (PBO) of NATS pensioners and deferred pensioners up to the point of the separation of NATS from the CAA in 2001. The most recent actuarial valuation indicated that annual payments of £6m will be required throughout RP3
2. Detail by service (in nominal terms)	
2.1 Air Traffic Management	CAA costs of regulating air traffic management and airspace, including the provision of the AMS support fund
2.2 Communication	N/A
2.3 Navigation	N/A
2.4 Surveillance	N/A
2.5 Search and rescue	N/A
2.6 Aeronautical Information	N/A
2.7 Meteorological services	N/A
2.8 Supervision costs	These costs represent CAA other costs, that do not fall into ATM/Airspace regulation, policy and oversight – for example the share of corporate overhead costs applied to ATM.
2.9 Other State costs	The DfT incurs costs as a result of being a Eurocontrol Member State. These costs are included as part of the item 'Other State Costs' and are based on costs Eurocontrol forecast for the reference period. Other State Costs contribute to the 'Supervision Costs' which are costs the UK incurs to supervise the provision of air navigation services and also include CAA costs.
Adjustments beyond the provisions of the International Financial Reporting Standards adopted by the Union pursuant to Regulation (EC) No 1126/2008	
n/a	

Pension costs

Entity: NERL (ANSP)
Proposed assumptions underlying the determined pension costs and expected evolution over NR23 are set out in chapter 4 of the Draft Performance Plan.
Entity: MET
Assumptions underlying the determined pension costs and expected evolution over NR23
Met Office staff are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme. However, since the Met Office is unable to identify its share of the underlying assets and liabilities it is accounted for as a defined contribution scheme. Contributions are paid at rates determined from time to time by the scheme's Actuary. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk). Full provision for early retirements is normally made in the year of retirement. Pursuant to the Superannuation Act 1972, employer's contributions were payable to the PCSPS at one of four rates in the range 26.6% to 30.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during a period to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Entity: NSA (CAA and DfT)
Assumptions underlying the determined pension costs and expected evolution over Reference Period 3
Under exceptional items in the NSA Determined costs: Additional annual cash payments to the CAA's pensions scheme to fund the Pensions Benefit Obligation (PBO) of NATS pensioners and deferred pensioners up to the point of the separation of NATS from the CAA in 2001. The most recent actuarial valuation indicated that annual payments of £6m will be required throughout RP3.

g) For each entity, a description and justification of the method adopted for the calculation of depreciation costs (point 1.3 of Table 1): historical costs or current costs referred to in the fourth subparagraph of Article 22(4), and, where current cost accounting is used, provision of comparable historical cost data;

NERL:
NERL's Regulatory asset base (RAB) is a measure of the amount invested in the business that has yet to be returned through revenue allowances, and therefore represents capital employed. The RAB is indexed to UK retail price index (RPI) inflation and is therefore, presented on a current cost accounting basis. The RAB includes a small working capital adjustment also stated on a current cost basis. This approach is consistent with the approach adopted by regulators in other markets. Also included in the RAB are pension pass through adjustments (which can be positive or negative), rolling incentive mechanisms and capitalised finance costs.

Together, IAS and the Charging Regulation require fixed assets to be depreciated over their useful economic lives on a straight-line basis from the date they come into operation. Furthermore, assets should be classed according to their nature and useful economic lives. In contrast, the CAA has applied an average economic life to all assets and depreciated from date of acquisition. In addition, the CAA's depreciation charge reflects the current cost adjustment to fixed assets, which contrasts with NERL's statutory reporting basis which reflects historical cost.
The economic and accounting view of depreciation differ. The accounting perspective sees depreciation as a wearing out of assets and a matching of costs with revenues. The economic perspective sees depreciation

as a way of passing back to the company its investment in capacity and capability. Because a return is also provided on the RAB (i.e. the amount invested which has not yet been returned to investors) the value of the business (the present value of future cashflows) is independent of the choice of depreciation life.[1]

From an economic viewpoint, depreciation is important as it provides the company with cash flows to fund further capital expenditure and, therefore, from a financing perspective economic lives should broadly match the useful lives of the assets which are being financed. For these reasons, the CAA provides depreciation from the date of acquisition (in order to facilitate financing) rather than from the date of operation (which is used in accountancy terms to match the costs with the revenues). This also reflects the CAA's statutory duty to secure that NERL will not find it unduly difficult to finance its licensed activities.

The CAA has applied an average useful economic life to all fixed assets that reflects the economic lives of the mix of assets in use. For NR23 capital expenditure (as for RP1 to RP3), the CAA has used a 15-year life which it considers appropriate for regulatory purposes and notes that this is consistent with the mix of assets and their useful economic lives. The CAA therefore concludes that, although the way in which the calculation is performed is not consistent with IAS, the outcome of the calculation is broadly consistent with that which would result from using individual asset lives.

On privatisation in 2001, all the existing assets were to be depreciated over 20 years with additions depreciated over 12 years. As a result of the RP1 review the CAA extended the useful economic lives of future additions to 15 years. Although this led to a range of lives depending on when the assets were acquired, the CAA considered it would be inappropriate to retrospectively change assets lives because to do so would have created uncertainty with respect to future capital expenditure.
For NR23 we have used the same approach to regulatory depreciation as for RP3 (see chapter 5 of the Draft Performance Plan 2022 for more details). This includes:

- 20-year straight-line depreciation for the opening RAB at privatisation. These assets will be fully depreciated by the end of 2022;
- 15-year straight line depreciation for new assets added to the RAB through capital expenditure;
- a true-up for depreciation if there were any differences between the actual and forecast 'RPI-CPI wedge' ;
- an adjustment for depreciation to remove costs associated with NERL's pension cost pass-through which was recovered through revenue adjustments instead; and
- allowing only efficiently incurred capital expenditure to be recovered through the depreciation allowance.

MET:
Freehold land is not depreciated. Depreciation on buildings is calculated to write-off the cost, or value, by equal instalments over the asset's estimated useful life (not exceeding 50 years). Plant and equipment and information technology assets are depreciated by the straight-line method at a rate calculated to write-off the cost, or value, over the asset's estimated useful life. Current policy is to write-off plant and equipment over three to 30 years and information technology equipment over two to 12 years. Satellite assets are depreciated using the straight-line method over their estimated useful life. This method reflects the principle that the economic benefit of satellite data remains constant between individual satellites. Fixtures and fittings include improvements to leasehold buildings and are depreciated over five to 25 years. Assets in the course of construction are not depreciated. Where there is evidence of impairment, fixed assets are written down to recoverable amount.

NSA (CAA and DfT):
Depreciation costs in respect of the building refurbishment at Aviation House for the change in location of Safety Regulation staff brought down prior to the closure of CAA House in December 2019. The costs are depreciated over the life of the assets using the straight-line method applied to historic costs.

[1] In addition, the accounting charge reflected in NERL's statutory accounts may include the accelerated write down of assets due to impairment and gains or losses on asset sales, neither of which is allowed under economic regulation. It is the proceeds of asset disposals that are deducted from the RAB and are therefore reflected in depreciation.

h) For each entity, description and underlying assumptions of each item of complementary information (point 3 of Table 1), including a description of the main factors explaining the variations over the reference period;

NERL (ANSP)	
Costs of new and existing investments (see also performance plan item 2)	
3.10 Depreciation	Covered in item f) above
3.11 Cost of capital	This is assumed to be equal to the Cost of capital in determined costs (Table 1, line 1.4)
3.12 Cost of leasing	This is the Eurocontrol share of Finance leases and IFRS 16 operating lease costs. These are included within Other operating costs (Table 1, line 1.2).

Eurocontrol costs	
3.13 Eurocontrol costs (Euro)	This is not applicable
3.14 Exchange rate (if applicable)	This is not applicable

MET	
Costs of new and existing investments (see also performance plan item 2)	
3.10 Depreciation	Covered in item f) above
3.11 Cost of capital	n/a
3.12 Cost of leasing	n/a

Eurocontrol costs	
3.13 Eurocontrol costs (Euro)	This is not applicable
3.14 Exchange rate (if applicable)	This is not applicable

NSA (CAA and DfT)	
Costs of new and existing investments (see also performance plan item 2)	
3.10 Depreciation	Covered in item f) above
3.11 Cost of capital	n/a
3.12 Cost of leasing	n/a

Eurocontrol costs	
3.13 Eurocontrol costs (Euro)	Eurocontrol costs are paid by the DfT to the Agency. These costs are apportioned according to the sharing keys agreed by the Contracting States. These costs cover staff and other operating costs. The UK does not contribute to the Maastricht Upper Area Control Centre (MUAC) aspect of Eurocontrol costs. The determined costs for RP3 and NR23 are provided in euros by Eurocontrol. A forecast exchange rate is also provided for the figures to be converted into pounds for the tables. The actual amounts will be added to the tables throughout RP3 and NR23. The determined Eurocontrol costs are increasing over the five years of RP3. The increases

	have been attributed to the cost of the Agency carrying out an extensive investment program.
3.14 Exchange rate (if applicable)	The average exchange rate used is €1 = £ 0.862064, as provided by DfT in the Eurocontrol Multilateral Agreement

i) For each entity, description of the assumptions used to compute the cost of capital (point 1.4 of Table 1), including the composition of the asset base, the return on equity, the average interest on debts and the shares of financing of the asset base through debt and equity;

NERL	
Cost of capital %D	
3.6 Return on equity	The post-tax cost of equity (in real terms, deflated by the retail price index (RPI)) used to calculate the weighted average cost of capital. Further details are provided below the table.
3.7 Average interest on debts	The pre-tax cost of debt (in real terms, deflated by the retail price index (RPI)) used to calculate the weighted average cost of capital. Further details are provided below the table.
3.8 Share of financing through equity	The notional level of the regulatory asset base (RAB) financed by equity, used to calculate the weighted average cost of capital. Further details are provided below the table.

Approach to estimating the cost of capital

The broad approach taken to NERL's cost of capital, including the cost of equity, is consistent with the approach for RP3 and the regulation of utility industries in the UK and widely used elsewhere. This is based on calculating the weighted average cost of capital (WACC), with cost of equity estimated using the capital asset pricing model (CAPM). The cost of capital applied is the vanilla WACC, based on the post-tax cost of equity and pre-tax cost of debt, and set in real terms using the UK retail price index (RPI), consistent with indexation of the regulatory asset base (RAB).[2] The CAA separately estimates an allowance in respect of NERL's reasonable tax expenses in NR23.

In developing our initial proposals, we reviewed a wide range of evidence to estimate an appropriate cost of capital for NR23, including:

Chapter 1recent market information and trends;

Chapter 2analysis and views from equity and debt costs from external consultancies and academics; and

Chapter 3UK regulatory precedent;[3]

We found there to be strong evidence pointing to a reduction in the vanilla WACC since RP3. We estimated a real (in RPI terms) vanilla WACC for NERL of 2.81%, which is below the 3.54% vanilla WACC proposed by NERL in its RP3 business plan and the 3.05% vanilla WACC used at RP3.

The reduction in WACC since RP3 is primarily due to reductions in the cost of NERL's debt following the financial restructuring it undertook in April 2021.

The table below shows how the vanilla WACC has been estimated from the components of the cost of debt, cost of equity and gearing. It reflects the WACC in real terms, deflated by the UK retail price index (RPI). We have assumed forecast RPI inflation of 3.16% p.a. during NR23. This WACC is applied to the average RAB to calculate the cost of capital in the Determined Costs. Our approach is to estimate a range (but not a point

[2] In the UK financial markets retail prices index (RPI) inflation is the measure of inflation used by investors. In estimating the real cost of capital, the CAA has deducted RPI inflation from the nominal cost of capital. In order that investors are kept whole in respect of inflation, it is appropriate to uplift the asset base by RPI inflation.

[3] This includes including WACC ranges in Ofwat's PR19 draft determinations, Ofcom's business connectivity statement, Ofgem's RIIO-2 methodology decision, and the UKRN cost of equity report

estimate) for each WACC parameter. We aggregate these parameter ranges to develop a range for the WACC, and then select a point estimate for the WACC from that range.

NR23 WACC (RPI-deflated)

	Ref	NR23 Low	NR23 High	RP3
Gearing	A	30.00%	30.00%	30.00%
Risk Free Rate	B	(2.41%)	(2.78%)	(2.25%)
TMR	C	5.20%	6.50%	5.50%
Asset Beta	D	0.54	0.64	0.57
Debt Beta	E	0.05	0.05	0.05
Equity beta	F = (D-E*A)/(1-A)	0.75	0.89	0.79
Cost of equity	**G = B + F*(C-B)**	**3.30%**	**5.51%**	**3.87%**
Cost of new debt	H	(0.27%)	(0.27%)	(0.68%)
Cost of embedded debt	I	(1.02%)	(1.02%)	2.55%
Proportion of new debt	J	0.00%	0.00%	49%
Issuance and liquidity cost	K	0.13%	0.13%	0.15%
Cost of debt	**L = H*J + (1-J)*I + K**	**(0.89%)**	**(0.89%)**	**1.12%**
Vanilla WACC	**M = L*A + G*(1-A)**	**2.04%**	**3.59%**	**3.05%**
Point estimate		**2.81%**		**3.05%**

Source: CAA analysis

j) Description of the determined costs of common projects (point 3.9 of Table 1).

The breakdown of the determined costs of common projects to be updated in line with Final Performance Plan in due course

Actual costs and unit costs

Information on actual costs against determined costs can be found in chapter 3 of the Draft Performance Plan 2022.

a) For each entity and for each cost item, a description of the reported actual costs and the difference between those costs and the determined costs, for each year of the reference period;

NERL responded to the reduction in air traffic volumes as a result of Covid-19 by reducing its costs to protect its liquidity while also ensuring a safe resilient service and protecting the recovery in aviation. Actions

included staff pay restraint and a recruitment freeze, the release of most external contractors, curtailing non-staff costs and a pause in the capital investment programme. Many staff were furloughed under the UK government's job retention scheme. The cost base has also been reduced through staff redundancies which were restricted to non-operational staff to ensure that the essential operational skills were retained. The costs of redundancies and furlough support in 2020 and 2021 are reported within exceptional items. The actions taken by NERL and lower traffic volumes resulted 3% lower than the 2020 RP3 CMA FD; and 18% lower in 2021.

MET: Met actual costs in 2021 were approximately the same as determined costs.

CAA: CAA actual costs in 2021 were as per determined costs.

b) Description of the reported actual service units and a description of any differences between those units and the figures provided by the entity that is billing and collecting charges as well as any differences between those units and the forecast set in the performance plan, for each year of the reference period;

Due to the impact of Covid-19, actual UK traffic in 2021 was:

1. TSU – 5,399,267

This is compared to a forecast of:[4]

2. TSU – 12,891,000

There remains uncertainty around how traffic volumes will recover following the pandemic. We consider the approach to traffic forecasting in chapter 1 of the Draft Performance Plan 2022.

c) Breakdown of the actual costs of common projects per individual project;

Detail to be provided in T4 in final performance plan.

d) Justification of the difference between the determined and the actual costs of new and existing investments of the air navigation service providers, as well as the difference between the planned and the actual date of entry into operation of the fixed assets financed by those investments for each year of the reference period;

Due to the UK's regulatory model, determined costs include a level of annual depreciation that is fixed at the point the plan is set. Investment related costs are therefore in line with the baseline.

e) Description of the investment projects added, cancelled or replaced during the reference period with respect to the major investment projects identified in the performance plan, and approved by the Contracting States.

NERL significantly reduced capex activities over 2020 to 2022 in response to the Covid-19 pandemic, reporting over £200 million of savings relative to the CMA RP3 determination. No investment projects were added, cancelled or replaced, however the delivery timelines were extended in many cases and the scope of some projects amended.

[4] From UK RP3 performance plan

ADDITIONAL INFORMATION TO REPORTING TABLES 2 – UNIT RATE CALCULATION

This November 2022 submission of the CRCO reporting tables updates our June 2022 submission with the Final UK 2023 unit rate as set out in our Initial Proposals (Draft Performance Plan 2022) – "CAP2394", which was published for consultation with stakeholders in October 2022.

Following consultation, the UK will adopt and submit a Final Performance Plan by Q3 2023 – after the start of the NR23 period. Consistent with the Eurocontrol Principles, we will make any necessary adjustments to the unit rate to reflect differences between our draft and final 2023 charges.

a) Description and rationale for establishment of the different charging zones, and potential cross-subsidies between charging zones;

Not applicable

b) Description of the policy on exemptions and description of the financing means to cover the related costs;

In addition to the mandatory exemptions, the UK exempts the following flights from en-route charges in RP3 and NR23:

1. Flights by military aircraft;
2. Flights made exclusively for the purpose of the instruction or testing of flight crew;
3. VFR flights of which the total weight authorised is 5.7 metric tonnes or less;
4. Flights terminating at the aerodrome from which the aircraft has taken off ("circular flights");
5. Flights made exclusively for the checking or testing of equipment used or intended to be used as aids to air navigation;
6. Authorised humanitarian flights.

The UK keeps its compliance with State obligations under review to ensure that the costs of services provided to exempted flights is not passed on to other airspace users through its unit rate.

c) Description of adjustments resulting from the traffic risk sharing mechanism in accordance with Paragraph 3.3.3.1;

For NERL:

For RP3, the CAA retained the default traffic risk sharing mechanism and alert threshold process consistent with EU regulation applicable at the time.

In 2020 traffic was 59.5% lower than forecast in the UK RP3 performance plan. In light of Covid, the EU amended the TRS mechanism under the performance regulation to allow for recovery to be spread over a longer period of time to smooth the impact on charges.

The UK response was driven by statutory duties under the Transport Act 2000, but remained cognisant of the exceptional measures adopted by the EU and the underlying principle to spread the recovery of efficiency cost over an extended period of time.

Under the typical traffic risk sharing mechanism, approximately £380m would have been due for recovery from users as part of the NERL component of the 2022 unit rate. However, the mechanism was suspended.

In 2021 traffic was 57.3% lower than forecast. Consistent with the approach taken to 2020, the automatic TRS mechanism for 2021 (as well as 2022) was suspended with the resulting amounts to be reviewed in the context of the NR23 determination.

We have reviewed our approach to the TRS mechanism and we have confirmed with the CRCO that our revised approach for how we calculate and recover the 2020-22 TRS revenues is consistent with the Eurocontrol Principles. These changes include:

5. Revising the TRS mechanism so that instead of being based on determined costs, it is calculated on the basis of actual efficient NERL costs over 2020-22. We have established a proposed actual

efficient cost baseline in our Reconciliation Review which can be found in chapter 3 of the Draft Performance Plan (2022). The reason for this approach is to ensure that the NERL only recovers revenue shortfalls (resulting from lower traffic volumes) that relate to its actual efficient costs.

6. In the Draft Performance Plan 2022, we propose uniform recovery of the TRS over NR23 and the following reference period (NR28). We have set out in para 6.34 of the Draft Performance Plan 2022, that the total £681 million TRS revenue is to be recovered evenly over a 10 year period (ie. 50% of the TRS revenue over NR 23; and 50% over NR28). This results in a TRS revenue shortfall to be recovered over NR23 is £341 million (nominal prices). Our calculations of the TRS revenue can be found in tables 3.11 and 3.13 in the Draft Performance Plan 2022.

In the Draft Performance Plan (2022) we propose to retain the traffic risk share mechanism for the en route services that was applied prior to the impact of Covid-19. We proposed a change that means that where there is unexpected traffic reductions of over 10% the recovery of revenues is spread over multiple years. The TRS parameters otherwise remain unchanged from RP3.

d) Description of the differences between determined costs and actual costs of year n as a result of the changes in costs referred to in Paragraph 3.3.4 including description of the changes referred to in that Paragraph;

ANSPs (NERL and Met Office):

While the unforeseen costs have not been used in the past by the Met Office, as an ANSP under the Eurocontrol Principles we note that the below provisions are also available to it.

For NR23 (and similar to previous price control periods) we expect costs exempt from the cost risk sharing mechanism to include:

4. Net capital expenditure costs associated with new and existing investments. NERL can recover unforeseen changes in capital expenditure, where efficient, through the RAB, which is then recovered from users through cost of capital and depreciation.

5. Unforeseen changes in pension costs. The calculation of the RP3 and NR23 Pension Contribution Variance follows the methodology used in RP2 and is based on the European Commission methodology for the treatment of costs exempt from cost sharing. In March 2021, the UK published a regulatory policy statement on the treatment of pension costs, setting out the principles the UK will follow for the treatment of variances between determined and actual pension costs. Pension cost pass-through and other cost sharing mechanisms are addressed in chapter 7 of the Draft Performance Plan 2022. Determined pension costs are set out in chapter 4.

6. Unforeseen changes in interest rates on loans. While this has not been applied to date, we retain the option to use this provision where appropriate for NR23.

7. Unforeseen changes in national taxation law or other new cost items required by law. While this has not been applied to date, we retain the option to use this provision where appropriate in NR23. For example, we would also expect this to apply to any changes in costs due to significant unforeseeable changes in the corporation tax rate during NR23..

These issues are considered in chapter 3 (Reconciliation chapter) of the Draft Performance Plan 2022, where we have explained the drivers of the differences between determined and actual costs over 2020-22, and in chapter 7 where we consider cost pass through provisions.

NSA (CAA and DfT):

For NR23, we expect to retain relevant costs exempt from the cost risk sharing provisions consistent with the Eurocontrol Principles:

- Unforeseen changes in Eurocontrol costs, which are outside the control of the State.
- Unforeseen changes in CAA determined costs.

e) Description of adjustments resulting from unforeseen changes in costs in accordance with Paragraph 3.3.4;

NERL:

We plan to update the cost sharing mechanism (CSM) adjustments for the Final Performance Plan.

f) Description of the other revenues, if any, in accordance with Paragraph 2.2.1 broken down between categories;

NERL:

NERL reports on a single till basis agreed with the CAA. As a consequence, revenue has been offset against costs to reflect the net position. This approach has been discussed with CRCO and is consistent with the Principles. The income that is netted off from other sources includes income from the provision of services to North Sea Helicopters, Ministry of Defence en route air traffic (where NERL provides the infrastructure but not the controllers), services to other group companies, miscellaneous commercial income, London Approach fees and revenue associated with the SESAR Joint Undertaking and other European programmes.

The London Approach charge is reflected as a terminal charge as is not administered through the CRCO system.

Following consultation with airspace users in May 2018, NERL agreed, with the CAA, a mechanism to transfer INEA funds to airspace users. NERL will transfer the net funds received in year n via the unit rate in year n+2.

Due to the impact of Covid-19 on the aviation industry, NERL delayed several of its investments in 2020 including some funded by INEA. The uncertain Brexit situation for the UK also increased risk for the possible clawback of INEA funding. As such, in 2020 NERL's Board determined that NERL would return to airspace users only the INEA funds that face a low risk of being reclaimed during 2021. NERL returned c.£10.4m in 2021, out of the total of c.£32.4m INEA funds, with the rest being returned in the 2022 unit rate, and this has been reflected in the cost reporting tables. This was considered to be a balanced solution between the needs of customers and NERL, recognising that there are significant financial challenges being faced on both sides at that time.

g) Description of the application of the financial incentive schemes referred to in Paragraph 3.4.1 in year n and the resulting financial advantages and disadvantages; description and explanation of the modulation of air navigation charges applied in year n under Paragraph 3.4.2 where applicable, and resulting adjustments;

Financial incentive schemes

For RP3, the application of financial incentives for 2020 and 2021 was been suspended given the impact of traffic downturn.

As we move into NR23, we are reinstating financial incentives. To incentivise the delivery of high levels of service and the delivery of benefits from its capex investment and increasing opex, we are proposing to set targets (including environmental and targets, that provide strong incentives on NERL to improve its performance. These financial incentives should drive improved levels of performance over NR23 and protect customers and consumers from lower quality of service.

More information on:

1. service quality targets for NR23 can be found in chapter 2 of the Draft Performance Plan 2022;
2. capex engagement incentive framework can be found in chapter 4 of the Draft Performance Plan 2022;
3. capex incentives and governance in chapter 7.

Modulation of charges

No adjustments are assumed.

h) Description of adjustments relating to the temporary application of a unit rate under Paragraph 3.3.1.4;

Following the Competition and Markets Authority redetermination of NERL's RP3 price control (published in August 2020), for the 2020 to 2022 calendar years, adjustments were required to take into account the difference relating to the 2020 determined costs.

i) Description of the cross-financing between en route charging zones;

N/A

j) Information on the application of a lower unit rate under Paragraph 3.3.1.3 than the unit rate calculated in accordance with Paragraph 3.3.1.2 and the means to finance the difference in revenue;

N/A

k) Information and breakdown of the adjustments relating to previous reference periods impacting the unit rate calculation;

As part of the RP3 cost reporting tables we have included adjustments from 2018 and 2019 that will be carried over on an n+2 basis and impact on the 2020 and 2021 unit rates (traffic risk sharing, incentives, inflation, cost sharing mechanism and other revenues).

We have taken the same approach for the NR23 cost reporting tables, with adjustments included from 2021 carried over on an n+2 basis and impact on the 2023 unit rates (traffic risk sharing, inflation, cost sharing mechanism and other revenues). We will update adjustments from 2022 when available, and the 2023 unit rates accordingly.

ADDITIONAL INFORMATION TO REPORTING TABLE 3 – COMPLEMENTARY INFORMATION ON COMMON PROJECTS AND ON UNION ASSISTANCE PROGRAMME

l) Information on the costs of common projects and other funded projects broken down per individual project, as well as of public funds obtained from public authorities for these projects.

Detail to be provided in T4 in final performance plan.

APPENDIX I

Draft RAB rules

[To be updated]

APPENDIX J

Draft licence modifications

Introduction

- To implement our final decisions in respect for NERL for NR23, we will need to modify its Air Traffic Services Licence, which was granted by the Secretary of State on 28 March 2001. Before we can issue a notice making any changes to the licence, Section 11A(1) of the TA00 requires us to formally consult on proposed modifications.
- Currently, we are consulting stakeholders only on our Initial Proposals and therefore no such formal consultation is required. However, to illustrate how the licence would be affected, we consider it would be helpful for stakeholders to understand the modifications we think would be necessary to implement our Initial Proposals.
- This appendix provides details of those draft licence modifications and we welcome stakeholders' views on these proposals.

The proposed licence modifications

- To implement our Initial Proposals, we would seek to modify the following licence conditions:

Condition 6 – Regulatory accounting requirements:

- the introducing a definition of new users; and
- requiring NERL to explain the basis on which incurred costs have been apportioned or allocated to new users.

Condition 10 – Business Plans, Service and Investment Plans and Periodic Reports:

- to reduce the assessment criteria in the capex engagement incentive by combining the timeliness of information NERL provides to users, proportionality and user focus criteria.

Condition 10a – Airspace modernisation:

- requiring NERL to provide:
- a high-level report to us and DfT against the delivery of the airspace modernisation strategy initiatives each year or on request; and
- a quarterly report to us on ACOG's costs and a forecast of its costs for the remainder of NR23.

Condition 18 – Payment of fees:

- to delete the entire condition on NERL to pay us an annual fee to cover the costs of our economic regulation, including the additional costs we incur in carrying out price control reviews.

Condition 21 – Control of Eurocontrol charges to implement the new price control for NR23 including:

- adding determined costs for each year of NR23;
- introducing new terms to the price control for the proportion of NERL's recovery of TRS revenue in respect of 2020, 2021 and 2022 which will be recovered in NR23, and a pricing profile adjustment to smooth revenue over the NR23 period;
- amending the TRS recovery term for NR23 for under- or over-recoveries from differences in forecast and actual traffic, with recoveries of differences two years later, apart from under-recoveries of differences greater than 10% which will be recovered spread over the third and fourth years later; and
- amending the targets for the C2, C3 and C4 service quality and 3Di environmental incentives for NR23.

Condition 21a – Control of Eurocontrol charges to implement the new price control for NR23 including:

- adding determined costs for each year of NR23;
- introducing a new term for the proportion of NERL's recovery of TRS revenue in respect of 2020, 2021 and 2022 which will be recovered in NR23; and
- amending the TRS recovery term for NR23 for under- or over-recoveries from differences in forecast and actual traffic, with recoveries of differences two years later, apart from under-recoveries of differences greater than 10% which will be recovered spread over the third and fourth years later.

Condition 22 – Control of Oceanic charges to implement the NR23 price control including:

- a base charge per flight for each year of NR23;
- an ADS-B charge for each flight in the Atlantic area for each year of NR23;
- an ADS-B charge for each flight in the Tango area for each year of NR23; and
- amending the arrangements for the independent review of whether the benefits of ADS-B of outweigh the costs to allow us to determine the date of the review and its terms of reference.

Condition 24 – Information to be provided to the CAA in connection with the charge control conditions, including:

- requiring NERL to put in place a cost reporting mechanism to report to us annually on:

- details of the core and specified services requested by and provided to new users;
- the costs incurred by NERL in providing the core and specified services to new users;
- any associated activities, costs and deliverables resulting from the provision of core and specified services to new users; and
- any amendments to the cost reporting system; and
- requiring NERL to produce, after consultation with users including new users, a proposed charging mechanism to calculate charges for new users by 30 June 2025.
- We are also proposing minor consequential changes to:
- Condition 5 availability of resources and financial ring fencing to change the period over which we require NERL to report on its expected gearing to the five years of the NR23 period; and
- Condition 20 price control conditions: definitions - to include definitions of the NR23 regulatory period and Eurocontrol Principles.
- When we consult on our decision to modify NERL's licence to implement our NR23 decision we will also consult on amending the guidance on NERL's capital expenditure engagement incentive published in December 2020.

Proposed modifications to Condition 18 – on recovering the costs of our economic regulation of NERL

- In November 2021, we consulted on our charges schemes for 2022/23. As part of this we consulted on moving from charging NERL an annual licence fee (and an additional fee when conducting price control reviews) to incorporating our NERL economic regulation costs into the existing CAA en route costs, recovered through the UK en route unit rate. We considered that it would be more appropriate and transparent for the beneficiaries of our regulation of NERL to meet the costs of regulation directly.
- Respondents to the consultation agreed that moving the licence fee into the unit rate mechanism was sensible, however they requested greater transparency in the setting of the annual licence fee. Our decision is in the response document to our statutory charges consultation.
- In chapter 10, we set out the CAA's en route costs, which include new costs for our economic regulation of ATS. Those costs are based on the average annual charge to NERL under the previous licence fee mechanism. An equivalent reduction has been made to NERL's operating costs, so the impact will be net neutral to airspace users. This adjustment has been excluded from any calculation of NERL efficiency.
- Under the Eurocontrol Principles, significant over-, or under-, recoveries shall be returned to, or recovered from, airspace users on an n+2 basis. This differs from the previous NERL licence fee mechanism which did not provide for any for over-, or

under-, adjustments between NERL and users. The UK unit rate for the following year is also consulted on with stakeholders in spring and autumn of the preceding year.

- Given the support for this approach, we intend to:

  remove the NERL licence fee provision in the licence by deleting the current content of Condition 18;

  insert the text, “intentionally blank” in its place; and

  from NR23, include our costs for the economic regulation of ATS in the CAA’s Determined Costs that are incorporated into the UK unit rate.

Condition 5: Availability of Resources and Financial Ring-Fencing - extract

Financial Indebtedness

24. The Licensee shall use its reasonable endeavours to ensure that at 31 March and 30 September of each year (each a "measurement date") the total amount of Gearing (defined in paragraph 29) of the Licensee and any related undertakings, shall not exceed 65 per cent.

25 If, despite the reasonable endeavours of the Licensee, Gearing of the Licensee and any related undertakings, exceeds 65 per cent at the measurement date, or its best estimate for Gearing at any of the next four measurement dates exceeds 65 per cent, which in itself would not constitute a contravention of a licence condition for the purpose of section 20 of the Act, and the Licensee has not obtained the written consent of the CAA to that limit being exceeded, then the Licensee and any related undertakings:

(a) may not without the prior written consent of the CAA (following disclosure of all material facts) declare or pay dividends and may not transfer, lease, license or lend any sum or sums, asset, right or benefit to any affiliate, otherwise than by way of:

(i) payment properly due for any goods, services or assets in relation to commitments entered into prior to the date on which the circumstances described in paragraph 25 arise, and which are provided on an arm's length basis and on normal commercial terms;

(ii) a transfer, lease, licence or loan of any sum or sums, asset, right or benefit on an arm's length basis, on normal commercial terms and where the value of the consideration due in respect of the transaction in question is payable wholly in cash and is paid in full when the transaction is entered into;

(iii) repayment of, or payment of interest on, a loan which was contracted prior to the date on which the circumstances in paragraph 25 arise, provided that such payment is not made earlier than the original due date for payment in accordance with its terms;

(iv) further loans to employees in respect of the £25 million facility provided by NSL to the licensee for the purpose of funding employee relocation property transactions; and

(v) payments for group Corporation Tax relief calculated on a basis not exceeding the value of the benefit received, provided that the payments are not made before the date on which the amounts of tax thereby relieved would otherwise have been due;

(b) shall,

(i) within two months of the measurement date or other such time periods as the CAA may reasonably notify as being appropriate in the circumstances, provide to the CAA details of the steps the Licensee intends to take to reduce the Gearing to 65 per cent or below or such other level that has been authorised by the CAA;

(ii) within six months of the measurement date or other time periods as the CAA may reasonably notify as being appropriate in the circumstances take those steps; and

(iii) within time periods as the CAA may reasonably notify as being appropriate in the circumstances provide to the CAA evidence that it has taken those steps.

(c) If at any time the Licensee, in its reasonable judgement, becomes aware of any circumstance that:

(i) means it is no longer complying with paragraph 25(a) and 25 (b); or

(ii) causes it to have the reasonable expectation that it is no longer likely to comply with paragraph 25(a) and 25(b);

then the Licensee shall notify the CAA immediately in writing of that fact or expectation together with a written statement, with such accompanying evidence if applicable, setting out any explanation of circumstances that have caused or are likely to cause it no longer to comply, together with such further or amended steps that the Licensee proposes to take and the time period in which it proposes to take such steps, to reduce the Gearing to 65% or below. Upon receipt of such statement and any accompanying evidence, the CAA shall determine, acting reasonably, and upon further inquiry of the Licensee if appropriate, whether such further or amended steps and time periods are acceptable.

(d) If such further or amended steps are acceptable, sub-paragraph 25(c) shall apply to those steps in the same way that it applies in relation to sub-paragraphs 25(a) and (b).

(e) If the further or amended steps proposed by the Licensee pursuant to sub-paragraph 25(c) are not acceptable to the CAA, the CAA shall, within 15 working days of the notification by the Licensee under sub-paragraph 25(c), either notify the Licensee of such alternative steps and the relevant time periods that it considers appropriate in the circumstances or notify the Licensee of its intention to invoke sections 20 and 21 of the Act in relation to the steps notified by the Licensee pursuant to sub-paragraph 25(c).

26. The Licensee shall:

(a) provide from time to time as reasonably requested by the CAA and in any event within 25 business days of a measurement date:

(i) in respect of the measurement date to which it relates, the value of Gearing and its best estimate of Gearing on each of the four subsequent measurement dates;

(ii) for the four subsequent measurement dates, confirmation that it is not aware of any circumstances which will result in Gearing being above 65 per cent or prevent it complying (where applicable) with paragraph 25, or if the Licensee is aware of any such circumstances disclosure of those circumstances; and

(iii) if so requested by the CAA, the financial model in support of that confirmation;

(b) provide from time to time as reasonably requested by the CAA and in any event within 25 business days of 31 March every year:

(i) its best estimate of expected average Gearing over the period from ~~1 April 2020~~ 1 January 2023 to 31 December 2027 ~~31 March 2025~~ as a whole (as a simple arithmetic average of the ten measurement dates within that period); and

(ii) an explanation of any difference between expected average gearing in paragraph 26(b)(i) and the monitoring threshold level of gearing of 60 per cent;

Condition 6: Regulatory accounting requirements

1. This Condition applies for the purpose of making available, in a form and to a standard reasonably satisfactory to the CAA, such regulatory accounting information as will, in furtherance of the requirements of this Licence:

   (a) enable the CAA and the public to assess the financial position of the Licensee and the financial performance of the UK Air Traffic Services Business and the En Route (Oceanic) Business on a consistent basis, distinct from each other and its affiliate or related undertakings;

   (b) assist the CAA to assess the Licensee's compliance with this Licence;

   (c) assist the CAA and the public to assess performance against the assumptions underlying the current price control; and

   (d) inform future price control reviews.

2. The Licensee shall draw up in consultation with the CAA, and implement in a form approved by the CAA (such approval not to be unreasonably withheld or delayed), guidelines governing the format and content of such regulatory accounts and the basis on which they are to be prepared so as to fulfil the purpose set out in paragraph 1 as from time to time amended by the Licensee with the approval of the CAA.

3. The Licensee shall keep, shall procure that any affiliate keeps and, so far as it is able, procure that any related undertaking keeps the accounting records which each is required by the Companies Act 2006 to keep in such form as is necessary to enable the Licensee to comply with this Condition and the Regulatory Accounting Guidelines.

4. The Licensee shall prepare on a consistent basis from the accounting records referred to in paragraph 3, in respect of the regulatory year commencing on 1 January 2020 and each subsequent regulatory year, regulatory accounts in conformity with the Regulatory Accounting Guidelines for the time being in force and identifying separately the amounts attributable to the UK Air Traffic Services Business, the En

route (Oceanic) Business and the Licensee as a whole in accordance with this Condition and the Regulatory Accounting Guidelines.

5. The Regulatory Accounting Guidelines prepared pursuant to paragraph 2 shall, without limitation:

(a) provide that, except so far as the CAA reasonably considers necessary, the regulatory accounts shall be prepared in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU from time to time;

(b) state the accounting policies to be adopted, including the basis on which any amount has been either:

(i) charged from or to the UK Air Traffic Services Business and the En route (Oceanic) Business together with a description of the basis of that charge; or

(ii) determined by apportionment or allocation between the UK Air Traffic Services Business and the En route (Oceanic) Business; and

(c) explain the basis on which incurred costs have been apportioned or allocated to services provided to New Users, specifying in particular which services have been provided and, where possible, to which types of New User.

6. The Licensee shall:

(a) procure, in respect of the regulatory accounts prepared in accordance with paragraph 4 in respect of a regulatory year, a report by the Auditors addressed to the CAA which provides their opinion on those accounts. The opinion should be worded in the form required by those professional bodies accountable for prescribing the form of audit reports on regulatory accounts and should reference compliance with the Condition and Regulatory Accounting Guidelines;

(b) deliver to the CAA the Auditors' report referred to in sub-paragraph (a) and the regulatory accounts referred to in paragraph 4 as soon as reasonably practicable, and in any event not later than seven months after the end of the regulatory year to which they relate; and

(c) arrange for copies of the regulatory accounts and Auditors' report referred to in sub-paragraphs (a) and (b), respectively, to be made publicly available.

7. The Licensee shall also:

(a) make reasonable endeavours to secure agreement between itself, the CAA and the Auditors on Agreed Upon Procedures which are designed to provide the CAA with factual findings, where, from time to time, the CAA reasonably considers such procedures are relevant to the fulfilment of its duties and proportionate to any concerns of the CAA in respect of the CAA in respect of its fulfilment of those duties, in each case relating to the following:

6. the appropriateness of any amounts referred to in paragraphs 5(b)(i) and 5(b)(ii) of this Condition

7. the Licensee's compliance with the prohibition of cross-subsidies in paragraph 1 of Condition 9; and

8. any other aspect of the regulatory accounts on which the CAA reasonably considers it requires factual findings

8. The regulatory year of the Licensee shall run from 1 January to 31 December unless otherwise agreed with the CAA.

9. In this Condition:

"Regulatory Accounting Guidelines"	means the guidelines drawn up in accordance with paragraph 2 of this Condition.
"UK Air Traffic Services Business"	means the Licensee's business other than the En route (Oceanic) Business.

"Agreed Upon Procedures"	means procedures which are from time to time agreed between the CAA, the Auditors and the Licensee and which the Auditors carry out and report on factual findings.
"New Users"	means a User who: - is or is in the process of applying to be an "unmanned aircraft system operator" or "UAS operator" carrying out "UAS operations", as defined in UK Regulation (EU) 2019/947; - is the holder of or is in the process of applying for an "operator licence" or a "spaceport licence" as defined in the Space Industry Act 2018; - is the owner of a "spacecraft" or a "carrier aircraft" as defined in the Space Industry Act 2018; or - is any other User who owns, operates, or is in the process of applying for the relevant approvals to own or operate, a novel type of aircraft for which the Licensee has not previously provided air traffic services and who wishes to use such services.

Condition 10: Business Plans, Service and Investment Plans and Periodic Reports

1. The Licensee shall prepare a full business plan fulfilling the requirements of paragraph 3 of this Condition. The business plan must be consistent with any overall business plan of the Licensee but, provided that it fulfils the requirements of paragraph 3, for the avoidance of doubt need not constitute the entirety of any such overall business plan.

2. Business plans prepared under paragraph 1 shall be submitted to the CAA not less than twelve months before each Plan Renewal Date or at a later date agreed with the CAA, and shall relate to the period beginning on that Plan Renewal Date (or the period until expiry of the Licence whichever is the shorter period). Later business plans shall always supersede any earlier business plan in respect of a period which is covered by both. Business plans shall also comply with the relevant requirements for a business plan set out in Commission Implementing Regulation (EU) 2017/373 (and as amended by the Air Traffic Management (Amendment etc)(EU Exit) Regulations 2020 when the Air Traffic Management (Amendment etc)(EU Exit) Regulations 2020 come into force on IP completion day (as defined in section 39(1) of the European Union (Withdrawal Agreement) Act 2020)) and any relevant legislation and/or guidance issued by the Secretary of State arising out of or in connection with the withdrawal of the UK from the European Union.

3. The purpose of each business plan shall be to describe in detail the Licensee's plans and expectations for each of the En route Businesses and London Approach Service including its capital expenditure and operational plans, together with measures which it proposes to take to improve the efficiency and effectiveness of its operation in providing the services required by this Licence. Business plans shall include such information as is reasonably necessary to achieve this including, but not limited to, details concerning the following:

    1. the demands, in terms of the volumes of flights, which the Licensee forecasts that it will be required to serve in meeting its general obligation under Condition 2 together with the principal factors which it expects to determine those demands;
    2. the standards of service that the Licensee plans to meet in serving the demands in sub-paragraph (a), including the expected levels of and variations in delays to the flights in respect of which services are provided, and other appropriate measures;
    3. the capacities which the Licensee plans to provide in order to meet the demands in sub-paragraph (a) at the standards of service in sub-paragraph
    4. any underlying assumptions regarding airspace;
    5. the likely level of and developments in any constraints on the volume of services which the Licensee may provide in each of the Licensed Areas and any proposed changes thereto;

6. the Licensee's capital expenditure plans and how these will contribute to the provision of the planned outputs;
7. the Licensee's plans with respect to operating and human resources and practices, operating expenditure and how these will contribute to the provision of the planned outputs; and
8. forecasts of the Licensee's financial results in terms of a regulatory income statement with associated cash flow statements and the effects on the regulatory asset base projection.

4. Every year the Licensee shall submit:

1. not later than 31 January in each year, a service and investment plan fulfilling the requirements of paragraph 5 of this Condition;
2. not later than 31 July in each year, an interim service and investment plan fulfilling the requirements of paragraph 5 of this Condition;
3. not later than 30 April and 31 October in each year, an update to the service and investment plan; and
4. with effect from 1 January 2020, not later than seven months after the end of the regulatory year, a business plan report fulfilling the requirements of paragraph 6 of this Condition which shall relate to the previous regulatory year.

5. Each service and investment plan and interim service and investment plan shall provide an update of:

1. the Licensee's investment plans, including its technology and airspace programmes;
2. the Licensee's delivery of the investment plans, as measured against the capital expenditure programme milestones set out in the Licensee's business plan and as amended to be consistent with the price controls in Conditions 21, 21a and 22; and
3. material changes in the Licensee's expectations as to the level and quality of the services it will provide, the means by which the services will be provided, and the likely implications for charges to Users beyond the expiry of the period for which charges are for the time being set pursuant to the Charge Control Conditions. Service and investment plans shall include such information as is reasonably necessary to achieve this including, but not limited to, material changes in the Licensee's expectations as to its operating practices and resources.

6. Each business plan report shall provide a description of progress achieved in relation to the business plan and the latest service and investment plan or interim service and investment plan, reconciling actual performance against these plans. Each business plan report shall also include information on the performance of the Licensee against its obligations in Condition 2(1)(a) of this Licence.

7. The Licensee shall be subject to a financial incentive in respect of the efficiency of its capital expenditure programme. The financial incentive shall be based on whether the Licensee has incurred any demonstrably inefficient and/or wasteful capital expenditure and shall be carried out following the criteria set out in a regulatory policy statement produced by the CAA. Any penalty shall be calculated using the principles set out in the regulatory policy statement and will be applied in the next reference period.

8. ~~From 1 January 2021,~~ The Licensee shall be subject to a financial incentive in respect of the quality of its engagement on its capital expenditure programme. The incentive shall be based on the following assessment criteria:

   1. ~~the timeliness of information the Licensee provides to Users, including the provision of early warning and explanation of factors that may put planned delivery timelines at risk~~ the extent to which the information and mechanism of delivery is focused on the priorities and resource constraints of Users so that it is clear and accessible, including the timeliness of information the Licensee provides to Users, including the provision of early warning and explanation of factors that may put planned delivery timelines at risk and the proportionality of the information to the materiality of change under consideration;

   2. ~~the proportionality of the information to the materiality of change under consideration;~~

      1. the range of reasonable options that the Licensee engages on with Users that might be adopted where practical and opportunities provided for engagement and scrutiny of those options;

      2. the Licensee's responsiveness to User and Independent Reviewer submissions including the clear explanation of how it has considered and taken account of those submissions; and

      3. whether the Licensee has taken the appropriate mitigation and corrective actions in the light of User and Independent Reviewer submissions.

   The maximum value of any penalty in respect of the quality NERL's engagement on its capital expenditure programme in a reference period shall be limited to the Licensee's return on equity on its actual capital expenditure in the reference period and shall be applied in the next reference period.

   The process that the CAA shall use to assess the Licensee's performance against the engagement incentive and determine the level of penalty (if any) to be applied shall be set out in a guidance document published by the CAA.

9. The CAA may appoint an Independent Reviewer to report on the Licensee's delivery of and engagement on its capital expenditure programme. The reports shall:

(i) review the timeliness and accuracy of the Licensee's reporting in its service and investment plans;

(ii) assess whether the Licensee has sufficiently explained and justified its capital expenditure programme in its service and investment plans;

(iii) assess and propose scores for the Licensee's engagement with Users against the assessment criteria referred in paragraph 8 and the CAA's published guidance;

(iv) track and assess the Licensee's progress on delivering its capital expenditure programme and achieving the associated benefits; and

(v) report on the cost efficiency of the Licensee's capital expenditure and its implementation.

The CAA may publish the reviews, assessments and reports of the Independent Reviewer. Unless the CAA directs otherwise, the Independent Reviewer will be paid for by the Licensee.

10. The form, scope and level of detail of the Licensee's plans referred to in this Condition shall be as reasonably approved by the CAA and shall take into account the views of Users consulted in accordance with Condition 16.

11. Subject to paragraph 12, the Licensee shall make available a copy of the latest business plan, business plan report, service and investment plan and interim service and investment plan to any person who requests a copy of such plan or report.

12. The Licensee may with the prior consent of the CAA (provided that such consent is not unreasonably withheld or delayed) omit from any document made available under paragraph 11 any details as to the terms of any agreement between the Licensee and any User, or other information disclosure of which the Licensee satisfies the CAA, or the CAA otherwise considers, would seriously and prejudicially affect the commercial interests of the Licensee or any third party.

13. The Licensee may make a charge for any copy document given or sent pursuant to paragraph 11 of an amount reflecting the Licensee's reasonable costs of providing such copy document.

14. In this Condition:

"Plan Renewal Date"	means 31 December ~~2020~~2027, or such other date the CAA shall reasonably specify following consultation with the Licensee, and every fifth anniversary thereof.

Condition 10a: Airspace modernisation

1. The Licensee must maintain an Airspace Change Organising Group ("ACOG"). ACOG shall be a unit within the Licensee, separate and impartial from the Licensee's other functional units set up for the purpose of carrying out the functions set out in paragraphs 2, 3, 5, 8, 9, 10 and 11 below. The Licensee shall ensure that ACOG is ~~will be~~ subject to oversight from a Steering Committee to assist with its impartiality and engagement of relevant stakeholders relevant to the delivery of this function. The Licensee shall appoint the Head of ACOG and the Chair of the Steering Committee following consultation with the CAA and the Department for Transport ("DfT"). The Licensee shall ensure that the Steering Committee ~~will~~includes at least one representative from the Licensee, airlines, airports, the general aviation community and independent members with appropriate experience. The Licensee remains accountable for the outputs of ACOG.

2. The Licensee must create and maintain a single coordinated implementation plan for airspace changes in the UK for the period to 2040 ("airspace change masterplan" or "the masterplan").

3. The masterplan must:

    1. be consistent with the delivery of airspace modernisation as described in the Airspace Modernisation Strategy (CAP 1711 or any successor publication) published by the CAA in accordance with Direction 3(e) of the Civil Aviation Authority (Air Navigation) Directions 2017 (the "Airspace Modernisation Strategy");
    2. meet the criteria for a Masterplan set out in paragraph 6 of the DfT and CAA's joint letter to the licensee of 2 November 2018 (see Annex B) or any successor publication;
    3. comply with any requirements or guidance associated with the requirements set out in paragraphs 3a to 3b above, as provided by the Secretary of State or CAA as co-sponsors of the Airspace Modernisation Strategy, including on the content or the methods by which the masterplan is to be produced;

4. take into consideration the information provided by and expertise of the airport operators and other ANSPs in the relevant part of the managed area; and

5. take into consideration the views of the entities listed as representatives of a stakeholder group, or as a conduit to them, identified in the Airspace Modernisation governance annex to the Airspace Modernisation Strategy or any successor publication.

4. The masterplan shall be subject to assessment in accordance with the criteria set out in paragraphs 3 a to e above and any further guidance issued by the CAA and subsequent acceptance by the CAA, who shall consult with the Secretary of State in making such assessment.

5. The Licensee shall make any changes to the masterplan as are reasonably proposed by the CAA in order to comply with and meet the objectives of the Airspace Modernisation Strategy.

6. The Licensee shall prepare and submit to the CAA the airspace change proposals related to the airspace in which the Licensee provides UK en route air traffic control services. Such requirement may be identified in the masterplan or other work undertaken by the Licensee pursuant to its activities under this licence.

7. Subject to coordination with relevant stakeholders and the agreement of the CAA, the Licensee may provide support to airspace change proposals proposed by other bodies where other bodies are designated as responsible for such airspace change proposals in the masterplan

8. The Licensee shall encourage such sponsors to follow the coordinated programme plan in the masterplan including, where appropriate, providing advice and coordination to sponsors on the development and implementation of the airspace changes identified in the masterplan.

9. The Licensee shall periodically update the masterplan as reasonably requested by the CAA.~~and the Licensee shall provide a report to the CAA and the DfT on progress against the masterplan and related activities on 1 November each year and at any time it is requested to do so by the CAA.~~

10. The Licensee shall provide a high-level report to the CAA and the Secretary of State on progress against the delivery of the AMS initiatives or equivalent provisions (in the Airspace Modernisation Strategy CAP 1711 or any successor publication) it is responsible for reporting under the Airspace Modernisation Strategy on 1 November each year and at any other time it is required to do so by the CAA. The CAA may from time to time specify the format of such reports which shall include, as a minimum, the following information for each of the initiatives of the Airspace Modernisation Strategy:

a. progress made during the preceding reporting period, including any key issues that may have arisen and the actions taken to address such issues;

b. stakeholder engagement activities undertaken during the preceding reporting period;

c. current schedule of anticipated events and milestones;

d. key risks and dependencies for the subsequent reporting period;

e. opportunities identified to optimise programme delivery; and

f. progress towards achieving the benefits of airspace modernisation as set out in the Airspace Modernisation Strategy.

11. The Licensee shall report quarterly, or at an alternative period to be agreed with the CAA, on the costs incurred on the deliverables and associated activities of the ACOG. The CAA may from time to time specify the format of such reports which shall include, as a minimum, the following information:

    1. level and nature of costs incurred to date in the reporting period, including staff costs, and updated forecasts for the remainder of the reporting period; and
    2. the information in paragraphs 10 a to f, subject to the modification that any references to "reporting period" are to be read as references to the "quarter".

12. The Licensee shall be responsible for other activities identified in the Airspace Modernisation Strategy which the Licensee is required to undertake pursuant to legislation.

Condition 18: ~~Payment of fees~~ [not used intentionally blank]

~~1. The Licensee shall, at the times stated hereunder, pay to the CAA fees of the amount specified in, or determined under, this Condition.~~

~~2. The Licensee shall pay to the CAA a fee which is the aggregate of the following amounts:~~

~~(a) in respect of each year, a basic fee of an amount which is a fair proportion as determined by the CAA of the amount estimated by the CAA, according to a method which has previously been disclosed in writing to the Licensee, as the total costs likely to be incurred by it during that year in the regulation and enforcement of this Licence and any other licences granted under section 6 of the Act and in the carrying out of its other functions under Chapters I, IV, V and VI of Part I of the Act;~~

~~(b) in respect of each of the penultimate and final years of a Charge Control Period, an additional fee of an amount estimated by the CAA as the cost (if any) in excess of the basic fee likely to be incurred by it during the coming year in reviewing the Charge Control Conditions;~~

~~(c) in respect of each year, the difference (being a positive or a negative amount), if any, between:~~

~~(i) the amount of the fee paid by the Licensee in respect of the year two years before that financial year; and~~

~~(ii) the amount that fee would have been if it had been calculated by reference to the actual total costs of the CAA for that year and the proportion attributable to the Licensee~~

~~provided that:~~

(A) the Adjusted Basic Fee payable for a particular year does not exceed the Adjusted Basic Fee in respect of the preceding year as adjusted by the percentage increase (if any) in the Retail Price Index as published or determined in respect of the 12 month period ending with August of the preceding year; and

(B) the sum of the Adjusted Basic Fee and the Adjusted Additional Fee in respect of a year does not exceed 0.25% of the Licensee's turnover as recorded in the latest available annual statutory accounts of the Licensee;

(d) in respect of each year, an amount which is a fair proportion as determined by the CAA of the amount (if any) estimated by the CAA (in consultation with the Competition and Markets Authority) as having been incurred in the year immediately preceding the 1st January in question by the Competition and Markets Authority in connection with references made to it under section 12 of the Act with respect to this Licence or any other licence granted under section 6 of the Act.

3. The fee calculated in accordance with paragraph 2 shall be paid by the Licensee to the CAA within one month of the CAA giving notice to the Licensee of its amount if that notice is given within six months of the beginning of the year in respect of which the fee is payable.

4. In this Condition:

"Adjusted Additional Fee"	means the sum of the additional fee calculated pursuant to paragraph 2(b) in respect of a year and the adjustment to that fee calculated pursuant to paragraph 2(c).
"Adjusted Basic Fee"	means the sum of the basic fee calculated pursuant to paragraph 2(a) in respect of a

~~year and the adjustment to that fee calculated pursuant to paragraph 2(c).~~

~~**"Charge Control Period"**~~ ~~means the period in respect of which the CAA has set charge control conditions under condition 20 of this Licence.~~

Condition 20: Price Control Conditions: Definitions

In Conditions 21 to 25, unless the context otherwise requires:

"Average Charge Per Oceanic Flight"	means the Oceanic Revenue in the Oceanic Relevant Year divided by the number of Oceanic Flights attracting an Oceanic Charge in that year.
"Charge Control Conditions"	means Conditions 20 to 25 inclusive, as from time to time modified in accordance therewith or pursuant to sections 11 to 19 of the Act.
“Determined Costs”	means the costs as defined in Article 15.2(a) of the Service Provision Regulation (EC) 550/2004
"Eurocontrol"	means the European Organisation for the Safety of Air Navigation, founded by the 1960 Brussels Convention relating to Co-operation for the Safety of Air Navigation, or any successor body.
"Eurocontrol Business"	means the business of the Licensee consisting in the provision of services for which Eurocontrol Charges are paid.
"Eurocontrol Charge"	means any charge collected by the Central Route Charges Office of Eurocontrol on behalf of the United Kingdom and reimbursed to the UK Government and its nominees.

"Eurocontrol Principles"	means "Principles for Establishing the Cost-Base for En-Route Charges and the Calculation of the Unit Rates" (as in force at the relevant time), published by Eurocontrol's Central Route Charges Office.
"Eurocontrol Relevant Year"	means a calendar year commencing on 1 January in each year.
"Eurocontrol Relevant year t"	means that Eurocontrol Relevant Year for the purpose of which any calculation falls to be made; "Eurocontrol Relevant year t-1" means the Eurocontrol Relevant Year preceding the Eurocontrol Relevant year t.
"Exceptional Circumstances"	means circumstances which are outside the Licensee's control and which: (a) have had or will have a negative effect on its financial position; and (b) that effect is such that the Licensee's ability to meet its current or future obligations under the Act or this Licence is, or is threatened to be, materially impaired.
"London Approach Relevant Year"	means a period of 12 months commencing on 1 January in each year,
"London Approach Relevant Year t"	means that London Approach Relevant Year for the purpose of which any calculation falls to be made; "London Approach Relevant year t-1" means the London Approach Relevant Year preceding the London Approach Relevant year t.

	means a charge paid to the Licensee from the provision of the London Approach Service
“London Approach Charge”	means a charge paid to the Licensee from the provision of the London Approach Service
"London Approach Service Revenue"	means the revenue derived beneficially by the Licensee from the London Approach Service.
“Maximum Permitted Average Charge Per Oceanic Flight”	means the amount calculated in accordance with Condition 22.
"National Security Period"	means a period commencing on the date on which any direction issued by the Secretary of State under section 94 of the Act enters into effect and terminating on the date such direction, as varied, is revoked or expires.
“NR23 Regulatory Period”	means the period from 1 January 2023 to 31 December 2027 (inclusive).
"Oceanic Charge"	means a charge paid to the Licensee from the provision of services in the En Route (Oceanic) Area.
"Oceanic Flight"	means a flight in the En Route (Oceanic) Area in an Oceanic Relevant Year.

"Oceanic Relevant Year"	means a period of 12 months commencing on 1 January in each year.
"Oceanic Relevant Year t"	means that Oceanic Relevant Year for the purposes of which any calculation falls to be made; "Oceanic Relevant Year $t-1$" means the Oceanic Relevant Year preceding Oceanic Relevant Year t..
"Oceanic Revenue"	means the revenue derived beneficially by the Licensee from Oceanic Charges.
“Reference Period”	means the first reference period established under Commission Regulation (EU) No 691/2010, namely 1 January 2012 to 31 December 2014, or the second reference period established under Commission Regulation (EU) No 390/2013, namely 1 January 2015 to 31 December 2019, or the third reference period established under Commission Regulation (EU) No 2019/317, namely 1 January 2020 to 31 December 2024.

Condition 21: Control of Eurocontrol Service Charges

1. Without prejudice to Condition 25 (Suspension and Modification of Charge Control Conditions), for each Eurocontrol Relevant Year beginning on 1 January 2023, 2024, 2025, 2026 and 2027, the maximum Permitted Average Charge Per Service Unit shall be calculated as follows:

$$Maximum\ Charge_t = \frac{DC_t + INF_t + ReS_t + TRS_t + CSM_t + FI_t + MOD_t + Tvar_t + TUR_t - VFR_t - INEA_t - FAS_t + TRS\ recovery_t + PP_t}{ForecastTSU_t} - Discount_t$$

Where:

Maximum Cha	means the Maximum Permitted Average Charge Per Service Unit in Eurocontrol Relevant Year t(for 2021, 2022, 2023, 2024, 2025, 2026 or 2027).	
DC_t	means the determined costs, expressed in nominal terms for relevant year t.	
	Year t	(£)
	2021	674,270,832
	2022	688,739,423
	2023	703,643,463
	2024	738,494,462
	2025	697,714,859
	2026	703,666,466
	2027	706,076,366
INF_t	means the adjustment of the difference between forecasted and actual inflation in relevant year t calculated in accordance with Paragraph 3 of this condition.	
$INEA_t$	means any assistance provided by the Innovation and Networks Executive Agency (INEA) or other similar public funding in relevant year t, where funding is to be returned to users via a specific unit rate reduction as calculated and agreed with the CAA.	
ReS_t	means the restructuring costs in relevant year ~~authorised in accordance with Article 2(18) of Commission Implementing Regulation (EU) No 2019/317~~. For all years t = 2023, 2024, 2025, 2026 and 2027	

	$ReS_t = 0$
TRS_t	means the Traffic Risk Sharing element from previous years calculated in accordance with Paragraph 4 of this condition.
CSM_t	means the carry-overs from the previous reference period resulting from the implementation of the cost sharing mechanism referred to in ~~Article 14 of Commission Implementing Regulation (EU) No 391/2013~~paragraphs 3.3.4.2 – 3.3.4.4 of Eurocontrol Principles;

Year t	CSM_t
2023	8,547,453
2024	7,369,946
2025	4,528,922
2026	4,536,111
2027	4,539,794

FI_t	means the Financial Incentives relating to performance as calculated in accordance with Paragraphs 7-18 of this condition.
MOD_t	means the over-or under-recoveries that may result from the modulation of air navigation charges in application of ~~Article 16 of Commission Implementing Regulation (EU) No 2019/317~~the modulation mechanism under paragraph 3.4.2 of the Eurocontrol Principles.
$Tvar_t$	means the over-or under-recoveries resulting from traffic variations as defined in Paragraph 5 of this condition.
TUR_t	means the over-or under-recoveries resulting from the application of a temporary unit rate in accordance with Paragraph 19 of this condition.
VFR_t	means the expected cost of services to traffic operating under Visual Flight Rules in relevant year t. For all years t = 2023, 2024, 2025, 2026 and 2027 $VFR_t = 0$
TRS $recovery_t$	means the TRS recovery adjustment in respect of 2020, 2021 and 2022 established at the beginning of the NERL regulatory period as follows

Year t	TRS recovery
2023	85,729,291
2024	87,689,264
2025	90,014,206
2026	92,475,777

	2027	94,985,269
PP_t	means the pricing profile adjustment established at the beginning of the NR23 regulatory period as follows	
	Year t	PP
	2023	-18,365,457
	2024	-75,750,574
	2025	17,725,214
	2026	31,179,740
	2027	56,922,424
$DISCOUNT_t$	means an adjustment to the maximum charge per Total Service Unit in relevant year t where the Licensee at its own discretion decides to recover less than it would otherwise be allowed to recover and has declared to the CAA that it will not pursue this as under-recovery in subsequent years.	
ForecastTSU	means the forecast of Total Service Units for relevant year t established at the beginning of the NERL regulatory period as follows:	
	Year t	TSU
	2021	5,396,000
	2022	10,264,000
	2023	11,715,000
	2024	12,228,000
	2025	12,424,000
	2026	12,641,000
	2027	12,850,000
Total Service Units (TSUs)	means the route service units calculated in accordance with ~~Annex IV of Commission Implementing Regulation (EC) No 2019/317~~ Eurocontrol's Central Route Charges Office's Conditions of Application of the Route Charges System and Conditions of Payment as amended from time to time *including* the service units relating to military exempt flights.	

Inflation Assumptions

2. The forecast values of the inflation index referenced in paragraph 3 shall be as follows:

$FHICP_t$		
	Year t	Index (base 2020=100)

	2021	107.94
	2022	115.97
	2023	114.68
	2024	116.44
	2025	118.63
	2026	121.00
	2027	123.42

Inflation Adjustment

3. The adjustment of the difference between forecasted and actual inflation shall be calculated as follows:

For t = 2023, 2024, 2025, 2026 and 2027,

$$INF_t = DC_{t-2}\left(\frac{HICP_{t-2}}{FHICP_{t-2}} - 1\right)$$

Where $HICP_{t-2}$ is calculated as follows:

Year t-2	Calculation
2021	107.9
2022	$HICP_{2022} = 107.9 \times (1 + Inflation_{2022})$
2023	$HICP_{2023} = 107.9 \times (1 + Inflation_{2022}) \times (1 + Inflation_{2023})$
2024	$HICP_{2024} = 107.9 \times (1 + Inflation_{2022}) \times (1 + Inflation_{2023}) \times (1 + Inflation_{20243})$
2025	$HICP_{2025} = 107.9 \times (1 + Inflation_{2022}) \times (1 + Inflation_{2023}) \times (1 + Inflation_{2024}) \times (1 + Inflation_{2025})$
2026	$HICP_{2026} = 107.9 \times (1 + Inflation_{2022}) \times (1 + Inflation_{2023}) \times (1 + Inflation_{2024}) \times (1 + Inflation_{2025}) \times (1 + Inflation_{2026})$
2027	$HICP_{2027} = 107.9 \times (1 + Inflation_{2022}) \times (1 + Inflation_{2023}) \times (1 + Inflation_{2024}) \times (1 + Inflation_{2025}) \times (1 + Inflation_{2026}) \times (1 + Inflation_{2026}) \times (1 + Inflation_{2027})$
Where:	
$Inflation_t$	means the annual average inflation rate produced by Eurostat in the Harmonised Index of Consumer Prices in respect of calendar year t as published by Eurostat in April of year t+1 (the published rate of inflation is rounded to one significant place of decimals).

Traffic Risk Sharing

4. Traffic Risk Sharing (TRSt) shall be calculated as follows:

For t = 2023, 2024, 2025, 2026 and 2027

$$TRS_t = RSF_{t-2} \times DC_{t-2}$$

Except where $\frac{ActualTSU_t}{ForecastTSU_t} < 0.90$, for t = 2023, 2024, 2025, 2026 and 2027.

In this case:

$TRS_{2025} = 0.056 \times DC_{2023}$, where $\frac{ActualTSU_{2023}}{ForecastTSU_{2023}} < 0.90$, or otherwise
$TRS_{2025} = RSF_{2023} \times DC_{2023}$

$TRS_{2026} =$
$0.5 \times [(RSF_{2023} - 0.056) \times DC_{2023}]$, where $\frac{ActualTSU_{2023}}{ForecastTSU_{2023}} < 0.90$, otherwise zero
plus either:
$0.056 \times DC_{2024}$, where $\frac{ActualTSU_{2024}}{ForecastTSU_{2024}} < 0.90$, or otherwise
$TRS_{2026} = RSF_{2024} \times DC_{2024}$

$TRS_{2027} =$
$0.5 \times [(RSF_{2023} - 0.056) \times DC_{2023}]$, where $\frac{ActualTSU_{2023}}{ForecastTSU_{2023}} < 0.90$, otherwise zero
plus
$0.5 \times [(RSF_{2024} - 0.056) \times DC_{2024}]$, where $\frac{ActualTSU_{2024}}{ForecastTSU_{2024}} < 0.90$, otherwise zero
plus either:
$0.056 \times DC_{2025}$, where $\frac{ActualTSU_{2025}}{ForecastTSU_{2025}} < 0.90$, or otherwise
$TRS_{2027} = RSF_{2025} \times DC_{2025}$

Where:

	DC_{t-2}	has the meaning in Paragraph 1 of this condition.
And	RSF_{t-2}	means the risk sharing factor relating to Eurocontrol Relevant Year t-2 based on the actual number of Total Service Units which shall be calculated as follows:
	Where:	$0.98 \leq \frac{ActualTSU_{t-2}}{ForecastTSU_{t-2}} \leq 1.02$

		$RSF_{t-2} = 0$
	Where:	$1.02 \leq \frac{ActualTSU_{t-2}}{ForecastTSU_{t-2}} \leq 1.10$ $RSF_{t-2} = -0.7 \left[\frac{ActualTSU_{t-2}}{ForecastTSU_{t-2}} - 1.02\right]$
	Where:	$0.90 \leq \frac{ActualTSU_{t-2}}{ForecastTSU_{t-2}} \leq 0.98$ $RSF_{t-2} = -0.7 \left[\frac{ActualTSU_{t-2}}{ForecastTSU_{t-2}} - 0.98\right]$
	Where:	$\frac{ActualTSU_{t-2}}{ForecastTSU_{t-2}} < 0.90$ $RSF_{t-2} = -\left[\frac{ActualTSU_{t-2}}{ForecastTSU_{t-2}} - 0.90\right] + 0.056$
	Where:	$\frac{ActualTSU_{t-2}}{ForecastTSU_{t-2}} > 1.10$ $RSF_{t-2} = -\left[\frac{ActualTSU_{t-2}}{ForecastTSU_{t-2}} - 1.10\right] - 0.056$
Where:	$ActualTSU_{t-2}$	means the actual level of Total Service Units for relevant year t-2 published by Eurocontrol.

Correction of INF and TRS Adjustments for Subsequent Traffic Variations (TVar)

5. The TVar component shall be calculated as follows:

$TVar_t$	is an adjustment to allow for variations between actual and forecast TSUs in the year that a correction originally takes place. For t = 2023,2024, 2025, 2026 and 2027 $TVar_t = (INF_{t-2} + TRS_{t-2} + CSM_{t-2} + TUR_{t-2} + INEA_{t-2} + FAS_{t-2} + FI_{t-2} + TVar_{t-2} + TRSrecovery_{t-2} + PP_{t-2})$ X $\left(1 - \frac{ActualTSU_{t-2}}{ForecastTSU_{t-2}}\right)$

Calculation of Capacity Target (C1)

6. The C1 (capacity target) shall be calculated as follows:

$C1_t$		means the average minutes of en route air traffic flow management (ATFM) delay in relevant year t. Where: $$C1_t = \frac{EnRouteDelay_t}{Flights_t}$$
$EnRouteDelay_t$		means the en route ATFM flight delay from all causes which has been attributed by Eurocontrol to the UK in relevant year t, in seconds.
$Flights_t$		means the STATFOR determined count of all IFR flights for the UK for year t. For the avoidance of doubt these include flights which depart or arrive at airports in the UK or which overfly the UK FIR
C1 Target		means the target set in the performance plan which have the following values:
	Year t	C1 Target
	2023	12.29
	2024	12.79
	2025	12.79
	2026	12.79
	2027	12.79

Calculation of financial incentives (FI)

7. Financial incentives for capacity and environment performance shall be calculated as follows:

For FI_{2023} and FI_{2024}		FI_{203} and FI_{2024} shall have meanings set out in Paragraph 18 of this condition with reference to Condition 21 of the Air Traffic Services Licence for NATS En Route plc which was in effect on 1 January 2022.
For FI_{2025}, FI_{2026} and FI_{2027}		$FI_t = FC2_{t-2} + FC3_{t-2} + FC4_{t-2} + F3DI_{t-2}$
		For the year t=2023, $FI_{2023}=0$
Where:	$FC2_{t-2}$	means the financial incentive for the C2 measure of NERL's ~~contribution to FAB~~ performance for relevant year t-2 as defined at Paragraph 8 of this condition.
	$FC3_{t-2}$	means the financial incentive from the C3 Impact Score for relevant year t-2 as defined at Paragraph 9 of this condition.
	$FC4_{t-2}$	means the financial incentive from the C4 Daily Excess Delay

		Score for relevant year t-2 as defined at Paragraph 12 of this condition.
	$F3DI_{t-2}$	means the element of financial incentives relating to measure 3Di for relevant year t-2 as calculated in Paragraph 16 of this condition .
In respect of all the elements of the Financial Incentives:		
Licensee Attributable En Route ATFM Delay		means En Route ATFM Delay attributed by Eurocontrol which meet the regulation cause and regulation location in the following tables:

Regulation Cause	NM Code	Regulation Location
ATC Capacity	C	En route
ATC Routings	R	En route
ATC Staffing	S	En route
ATC Equipment	T	En route
Military	M	En route
Special Event	P	En route

En Route ATFM Delay		means en route ATFM delay calculated by the Network Manager of ATFM as defined in Commission Regulation (EC) No 255/2010 on ATFM and expressed as the difference between the take-off time requested by the aircraft operator in the last submitted flight plan and the calculated take-off time allocated by the Network Manager.
	FLT_{t-2}	means the Network Manager (STATFOR) determined count of all IFR flights for the UK for year t-2.

Calculation of FC2

8. For the purpose of Paragraph 7, the term $FC2_{t-2}$ shall be calculated in accordance with the following formulae where Eurocontrol relevant years t-2 are 2023, 2024, 2025, 2026 and 2027 (relating to penalties or bonuses in 2025, 2026, 2027, 2028 and 2029 respectively).

$FC2_{t-2}$	If $C2_{t-2} > 1.15 \times C2ParValue_{t-2}$ (where $1.15 \times C2ParValue_{t-2}$ is rounded to 2 significant figures.) $FC2_{t-2} = -MIN\left[\left(\frac{C2_{t-2} - C2Target_{t-2} - 1.15}{0.4}\right) \times (0.0025 \times REV_{t-2}), (0.0025 \times REV_{t-2})\right]$
	If $C2_{t-2} < 0.85 \times C2ParValue_{t-2}$

	(where 0.85 x C2ParValue$_{t-2}$ is rounded to 2 significant figures.) $FC2_{t-2} = +MIN\left[\left(\frac{0.85 - C2_{t-2} - C2Target_{t-2}}{0.4}\right) \times (0.0005 \times REV_{t-2}), (0.0005 \times REV_{t-2})\right]$
	Otherwise $FC2_{t-2} = 0$
$C2_{t-2}$	means the average minutes of en route ATFM delay in relevant year t, in seconds. $C2_{t-2} = \frac{Licensee\ Attributable\ En\ Route\ ATFM\ Delay_{t-2}}{FLT_{t-2}}$ Where: Licensee Attributable En Route ATFM Delay$_{t-2}$ has the meaning in Paragraph 7 of this condition; and FLT_{t-2} has the meaning in Paragraph 7 of this Condition.
C2ParValue$_{t-2}$	means the par values for C2 which have the following values in the relevant years: t-2 = 2023 C2ParValue$_{t-2}$ = 8.45 t-2 = 2024, 2025, 2026 and 2027 $C2ParValue_{t-2} = 8.95$
REV_{t-2}	means the revenues from that part of the charges paid to Eurocontrol by users which is reimbursed to the United Kingdom and relates to services provided by the Licensee in year t-2. Where: REV_{t-2} = Maximum Charge$_{t-2}$ x $ActualTSU_{t-2}$ Where Maximum Charge$_{t-2}$ and $ActualTSU_{t-2}$ have the meanings in Paragraphs 1 and 4 respectively of this condition.

Calculation of FC3

9. FC3 is the financial incentive relating to C3 (an Impact Score placing greater weight on long delays and departures in the morning and the evening peaks).

For the purpose of Paragraph 7, the term $FC3_{t-2}$ shall be calculated in accordance with the following formulae where Eurocontrol relevant years t-2 are 2023, 2024, 2025, 2026 and 2027 (relating to penalties or bonuses in 2025, 2026, 2027, 2028 and 2029 respectively).

$FC3_{t-2}$	If

	$C3_{t-2} > C3Upper_{t-2}$ $FC3_{t-2} = -MIN\left[(C3PenRate_{t-2}\ (C3_{t-2} - C3Upper_{t-2})\ FLT_{t-2}), 0.0075 \times REV_{t-2}\right]$
	If $C3_{t-2} < C3Lower_{t-2}$ $FC3_{t-2} = +MIN\left[(C3BonusRate_{t-2}\ (C3Lower_{t-2} - C3_{t-2})\ FLT_{t-2}), 0.0025 \times REV_{t-2}\right]$
Where:	
$C3_{t-2}$	is defined in Paragraph 10.
$C3PenRate_{t-2}$	means the penalty rate for the reduction of revenues relating to the C3 score in Eurocontrol relevant year t-2 (to take effect in relevant year t) calculated as follows: $C3PenRate_{t-2} = £0.111 \times \frac{HICP_{t-2}}{100}$
$C3BonusRate_{t-2}$	means the bonus rate for the reduction of revenues relating to the C3 score in Eurocontrol relevant year t-2 (to take effect in relevant year t) $C3BonusRate_{t-2} = £0.056 \times \frac{HICP_{t-2}}{100}$
$C3Upper_{t-2}$	is the value of the C3 score in Eurocontrol relevant year t-2 above which a penalty becomes payable calculated in Paragraph 11.
$C3Lower_{t-2}$	is the value of the C3 score in Eurocontrol relevant year t-2 below which a bonus becomes payable calculated in Paragraph 11.

The Calculation of $C3_{t-2}$

10. $C3_{t-2}$ shall be calculated as follows:

$C3_{t-2}$	$C3_{t-2} = \frac{\sum w_{p,b} d_{p,b}}{FLT_{t-2}}$ For all flights in year t-2	
Where:	Where p denotes that each flight in relevant year t-2 shall be considered as falling into one of three periods:	
	Morning Peak (p=1)	means flights in relevant year t-2 with an off-block estimated time ≥ 0400 and < 0800 UTC in Summer (April –October inclusive) and between ≥0500 and < 0900 UTC in Winter (January -March inclusive and November-December inclusive).

	Evening Peak (p=2)	means flights in relevant year t-2 with an off-block estimated time ≥ 1500 and < 1900 UTC in Summer (April –October inclusive) and ≥ 1600 and < 2000 UTC in Winter (January-March inclusive and November-December inclusive).
	Other (p=3)	means flights in relevant year t-2 with an off-block estimated block time not in the morning peak and not in the evening peak.
And	b denotes bands of delay for each flight where:	
	$b = d_{p,1}$	means the Licensee Attributable En Route ATFM Delay for each flight in seconds up to and including 15 minutes per flight in relevant year t-2 of flights which fall into relevant period p as defined above.
	$b = d_{p,2}$	means the Licensee Attributable En Route ATFM Delay in seconds over 15 minutes but less than or equal to 30 minutes per flight in relevant year t-2 of flights which fall into relevant period p as defined above.
	$b = d_{p,3}$	means the Licensee Attributable En Route ATFM Delay in seconds over 30 minutes but less than or equal to 60 minutes per flight in relevant year t-2 of flights which fall into relevant period p as defined above.
	$b = d_{p,4}$	means the Licensee Attributable En Route ATFM Delay in seconds over 60 minutes per flight in relevant year t-2 of flights which fall into relevant period p as defined above.
	$w_{p,b}$	means the weighting to be applied to bands of delay b for each flight subject to the period of the flight p where the weightings applied shall be:

	p=1 Morning Peak Period	**p=2 Evening Peak Period**	**p=3 Other Times**
b=1 (Delay > 0 and <=15 minutes)	3	2	1
b =2 (Delay >15 and <= 30 minutes)	6	3	2
b =3 (Delay >30 and <= 60 minutes)	9	6	3
b =4 (Delay	18	9	6

		>60 minutes)			

Definition of Thresholds at which Bonuses or Penalties for $C3_{t-2}$ become payable

11. The thresholds for bonuses or penalties shall be calculated as follows:

Where	$LFT_{t-2} \leq FLT_{t-2} \leq UFT_{t-2}$	
		$C3Upper_{t-2} = jt$ $C3Lower_{t-2} = kt$
where	$LFT_{t-2} > FLT_{t-2}$	
		$C3Upper_{t-2} = jt\left(1 + \frac{5(FLT_{t-2} - LFT_{t-2})}{LFT_{t-2}}\right)$
		$C3Lower_{t-2} = kt\left(1 + \frac{5(FLT_{t-2} - LFT_{t-2})}{LFT_{t-2}}\right)$
Where	j_t and k_t are factors for each year based on C2 values (as defined in Paragraph 8) ~~x60~~x2 for Upper Threshold (j_t) and j_t x2/3 for Lower Threshold. If t=2023, j_t=16.90 and k_t=11.27 If t=2024, 2025, 2026, 2027 or 2022, j_t=17.89 and k_t=11.93	
where	$FLT_{t-2} > UFT_{t-2}$	
		$C3Upper_{t-2} = jt\left(1 + \frac{5(FLT_{t-2} - UFT_{t-2})}{UFT_{t-2}}\right)$
		$C3Lower_{t-2} = kt\left(1 + \frac{5(FLT_{t-2} - UFT_{t-2})}{UFT_{t-2}}\right)$
Where:		
FLT_{t-2}		has the meaning in Paragraph 7.
LFT_{t-2}		$LFT_{t-2} = 0.96 \times FFlight_{t-2}$
UFT_{t-2}		$UFT_{t-2} = 1.04 \times FFlight_{t-2}$
$FFlight_{t-2}$		means the forecast of flights for relevant year t established at the beginning of the reference period as set out as follows:

t-2	$FFlight_{t-2}$
2023	2,444,000
2024	2,549,000
2025	2,584,000
2026	2,624,000

		2027	2,662,000	

Calculation of FC4

12. FC4 is the financial incentive relating to C4 (a daily excess delay score based on weighted delays exceeding pre-determined thresholds on a daily basis).

For the purpose of Paragraph 7, $FC4_{t-2}$ shall be calculated in accordance with the following formulae:

Where:	$C4t-2 \geq 1800$	
		$FC4_{t-2} = -MIN[C4PenRate_{t-2} \times (C4_{t-2} - 1800) \times FLT_{t-2}, 0.0025 \times REV_{t-2}]$
Where:	$C4_{t-2} < 1800$	
	$FC4_{t-2} = 0$	
Where:	$C4_{t-2}$	means the annual sum of the weighted daily excess delay score calculated as set out in Paragraph 13.
	$C4PenRate_{t-2}$	means the penalty rate for the reduction of revenues relating to the C4 score in Eurocontrol relevant year t-2 (to take effect in relevant year t) calculated as follows:
		$C4PenRate_{t-2} = 0.00174342 \times \frac{HICP_{t-2}}{100}$

C1 as trigger for C2 and C3 bonus

12A. If $C1_t > C1Target_t$ and $C2_t < 0.85 \times C2ParValue_t$ then $FC2_t = 0$.

12B. If $C1_t > C1Target_t$ and $C3_t < C3Lower_t$ then $FC3_t = 0$.

Calculation of C4

13. $C4_{t-2}$ shall be calculated as follows subject to the exemption in Paragraph 15:

$C4_{t-2}$	$= C4DailyScore_d$ for all days in year t-2 except where an exemption applies as defined in Paragraph 15.	
Where:	d is a day in the months January to March inclusive or November to December inclusive:	
	Where:	$\frac{DT1_d}{DailyFlights_d} \leq 40$

	then	$C4DailyScore_d = 0$
	Where:	$40 < \frac{DT1_d}{DailyFlights_d} \leq 80$
	then	$C4DailyScore_d = \frac{DT1_d}{DailyFlights_d} - 40$
	Where:	$\frac{DT1_d}{DailyFlights_d} \succ 80$
		$C4DailyScore_d = 40 + 2\left(\frac{DT1_d}{DailyFlights_d} - 80\right)$
Where:	d is a day in the months April to October inclusive.	
	Where	$\frac{DT1_d}{DailyFlights_d} \leq 60$
	then	$C4DailyScore_d = 0$
	Where	$60 < \frac{DT1_d}{DailyFlights_d} \leq 110$
	then	$C4DailyScore_d = \frac{DT1_d}{DailyFlights_d} - 60$
	Where	$110 < \frac{DT1_d}{DailyFlights_d}$
	then	$C4DailyScore_d = 50 + 2\left(\frac{DT1_d}{DailyFlights_d} - 110\right)$
Where:	$DT1_d$	means total Licensee Attributable En Route ATFM Delay in seconds on day d.
	$DailyFlights_d$	means the actual aggregate number of flights on day d to be calculated by reliance on figures of chargeable flights reported to the CAA by the Network Manager (STATFOR).

Mitigation of $C3_{t-2}$ or $C4_{t-2}$ scores for equipment failure

14. On days where both the following two conditions apply:

- the scores relate to a day for which the relevant $C4DailyScore_d$ as calculated in Paragraph 13 is greater than zero; and
- there is a C3 score relating to Licensee Attributable to En Route ATFM recorded as equipment failure greater than zero.

The following mitigation should apply:

If:	$\lvert C3PenRate_{t-2}\rvert(C3_d)DailyFlights_d >$ $\lvert C4PenRate_{t-2}\rvert(C4DailyScore_d)FLT_{t-2}$	
then:	for day d, the C3 numerator for all NERL attributable cause codes shall be included in the annual FC3 penalty or bonus term, the C4 score shall be excluded from the calculation of the annual $FC4_t$ penalty or bonus.	
If:	$\lvert C3PenRate_{t-2}\rvert(C3_d)DailyFlights_d \leq$ $\lvert C4PenRate_{t-2}\rvert(C4DailyScore_d)FLT_{t-2}$	
then:	for day d the C3 numerator for all the Licensee attributable technical cause codes shall be excluded from the annual FC3 penalty or bonus term; the C4 score shall be included in the annual $FC4_t$ penalty or bonus term.	
Where:	$C3PenRate_{t-2}$	has the meaning in Paragraph 9.
	$DailyFlights_d$	has the meaning in Paragraph 13.
	$C4PenRate_{t-2}$	has the meaning in Paragraph 12.
	$C4DailyScore_d$	has the meaning in Paragraph 13.
	FLT_{t-2}	has the meaning in Paragraph 7.
	$C3_d$	has the following meaning: $C3_d = \frac{\sum w_{p,b} d_{p,b}}{DailyFlights_d}$ for all flights in day d Where: $\sum w_{p,b} d_{p,b}$ has the meaning in Paragraph 10.

For the avoidance of doubt the C3 and C4 measures are based on different units and the estimation of the penalty for each in the tests above requires the different parameters as specified.

Exemptions for $C3_{t-2}$ and $C4_{t-2}$ in respect of Major Changes in Operations

15. C3 weighted delays and C4 Daily scores for the relevant day shall not be counted for the purposes of calculating $C3_{t-2}$ or $C4_{t-2}$ where all the following conditions apply:

- The day falls into a period designated by the Licensee in advance as a period when major new systems or airspace changes are being implemented and transitioned into the operation;

- Users have been notified and consulted in advance over the timing of such exemptions under currently existing consultation mechanisms (e.g. the Service and Investment Plan (SIP)) or targeted consultation;
- The total number of days falling into such periods designated by the Licensee shall not exceed ~~60~~100 in aggregate for the period of the five~~three~~Eurocontrol relevant years 2023 to 2027 inclusive, considered as a whole;
- The length of any given transition period should be limited to three weeks (unless otherwise agreed with users) and will be agreed in advance as well as the amount of days from the overall cap that the Licensee wishes to use towards this transition;
- The number of days agreed during the consultation will be fixed (unless subsequently revised with the agreement of users) but the particular exempt days within the agreed transition period would not need to be specified as part of the consultation;
- The Licensee will carry out the transition by means of the detailed steps and timing that are most operationally practical. The Licensee will nominate the exempt days ex-post (up to the pre-agreed maximum) for the transitional period;
- If at the end of the transition period the Licensee does not use the pre-agreed amount of exempt days, these will still count against the overall ~~60~~ 100 day cap (i.e. the Licensee cannot roll over unused exclusions).

Calculation of the Flight Efficiency Incentive (F3D)

16. For the purpose of Paragraph 7, the term $F3DI_{t-2}$ shall be calculated in accordance with the following formulae where relevant years t-2 are 2023, 2024, 2025, 2026 and 2027 (relating to penalties or bonuses in 2025 and 2026, 2027, 2028 and 2029 respectively):

$3DI_{t-2}$	means the average 3Di score for all flights for year t-2 as calculated by NERL in accordance with the CAA decision..~~FEMcalculation and annual review protocol.~~	
Where:	$3DI_{t-2} > 3DIUpper_{t-2}$	
	Then	$F3DI_{t-2} = -MIN\,[3DIPenRate_{t-2}\,(3DI_{t-2} - 3DIUpper_{t-2}), REV_{t-2} \times 0.005]$
Where:	$3DI_{t-2} < 3DILower_{t-2}$	

<table>
<tr><td></td><td>Then</td><td>$F3DI_{t-2} = MIN\ [3DIBonusRate_{t-2}\ (3DILower_{t-2} - 3DI_{t-2}), REV_{t-2} \times 0.005]$</td></tr>
<tr><td>Where:</td><td>$3DIUpper_{t-2}$

$3DILower_{t-2}$</td><td>is the upper deadband limit on the flight efficiency metric in year t-2; and

is the lower deadband limit on the flight efficiency metric in year t-2:
which shall be calculated in accordance with:
<table>
<tr><th>t-2</th><th>$3DILower_{t-2}$</th><th>$3DIUpper_{t-2}$</th></tr>
<tr><td>2023</td><td>26.21</td><td>28.97</td></tr>
<tr><td>2024</td><td>25.64</td><td>28.34</td></tr>
<tr><td>2025</td><td>25.13</td><td>27.77</td></tr>
<tr><td>2026</td><td>24.61</td><td>27.21</td></tr>
<tr><td>2027</td><td>24.06</td><td>26.60</td></tr>
</table></td></tr>
<tr><td></td><td>$3DIPenRate_{t-2}$</td><td>Is the penalty rate in year t-2
3DI Bonus Rate$_{t-2}$</td></tr>
<tr><td></td><td>$3DIBonusRate_{t-2}$</td><td>Is the bonus rate in year t-2 which is calculated as follows:
<table>
<tr><th>t-2</th><th>$3DIBonusRate_{t-2}$</th></tr>
<tr><td>2023</td><td>$(0.005 \times REV_{2023}) - 5.52$</td></tr>
<tr><td>2024</td><td>$(0.005 \times REV_{2024}) - 5.40$</td></tr>
<tr><td>2025</td><td>$(0.005 \times REV_{2025}) - 5.29$</td></tr>
<tr><td>2026</td><td>$(0.005 \times REV_{2026}) - 5.18$</td></tr>
<tr><td>2027</td><td>$(0.005 \times REV_{2027}) - 5.07$</td></tr>
</table></td></tr>
</table>

~~17. For the avoidance of doubt, the treatment of C2, C3, C4 and 3DI occurring in 2018 and 2019 will be subject to review before the end of Relevant Year 2019 under the provisions of Commission Implementing Regulation (EU) No 390/2013 and the provisions of sections 11 to 19 of the Transport Act 2000. (Subject to those provisions, the CAA would expect to take the performance in 2018 and 2019 into account in the charges for subsequent years as if this condition applied to charges in 2020 and 2021~~

18. Financial Incentives Carried Forward From RP3~~4~~

In respect of charges in year 2020		
$FI_{2023} = 0$		
In respect of charges in year 2021		
$FI_{2024} = FC2_{2022} + FC3_{2022} + FC4_{2022}$		
Where:		
$FC2_{2022}$		have the meanings defined in Condition 21 of the Air Traffic Services Licence for NATS En Route plc which was in effect on 1 January 2019.
$FC3_{2022}$		
$FC4_{2022}$		

Temporary unit rate adjustment

19. This is an adjustment for differences in revenue resulting from the temporary application of an initial 2023 unit rate given that the modifications of this condition have taken place after the start of 2023. The initial unit rate means the unit rate initially charged in 2023 based on CAA's initial proposals for NR23. The revised unit rate means the unit rate based of final price control decision.

20. The adjustment is applied on a n+1 and n+2 basis, consistent with paragraph 3.3.1.4 of the Eurocontrol Principles that requires the adjustment to be made in the year following the adoption of the performance plan and a final adjustment of the unit rate two years after that year.

$$TUR_{2024} = (RUR_{2023}\ X\ TSU\ forecast\ in\ Decision\ 2023) - (IUR_{2023} X\ TSU\ forecast\ in\ IPs\ 2023)$$

$$TUR_{2025} = (RUR2023\ X\ Actual\ TSUs2023) - TUR_{2024}$$

Where:

TUR_{2024}	means the adjustment for revenue difference between an initial unit rate and revised unit rate.
RUR_{2023}	means the revised unit rate applied retrospectively to 2023
IUR_{2023}	means the initial unit rate applied in 2023
TSU forecast in IPS 2023	means the TSU forecast for 2023 in CAA NR23 Initial Proposals = 5,396,000
TSU forecast in Decision 2023	Means the TSU forecast for 2023 in CAA NR23 decision
$ActualTSU_{2023}$	means the actual level of total service units for year 2023 published by Eurocontrol.

Condition 21a: Control of London Approach Charges

21. Without prejudice to Condition 25 (Suspension and Modification of Charge Control Conditions), for each London Approach Relevant Year beginning on 1 January 2023, 2024, 2025, 2026 and 2027, the maximum Permitted Average Charge Per London Approach Service Unit shall be calculated as follows:

$$MaximumCharge_t = \frac{LDC_t + LINF_t + LReS_t + LTRS_t + \mathrm{LOR}t + LCSM_t + \sout{LFI_t} + LMOD_t + LTvar_t + \mathrm{LTURt} - LVFR_t + LTRS\ recoveryt}{ForecastLTSU_t} - LDISCOUNT_t$$

Where:

Maximum Charge$_t$	means the Maximum Permitted Average Charge Per London Approach Service Unit in Relevant Year t.	
LDC$_t$	Means the determined costs, expressed in nominal terms for relevant year t.	
	Year t	(£)
	2023	14,319,798
	2024	14,647,344
	2025	16,084,154
	2026	16,243,818
	2027	16,503,116
LINF$_t$	means the adjustment of the difference between forecasted and actual inflation calculated in accordance with Paragraph 3 of this condition.	
LReS$_t$	means the restructuring costs authorised in accordance with Article 7(4) of Commission Implementing Regulation (EU) No391/2013. For all years t =2023, 2024, 2025, 2026 and 2027 $ReS_t = 0$	
LTRS$_t$	means the Traffic Risk Sharing element from previous years calculated in accordance with Paragraph 4 of this condition.	
LOR$_t$	Means Other revenues, including revenues collected from Biggin Hill, as agreed with the CAA, to be returned to airspace users and reflected within the Central Route Charges Table 2. Note – LOR is a negative number as the revenues are returned to airspace users.	
LCSM$_t$	means the carry-overs from the previous reference period resulting from the implementation of the cost sharing mechanism referred to in Article 14 of Commission Implementing Regulation (EU) No391/2013;	

	For all years t =2023, 2024, 2025, 2026 and 2027 $LCSM_t = 0$	
~~**LFI_t**~~	~~means the Financial Incentives relating to performance.~~ ~~For all years t =2020, 2021, 2022~~ ~~$LFI_t = 0$~~	
$LMOD_t$	means the over-or under-recoveries that may result from the modulation of air navigation charges in application of Article 16 of Commission Implementing Regulation (EU) No391/2013. For all years t= 2023, 2024, 2025, 2026 and 2027 $LMOD_t = 0$	
$LTvar_t$	means the over-or under-recoveries resulting from traffic variations as defined in Paragraph 5.	
$LTUR_t$	means the over-or under-recoveries resulting from the application of a temporary unit rate in accordance with Paragraph 6 of this condition.	
$LVFR_t$	means the expected cost of services to traffic operating under Visual Flight Rules. For all years t =2023, 2024, 2025, 2026 and 2027. $LVFR_t = 0$	
$LDISCOUNT_t$	means an adjustment to the maximum charge per LTSU in year t where the Licensee at its own discretion decides to recover less than it would otherwise be allowed to recover and has declared to the CAA that it will not pursue this as under-recovery in subsequent years.	
$ForecastLTSU_t$	means the forecast of Total London Approach Service Units for relevant year t established at the beginning of the reference period as set out as follows:	
	Year t	LTSU
	2021	363,941
	2022	820,706
	2023	925,515
	2024	959,073
	2025	974,283
	2026	991,262
	2027	1,006,809

<table>
<tr><td>LTRS$_t$</td><td>means the TRS recovery adjustment in respect of 2020, 2021 and 2022 established at the beginning of the NERL regulatory period as follows
<table>
<tr><th>Year$_t$</th><th>LTRS adjustment</th></tr>
<tr><td>2023</td><td>1,798</td></tr>
<tr><td>2024</td><td>1,839</td></tr>
<tr><td>2025</td><td>1,888</td></tr>
<tr><td>2026</td><td>1,939</td></tr>
<tr><td>2027</td><td>1,992</td></tr>
</table></td></tr>
<tr><td>Total London Approach Service Units</td><td>means the terminal service units calculated as follows:
the terminal service unit shall be equal to the weight factor for the aircraft concerned;
the weight factor, expressed as a figure taken to two decimal places, shall be the quotient, obtained by dividing by fifty the number of metric tons in the “highest maximum certified take-off weight of the aircraft” (see below for definition) to the power of 0.7; and;
including any service units relating to military exempt flights for the aggregate of Heathrow, Gatwick, Stansted, Luton, and London City airports.
The “highest maximum certified take-off weight of the aircraft” means the maximum certified take-off weight of the aircraft as shown in the Aircraft Flight Manual. Where an aircraft has multiple certified maximum take-off weights, the highest one shall be used.
~~in accordance with Annex V of Commission Implementing Regulation (EC) No391/2013 as amended from time to time~~</td></tr>
</table>

Inflation Assumptions

22. The forecast values of the inflation index referenced in paragraph 3 shall be as follows:

<table>
<tr><td rowspan="3">FHICP$_t$</td><td colspan="2">means the reference values of the HICP (all items) index in respect of the UK for Eurocontrol Relevant Year t established prior to the control period, consistent with the projections in nominal prices (the index base is 2017=100),
which shall be:</td></tr>
<tr><td>Year t</td><td>Index (base 2020 = 100)</td></tr>
<tr><td>2021</td><td>107.94</td></tr>
</table>

	2022	115.97
	2023	114.68
	2024	116.44
	2025	118.63
	2026	121.00
	2027	123.42

Inflation Adjustment

23. The adjustment of the difference between forecasted and actual inflation shall be calculated as follows:

	For t = 2023, 2024, 2025, 2026 and 2027 $INF_t = LDC_{t-2}\left(\frac{HICP_{t-2}}{FHICP_{t-2}} - 1\right)$ Where $HICP_{t-2}$ is calculated as follows:	
	Year t-2	Calculation
	2021	107.94
	2022	$HICP_{2022} = 107.94 \times (1 + Inflation_{2022})$
	2023	$HICP_{2023} = 107.94 \times (1 + Inflation_{2022}) \times (1 + Inflation_{2023})$
	2024	$HICP_{2024} = 107.94 \times (1 + Inflation_{2022}) \times (1 + Inflation_{2023}) \times (1 + Inflation_{2024})$
	2025	$HICP_{2025} = 107.94 \times (1 + Inflation_{2022}) \times (1 + Inflation_{2023}) \times (1 + Inflation_{2024}) \times (1 + Inflation_{2025})$
	2026	$HICP_{2026} = 107.94 \times (1 + Inflation_{2022}) \times (1 + Inflation_{2023}) \times (1 + Inflation_{2024}) \times (1 + Inflation_{2025})$ x $(1 + Inflation_{2026})$
	2027	$HICP_{2027} = 107.94 \times (1 + Inflation_{2022}) \times (1 + Inflation_{2023}) \times (1 + Inflation_{2024}) \times (1 + Inflation_{2025}) \times (1 + Inflation_{2026})$ x $(1 + Inflation_{2027})$
	Where:	
	$Inflation_t$	means the annual Inflation rate produced by Eurostat in the Harmonised Index of Consumer Prices in respect of calendar year t as published by Eurostat in April of year t+1 (the published rate of inflation is rounded to one significant place of decimals).

Traffic Risk Sharing

4. The Traffic Risk Sharing (TRS_t) term shall be calculated as follows:

For t = 2023,2024,2025, 2026 and 2027

$$LTRS_t = (LDC_{t-2} \times LRSF_{t-2})$$

Except where $\frac{ActualLTSU_t}{ForecastLTSU_t} < 0.90$, for t = 2023, 2024, 2025, 2026 and 2027.

In this case:

$LTRS_{2025} = 0.056 \times LDC_{2023}$, where $\frac{ActualLTSU_{2023}}{ForecastLTSU_{2023}} < 0.90$, or otherwise

$LTRS_{2025} = LRSF_{2023} \times LDC_{2023}$

$LTRS_{2026} =$

$0.5 \times [(LRSF_{2023} - 0.056) \times LDC_{2023}]$, where $\frac{ActualLTSU_{2023}}{ForecastLTSU_{2023}} < 0.90$, otherwise zero

plus either:

$0.056 \times LDC_{2024}$, where $\frac{ActualLTSU_{2024}}{ForecastLTSU_{2024}} < 0.90$, or otherwise

$LTRS_{2026} = LRSF_{2024} \times LDC_{2024}$

$LTRS_{2027} =$

$0.5 \times [(LRSF_{2023} - 0.056) \times LDC_{2023}]$, where $\frac{ActualLTSU_{2023}}{ForecastLTSU_{2023}} < 0.90$, otherwise zero

plus

$0.5 \times [(LRSF_{2024} - 0.056) \times LDC_{2024}]$, where $\frac{ActualLTSU_{2024}}{ForecastLTSU_{2024}} < 0.90$, otherwise zero

plus either:

$0.056 \times LDC_{2025}$, where $\frac{ActualLTSU_{2025}}{ForecastLTSU_{2025}} < 0.90$, or otherwise

$LTRS_{2027} = LRSF_{2025} \times LDC_{2025}$

Where:	LDC_{t-2}	has the meaning in Paragraph 1 of this condition.
And	$LRSF_{t-2}$	means the risk sharing factor relating to Relevant year t-2 based on the actual number of Total London Approach Service Units which shall be calculated as follows:
	Where:	$0.98 \leq \frac{ActualLTSU_{t-2}}{ForecastLTSU_{t-2}} \leq 1.02$ $LRSF_{t-2} = 0$
	Where:	$1.02 \leq \frac{ActualLTSU_{t-2}}{ForecastLTSU_{t-2}} \leq 1.10$ $LRSF_{t-2} = -0.7 \left[\frac{ActualLTSU_{t-2}}{ForecastLTSU_{t-2}} - 1.02\right]$

	Where:	$0.90 \leq \frac{ActualLTSU_{t-2}}{ForecastLTSU_{t-2}} \leq 0.98$ $LRSF_{t-2} = -0.7 \left[\frac{ActualLTSU_{t-2}}{ForecastLTSU_{t-2}} - 0.98\right]$
	Where:	$\frac{ActualLTSU_{t-2}}{ForecastLTSU_{t-2}} < 0.90$ $LRSF_{t-2} = -\left[\frac{ActualLTSU_{t-2}}{ForecastLTSU_{t-2}} - 0.90\right] + 0.056$
	Where	$\frac{ActualLTSU_{t-2}}{ForecastLTSU_{t-2}} > 1.10$ $LRSF_{t-2} = -\left[\frac{ActualLTSU_{t-2}}{ForecastLTSU_{t-2}} - 1.10\right] - 0.056$
Where:	$ActualLTSU_{t-2}$	means the actual level of Total London Approach Service Units for relevant year t-2 published by Eurocontrol for the aggregate of Heathrow, Gatwick, Stansted, Luton, and London City airports.

Correction of LINF and LTRS Adjustments for Subsequent Traffic Variations (LTVar)

5. The LTVar component shall be calculated as follows:

$LTVar_t$	is an adjustment to allow for variations between actual and forecast LTSUs in the year that a correction originally takes place. $LTVar_t = (LINF_{t-2} + LTRS_{t-2} + L_{Pre2014_{t-2}} + LTVar_{t-2} + LTRSrecovery_{t-2}) \times \left(1 - \frac{\text{Actual LTSU}_{t-2}}{\text{Forecast LTSU}_{t-2}}\right)$

Temporary unit rate adjustment

6. This is an adjustment for differences in revenue resulting from the temporary application of the initial 2023 unit rate given that the modifications of this condition have taken place after the start of 2023. ~~that will be applied to the year 2022, due to the difference between CAA's RP3 determination and following CMA's final decision on price controls for 2020 to 2022.~~ The initial unit rate means the unit rate initially charged in 2023 based on the CAA's initial proposals for NR23 ~~based on CAA's RP3 determination~~. The revised unit rate means the unit rate charged based on the CAA's final price control decision ~~CMA's final decision on price controls for 2020 to 2022~~.

$$LTUR_{2024} = (LRUR_{2023} - LIUR_{2023}) \times AcutalLTSU_{2023}$$

Where:

$LTUR_{2024}$	means the adjustment for revenue difference between an initial unit rate and a revised unit rate.
$LRUR_{2023}$	means the revised unit rate applied retrospectively to 2023
$LIUR_{2023}$	means the initial unit rate applied in 2023
$ActualLTSU_{2023}$	means the actual level of Total London Approach Service Units for year 2023 published by Eurocontrol for the aggregate of Heathrow, Gatwick, Stansted, Luton, and London City airports.

Condition 22: Oceanic Charges

1. 1 The Oceanic charging zone comprises two areas, 'Atlantic' and 'Tango'. Flights will either incur an Atlantic or Tango area charge. If a flight is solely in the Tango area it will only incur a Tango charge, otherwise it will incur an Atlantic charge.

2. Without prejudice to Condition 25 (Suspension and Modification of Charge Control Conditions) the Licensee shall use its best endeavours to ensure that in each Oceanic Relevant Year beginning on 1 January 2023, 2024, 2025, 2026 and 2027:

   The Average Charge Per Atlantic Flight shall not exceed the Maximum Permitted Average Charge Per Atlantic Flight calculated in accordance with the following formula:

   $$A_t = U_t + ADA_t + AINF_t + ATVAR_t + ATCA_t$$

   The Average Charge Per Tango Flight shall not exceed the Maximum Permitted Average Charge Per Tango Flight calculated in accordance with the following formula

   $$T_t = U_t + ADT_t + TINF_t + TDTRS_t + TTVAR_t + TTCA_t$$

   where:

<table>
<tr><td>A_t</td><td colspan="2">means the Maximum Permitted Average Charge Per Atlantic Flight in Oceanic Relevant Year t.</td></tr>
<tr><td>T_t</td><td colspan="2">means the Maximum Permitted Average Charge Per Tango Flight in Oceanic Relevant Year t.</td></tr>
<tr><td>U_t</td><td colspan="2">is a base charge per Oceanic Flight in Oceanic Relevant Year t, expressed in nominal terms:</td></tr>
<tr><td></td><td>Relevant Year t</td><td>U_t</td></tr>
<tr><td></td><td>2023</td><td>66.08</td></tr>
<tr><td></td><td>2024</td><td>70.73</td></tr>
<tr><td></td><td>2025</td><td>63.89</td></tr>
<tr><td></td><td>2026</td><td>65.34</td></tr>
<tr><td></td><td>2027</td><td>63.31</td></tr>
<tr><td>ADA_t</td><td colspan="2">means the price charged per Atlantic Flight for the use of the ADS-B service, expressed in nominal prices.
When the ADS-B service is not fully available for Atlantic flights ADA_t=0
When the ADS-B service is fully available:</td></tr>
<tr><td></td><td>Relevant Year t</td><td>ADA_t</td></tr>
<tr><td></td><td>2023</td><td>36.23</td></tr>
<tr><td></td><td>2024</td><td>36.67</td></tr>
<tr><td></td><td>2025</td><td>35.55</td></tr>
<tr><td></td><td>2026</td><td>36.20</td></tr>
</table>

	2027	36.91
$AINF_t$	means the adjustment to the ADS-B North Atlantic charges to account for the difference between forecast and actual inflation in relevant year t calculated in accordance with Paragraph 4 of this condition.	
$ATVAR_t$	means the adjustment to account for the difference between forecast and actual number of North Atlantic flights in the relevant year t calculated in accordance with Paragraph 5 of this condition. ~~For 2020 and 2021 $ATVAR_t$ = 0~~	
ADT_t	means the price charged per Tango Flight for the use of the ADS-B service, expressed in nominal prices. When the ADS-B service is not fully available for Tango flights ADT_t=0 When the ADS-B service is fully available:	
	Year t	ADT_t
	2023	7.18
	2024	6.68
	2025	5.78
	2026	5.65
	2027	5.56
$ATCA_t$	means the over-or under-recoveries resulting from the application of a temporary base charge and calculated in accordance with Paragraph 5A.	
$TINF_t$	means the adjustment to the ADS-B Tango charges to account for the difference between forecast and actual inflation in relevant year t calculated in accordance with Paragraph 4 of this condition.	
$TDTRS_t$	Means the adjustment to account for the difference between forecast and actual Tango data charge. ~~For 2020 and 2021 $TDTRS_t$ = 0~~ For 2023, 2024, 2025, 2026 and 2027 $$TDTRS_t = ADT_{t-2} \times \left(1 - \frac{Actual\ Tango\ Flights_{t-2}}{Forecast\ Tango\ Flights_{t-2}}\right)$$	
$TTVAR_t$	means the adjustment to account for the difference between forecast and actual number of Tango flights in the relevant year t calculated in accordance with Paragraph 5 of this condition. ~~For 2020 and 2021 $TTVAR_t$ = 0~~	
$TTCA_t$	means the over-or under-recoveries resulting from the application of a temporary base charge and calculated in accordance with Paragraph 5A.	
Forecast Tango $Flights_t$	means the forecast of Tango Flights for relevant year t established at the beginning of the reference period as follows:	
	2023	24,000
	2024	26,000
	2025	29,000
	2026	30,000

	2027	31,000
Forecast Atlantic Flights$_t$	2023	475,000
	2024	462,000
	2025	469,000
	2026	479,000
	2027	489,000

Inflation assumptions

3. The Oceanic base charge (U_t) and ADS-B North Atlantic (ADA_t) and Tango (ADT_t) charges are set above in *nominal* prices, and therefore include the CAA's assumed forecast of CPI inflation.

FHICP$_t$	means the reference values of the HICP (all items) index in respect of the UK for NERLRegulatory Year t established prior to the control period, consistent with the projections in nominal prices (the index base is 2020=100), which shall be:	
	Year t	Index
	2021	107.94
	2022	115.97
	2023	114.68
	2024	116.44
	2025	118.63
	2026	121.00
	2027	123.42

Inflation Adjustment

4. The adjustment for the difference between forecast and actual inflation shall be calculated as follows:

For t = 2023, 2024, 2025, 2026 and 2027:

$$AINF_t = (U_{t-2} + ADA_{t-2}) \times \left(\frac{HICP_{t-2}}{FHICP_{t-2}} - 1\right)$$

and

$$TINF_t = (U_{t-2} + ADT_{t-2}) \times \left(\frac{HICP_{t-2}}{FHICP_{t-2}} - 1\right)$$

Where HICP$_{t-2}$ is calculated as follows:

Year t-2	Calculation

2021	107.94
2022	$HICP_{2022} = 107.94 \times (1 + Inflation_{2022})$
2023	$HICP_{2023} = 107.94 \times (1 + Inflation_{2022}) \times (1 + Inflation_{2023})$
2024	$HICP_{2024} = 107.94 \times (1 + Inflation_{2022}) \times (1 + Inflation_{2023}) \times (1 + Inflation_{2024})$
2025	$HICP_{2025} = 107.94 \times (1 + Inflation_{2022}) \times (1 + Inflation_{2023}) \times (1 + Inflation_{2024}) \times (1 + Inflation_{2025})$
2026	$HICP_{2026} = 107.94 \times (1 + Inflation_{2022}) \times (1 + Inflation_{2023}) \times (1 + Inflation_{2024}) \times (1 + Inflation_{2025}) \times (1 + Inflation_{2026})$
2027	$HICP_{2027} = 107.94 \times (1 + Inflation_{2022}) \times (1 + Inflation_{2023}) \times (1 + Inflation_{2024}) \times (1 + Inflation_{2025}) \times (1 + Inflation_{2026}) \times (1 + Inflation_{2027})$
Where:	
$Inflation_t$	means the annual Inflation rate produced by Eurostat in the Harmonised Index of Consumer Prices in respect of calendar year t as published by Eurostat in April of year t+1 (the published rate of inflation is rounded to one significant place of decimals).

5. Traffic adjustments

TVar Adjustments

These are adjustments to allow for variations between actual and forecast number of flights in the year that a correction originally takes place. " For 2020 and 2021 both terms as defined below will equal 0.

For 2023, 2024, 2025, 2026 and 2027

$ATVAR_t = (((AINF_{t-2} + ATVar_{t-2}) X Forecast\ Atlantic\ Flights_{t-2})$

$X\ (1 - \frac{Actual\ Atlantic\ Flights\ t-2}{Forecast\ Atlantic\ Flights\ t-2})\ )$

$/ Forecast\ Atlantic\ Flights_t$

and

$TTVAR_t = (((TINF_{t-2} + TTVar_{t-2}) X Forecast\ Tango\ Flights_{t-2})$

$X\ (1 - \frac{Actual\ Tango\ Flights\ t-2}{Forecast\ Tango\ Flights\ t-2})\ )$

$/ Forecast\ Tango\ Flights_t$

Temporary base charge adjustment

5A This is an adjustment for differences in revenue resulting from the temporary application of an initial 2023 ~~the 2020~~ base charge (Ut) given that the modifications of this condition have taken place after the start of

2023. ~~that will be applied to the year 2022, due to the difference between CAA's RP3 determination and following CMA's final decision on price conditions for 2020 to 2022.~~ The initial base charge means the base charge initially charged in 2023 based on the CAA's initial proposals for NR23. ~~accordance with the CAA's RP3 determination.~~ The revised base charge means the base charge based on the CAA's initial proposals for NR23. ~~CMA's final decision on price controls for 2020 to 2022.~~

$$ATCA_{2024} = (RC_{2023} - IC_{2023})$$

and

$$\boldsymbol{TTCA_{2024} = (RC_{2023} - IC_{2023})}$$

Where:

ATCA2024	means the adjustment for revenue difference between initial and revised base charges.
RC2023	means the revised base charge applied retrospectively to 2020.
IC2023	means the initial base charge applied in 2020.
TTCA2024	means the adjustment for revenue difference between an initially charged and revised unit rate.

Other licence conditions

6. Tango flight means a flight only operating along the length of ATS routes T9 and T290, as defined and promulgated within the UK AIP, within a defined volume of airspace bounded by coordinates 4500N01000W - 4500N00845W - 4834N00845W - 4841N01000W – 4500N01000W and not elsewhere in the En route (Oceanic) Area.

7. Atlantic flight means any flight in the En route (Oceanic) Area that is not a Tango flight.

8. The ADS-B service is fully available when the Licensee's Board has certified that it is operating a fully ADS-B based service in the En route (Oceanic) Area and 99% of flights, that have the correct and functioning equipment, regulatory approval and plan to use it, crossing the En route (Oceanic) Area are being provided with an ADS-B enabled service for the whole time the flights are within the En route (Oceanic) Area. At all other times the ADS-B service is unavailable. The certificate may say that the ADS-B service is fully available for both Atlantic flights and Tango flights; or is fully available for Atlantic flights but not for Tango flights; or the ADS-B service is fully available for Tango flights but not for Atlantic flights.

9. By a date determined by the CAA after reasonable consultation with the licensee and other interested parties ~~no later than two years and six months after the licensee has certified it is operating a fully ADS-B based service in the En route (Oceanic) Area, or at a later date agreed with the CAA~~, the Licensee shall commission an independent

review, the terms of reference for which shall have been agreed by the CAA, of whether the benefits of providing a fully ADS-B based service outweigh the costs of providing the service.

Condition 24: Information to be provided to the CAA in connection with the Charge Control Conditions

1. The Licensee shall, not later than 1st June on a provisional basis in the year preceding the Eurocontrol Relevant Year t in which any change in Eurocontrol Charges is to take effect, provide the CAA with:

1. a written forecast of the average charge per Service Unit in respect of the Eurocontrol Relevant Year t in which such change is to take effect and in respect of the next following Relevant Year t+1; and

2. to the extent that such information has not already been provided to the CAA under paragraph 6, a written estimate of the average charge per Service Unit in respect of the Eurocontrol Relevant Year t-1 immediately preceding the Eurocontrol Relevant Year in which the change is to take effect.

2. The Licensee shall, not later than 1st November on a final basis in the year preceding the Eurocontrol Relevant Year t in which any change in Eurocontrol Charges is to take effect, provide the CAA with:

3. a written forecast of the average charge per Service Unit, together with its components, and a reconciliation of the components to the overall forecast, in respect of the Eurocontrol Relevant Year t in which such change is to take effect and in respect of the next following Eurocontrol Relevant Year t+1; and

4. to the extent that such information has not already been provided to the CAA under paragraph 6, a written estimate of the average charge per Service Unit, together with its components, and a reconciliation of the components to the overall forecast, in respect of the Eurocontrol Relevant Year t-1 immediately preceding the Eurocontrol Relevant Year in which the change is to take effect.

3. Where the Licensee is intending to make any change in Oceanic Charges, the Licensee shall, not later than one month prior to the date it intends to give effect to such change, provide the CAA with:

5. a written forecast of the maximum Average Charge Per Oceanic Flight, together with its components, and a reconciliation of the components to the overall forecast, in respect of the Oceanic Relevant Year t in which such change is to take effect and in respect of the next following Oceanic Relevant Year t+1; and

6. to the extent that such information has not already been provided to the CAA under paragraph 6, a written estimate of the maximum Average Charge Per Oceanic Flight, together with its components, and a reconciliation of the components to the overall forecast, in respect of the Oceanic Relevant Year t-1 immediately preceding the Oceanic Relevant Year in which the change is to take effect.

4. Where the Licensee is intending to make any change in London Approach Charges, the Licensee shall, not later than one month prior to the date it intends to give effect to such change, provide the CAA with:

7. a written forecast of the charge(s) to be applied in respect of the London Approach Service for London Approach Relevant Year t; and

(ii) a written forecast of the Total Controlled Revenue from the London Approach Charges for London Approach Relevant Year t.

5. If within six weeks prior to the commencement of any Oceanic Relevant Year or London Approach Relevant Year the Licensee has not published an intention to make any change in Oceanic Charges or London Approach Charges (respectively) the Licensee shall in any event provide the CAA with the information specified in paragraph 3 or 4 above (as appropriate).

6. The Licensee shall comply with any directions issued by the CAA providing that any forecast or estimate provided in accordance with paragraphs 1 to 4 shall be accompanied by such information as regards the assumptions underlying the forecast or estimate as may be necessary to enable the CAA to be satisfied that the forecast or estimate has been properly prepared on a consistent basis.

Charges to New Users

7. This part of the Condition applies for the purpose of making available, in a form and to a standard reasonably satisfactory to the CAA, such information on the provision or air traffic services to New Users (as defined in Condition 6.9) as will:

a. enable the CAA to assess the type(s) of air traffic services provided by the Licensee to New Users as part of the Core Services and Specified Services in accordance to the requirements of the Licence and the costs reasonably incurred by the Licensee in doing so; and

b. enable a new charge control to be put in place and inform future price control reviews in respect of New Users.

8. From 1 January 2023, the Licensee shall put in place a cost recording mechanism for New Users ("New User Cost Recording Mechanism") which will record, as a minimum, the following information:

(ii) types of New User;

(iii) Core Services and Specified Services requested and provided; and

(iv) the costs incurred by the Licensee in providing the Core Services and Specified Services to New Users.

1. On an annual basis the Licensee shall report to the CAA on the New User Cost Recording Mechanism. The CAA may from time to time specify the format and content of such reports, but the reports shall include, as a minimum the following information:

   i. details on the Core Services and Specified Services requested by and provided to New Users;

   ii. the costs incurred by the Licensee in providing the Core Services and Specified Services to New Users:

   iii. any associated activities, costs and deliverables resulting from the provision of Core Services and Specified Services to New Users; and

   iv. any amendment made to the New User Cost Recording Mechanism and the reasons for any such amendments.

2. The Licensee shall produce, following consultation with Users, including New Users, and their representatives, a proposed charging mechanism to calculate charges for New Users, the "New User Charging Mechanism". The Licensee shall submit the proposed New User Charging Mechanism to the CAA by no later than 30 June 2025.The proposed New User Charging Mechanism shall include:

   - the basis on which the charges shall be levied;
   - the costs to be recovered through the charge, both direct and allocated costs;
   - the information that the Licensee shall provide to New Users when consulting them on the charge;
   - any mechanism to recover from, or pass back to, New Users and under- or over-recovery of costs;
   - any mechanism to recover relevant costs incurred by NERL in relation to New Users during the NR23 Regulatory Period; and
   - how the charge shall be collected.
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