

**Mike Goodliffe**

Regulatory Policy Group  
CAA  
45-59 Kingsway  
London  
WC2B 6TE

**NATS**

5th Floor South  
Brettenham House  
Lancaster Place  
London  
WC2E 7EN  
T: 07779 789 208

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Dear Mike

**PRB advice on RP2 target methodology**

Further to the publication by the PRB on 30<sup>th</sup> September 2013 of its advice on EU-wide targets for RP2, I am writing to set out how NERL proposes to reflect this updated target guidance in its Revised Business Plan (RBP) being submitted to the CAA on 18<sup>th</sup> October 2013.

We will change references to draft EU-wide targets to those contained in the PRB's advice, but not the substance of plan proposals. Specifically, we plan to reflect in the RBP the following amendments to your letter of 9<sup>th</sup> September 2013 to Nigel Fotherby:

- **RP2 Start Point for measuring cost efficiency:** this will be calculated by taking NERL's determined costs for 2014 in the RP1 NPP (£623m in 2012 prices) and reducing it by £27m, the expected loss in revenue in 2014 that results from the lower traffic than that forecast in NPP. The resulting £596m is then divided by the latest traffic forecast for 2014 (9,523K SU). The final result is a revised start point of £62.57 in 2012 prices;
- **Scenarios:** We do not plan to include in the RBP the additional two scenarios for different Start Points set out in the 9<sup>th</sup> September letter;
- **Target references:** We plan to refer to RP2 DC and DUC targets as -2.1% p.a. and -4.6% p.a. respectively, rather than the -3.0% p.a. and -5.8% p.a. set out in the letter of 9<sup>th</sup> September.

In addition, in the interests of transparency, we will include an Appendix which sets out the impact of PRB's revised methodology to the Start Point so that customers can reconcile this new approach with the Initial Business Plan and NERL's minded to position presented on 4<sup>th</sup> September 2013 at the final customer consultation meeting.

We expect all other requirements of the CAA's 9<sup>th</sup> September 2013 letter to remain unchanged.

I would be grateful if you could confirm your agreement to the above approach.

Yours sincerely



Tim Johnson  
Head of Regulation