

Chief Executives Office



Martin Rolfe

Chief Executive
NATS
Corporate & Technical Centre
4000 Parkway
Whiteley
Fareham
PO15 7FL

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Dear Martin

NERL's RP3 initial business plan

Following feedback from Andrew Haines at the end of April, I wanted to set out the CAA's early views on NERL's RP3 initial business plan (IBP), published on 9 April 2018. I am encouraged by the steps you have taken to seek to understand customer priorities in the development of your IBP and look forward to seeing how you continue to respond to their inputs through the customer consultation working group process. However, in several areas, the IBP does not deliver on our expectations for a high-quality business plan, as set out in our January 2018 guidance¹.

It is not clear that NERL has demonstrated greater *ownership* and *accountability* for its plan, in particular in its leading role on *airspace modernisation* and the progression of *shared governance* arrangements. Whilst the IBP recognises that there is a role for NERL, it does not set out a NERL vision for what that might look like, what resources it might require, nor what the incremental costs and performance impacts of that might be. This is a missed opportunity to demonstrate leadership in this area and drive the conversation, whilst setting out the key interdependencies from your perspective. There appear to be very limited proposals to move shared governance forward and develop the role of the independent reviewer.

Similarly, in respect of *electronic conspicuity*, whilst the IBP notes development of a 'known environment' to be an exciting prospect, it offers no insight as to NERL's vision for how this might be implemented, only very limited analysis of the benefits and no cost or other performance impacts information. This seems at odds with views frequently expressed by NERL about how a known environment could significantly enhance safety and capacity.

Your plan sets out the challenges ahead in RP3 and beyond, in respect of traffic growth and technology and airspace implementation, but provides only a fragmented view of your proposed approach to addressing *operational resilience*. The IBP proposes a 17% increase in ATCOs by the end of RP3, but it is not clear on what basis. The analysis in the IBP suggests that you will be operating with fewer ATCOs than needed until 2022 and that in the meantime the staffing shortfall will be managed through voluntary overtime, but there is no evidence provided that the increase in staff would lead to a reduction in overtime. The IBP is also unclear on commitments to improve resilience in response to Project Oberon.

¹ [CAP 1625](#): Guidance for NERL in preparing its business plan for Reference Period 3

More broadly, throughout the plan, there is little *evidence* provided to justify the assumptions and proposals contained therein, nor assurance for that evidence – with the exception of your consultant reports on cost of capital and staff opex. For example, there is little evidence that the performance targets proposed are sufficiently stretching.

There is a lack of *optioneering* and cost benefit analyses to support the proposed investment plan. The implementation of satellite ADS-B surveillance over the North Atlantic is particular example where there is little evidence of optioneering or a robust cost benefit analysis – this is a key issue for many stakeholders. Given the recent experience of significant change to the investment plans during RP2, it is disappointing that the IBP does not provide more detail of how NERL arrived at its proposed investment plan, thereby providing stakeholders enough information to understand the proposals and make informed judgements.

Finally, additional clarity and transparency is required at both a principle and practical level on how NERL proposes to manage the *interface with NATS's non-regulated activities* to ensure that its Licence commitments on discrimination and preferential treatment (Condition 2, paragraph 8 of NERL's Licence), and value for money for NERL's customers, are satisfied and can be seen to do so. In particular, it would be helpful to address examples such as the investment in Aireon, drones and the UK airport air traffic business.

I recognise the significant efforts of your team in generating the IBP, and I provide this feedback for clarity as to our expectations in terms of developing the IBP ahead of your submission of a revised business plan (RBP) in October 2018. Inevitably, we will have more detailed points and clarifications, on which we will engage with your regulatory team directly in the coming months. In the meantime, it would be helpful if you could explain how you intend to address the above concerns in your RBP.

As discussed, we will publish this letter on the CAA's website.

Yours sincerely

A handwritten signature in black ink, consisting of a series of fluid, connected loops and strokes, characteristic of a cursive or semi-cursive style.

Richard Moriarty
CHIEF EXECUTIVE