

Chief Executive's Office

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NERL's 2017 Service and Investment Plan

Following our meeting on 12 January regarding NERL's 2017 Service and Investment Plan (SIP17), I wanted to clarify how we intend to take this issue forward and what is required of NERL.

A clear message we have received from airspace users is that they do not consider that NERL's SIP17 contains enough detail to enable them to come to an informed view on the 20-26% increase in RP2 on the cost of your programme. For example, British Airways said¹ "NATS have failed to provide project level detail to explain the £130m-£160m capital overspend, again leaving airlines with no real ability to comment on the appropriateness of the plan". IATA said² "NATS has not provided sufficient details to justify the additional... £130-160m in project costs". Airspace users have also commented on insufficient detail on other matters, such as the justification for moving to a common platform and how resilience would be ensured given the level of technological change proposed. We appreciate that you have argued that by committing to the increased budget, the whole life cost of the programme will be lower. Users understand this point, but have insufficient information to be confident that your cost estimates are stable and show value for money.

Grant Bremer has discussed SIP17 with NERL, airlines and airports. Despite finding that NERL was "fully committed to deliver success and does appear to have customer needs clearly at the centre of its endeavours", he concluded that the SIP provided "limited evidence of the linkage between work, outcomes and benefits". He thought that without this link "there can only be limited confidence that it will deliver all of the required outcomes and benefits within the agreed costs and timescales".

Given this background, we are not currently in a position to approve the 'level of detail' of SIP17. To be clear, we are not passing judgment on the content of the plan and we note it is not opposed by airspace users who are concerned that it should not be delayed – specifically the impact this might have on airspace redesign in the southeast.

We do not see utility in asking you to resubmit the current SIP document with amendments when you have two major related consultation products coming up soon under the licence:

¹ British Airways written response to your SIP of 14 December 2016

² IATA written response to your SIP of 14 December

your detailed airspace and technology programmes (end March 2017); and your interim SIP (end June 2017).

We would like you to take the following points fully into account when preparing your end March document(s). Should we be satisfied that this has been done effectively, and more broadly that we are in a position to approve the 'form, scope and level of detail' of that document(s), then we will at that point be minded to approve SIP17.

The concerns we have with SIP17 which we would like to see addressed with real clarity within your end March document(s) include:

- there is insufficient detail on what are the actual constituent projects of SIP17, and what benefits will be delivered by implementing SIP17;
- there is no delivery plan nor dependencies for airspace milestones;
- there is insufficient detail to assess the viability of the technology plan;
- it is unclear whether the deployment points for the airspace and technology programmes articulated in the document are the only delivery milestones that NERL has committed to in SIP17;
- there are no linkages between planned investment and how the performance targets will be delivered;
- SIP17 does not specifically highlight progress against SIP16 milestones; and
- the changes between SIP16 and SIP17 have been given little analysis or discussion given their financial significance. In particular, NERL has not provided project level detail to explain the £130-160m additional expenditure in RP2. This includes how much is due to scope changes versus more mature budgeting.

We note you have proposed to increase your consultation on your capital programme in 2017 with a number of 'deep dives' with airspace users. To be clear: we expect the detailed airspace and technology programmes to be developed as coordinated, linked programmes, and in close conjunction with both airlines and airports.

When we met recently you offered a briefing on SIP17 for Mark Swan, Richard Moriarty and I. I suggest that we do that towards the end of March when we can review progress in dealing with the points raised above.

Finally, as we discussed at our meeting, our approval of the annual SIP does not guarantee that from that date the capex within the SIP is automatically included within the NERL RAB. The converse is also true. Approval of the SIP is about your consultation with airspace users, not the content and efficiency of the capex plan *per se*. Our practice in all our price control regulation (both for NERL and airports) is to formally roll forward and reset the opening RAB at the start of each price control period. In practice this will take into account a number of factors, including the SIP processes within the period but also our view on whether the capital expenditure has been efficiently incurred. In the past we have sometimes used external consultants, but have not, to date, disallowed expenditure.

Yours sincerely



Andrew Haines
CHIEF EXECUTIVE