

## Appendix A: CAA guidance on NERL's NR23 business plan

The CAA has issued successive guidance to NERL about how we should be preparing our business plan for NR23. The evolution of the guidance reflects the high degree of uncertainty that the CAA has faced in developing the NR23 process as well as the accelerated timetable for the development of our business plan, which has been completed in half the usual time. However, it has meant there is no single document that consolidates the CAA's relevant guidance. The table below summarises NERL's understanding of the key CAA requirements for our NR23 business plan, including the location of our response, based on the information provided in the following publications:

- › CAP 1994: Economic regulation of NATS (En Route) plc: consultation on approach to the next price controls review, December 2020
- › CAP 2119: Economic regulation of NATS (En Route) plc: Update on approach to the next price control review, March 2021
- › CAP 2160: Economic regulation of NATS (En Route) plc: further update on approach to the next price control review ("NR23"), June 2021
- › August 2021 Guidance: Further guidance on the approach to the next price control review, NR23, 9 August 2021
- › CAP 2279: Exceptional measures for the economic regulation of NATS (En Route) plc: decision on licence modifications, November 2021

Our responses to the CAA's Requests for Information are dealt with separately, which relate to the

- › CAP 2291: 2020-2021 reconciliation of costs<sup>1</sup>
- › CAP 2306: NR23 costs and revenues building blocks<sup>2</sup>
- › Building block update: NERL NR23 submission - areas for clarification and further information<sup>3</sup>

<sup>1</sup> CAA 2021, *Economic regulation of NATS (En Route) plc: working paper on the reconciliation review for NR23, including the request for information* – CAP 2291.

<sup>2</sup> CAA 2021, *Request for information to NERL for the NR23 business plan submission: cost and revenue building blocks* – CAP 2306.

<sup>3</sup> Carter 2021, *NERL NR23 submission – building block update*, Letter to Thea Hutchinson on 22 December

Area	Description	Reference	
		CAA guidance	NERL NR23 BP
Service delivery	<ul style="list-style-type: none"> <li>&gt; NERL's proposals are consistent with meeting its Licence obligations to provide a high quality and resilient service. It includes support for recovery from Covid-19 traffic levels and a flexible approach or ability to pivot resourcing plans to changing traffic levels.</li> <li>&gt; Target proposals are challenging and strong while being consistent with the priorities of consumers and airspace users</li> </ul>	<ul style="list-style-type: none"> <li>&gt; CAP 1994, p. 8, p.18. p. 19, p. 23</li> <li>&gt; CAP 2119, p. 19</li> <li>&gt; CAP 2160, p. 15</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <a href="#">Chapter 4</a> (performance outcomes and metrics)</li> <li>&gt; <a href="#">Appendix G</a> (operational resourcing)</li> <li>&gt; <a href="#">Appendices D</a> (safety), <a href="#">E</a> (capacity) and <a href="#">E</a> (environment)</li> <li>&gt; <a href="#">Appendix B</a> (customer and passenger consultation)</li> </ul>
Cost efficiency	NERL faces appropriate incentives for efficiency and is able to identify/demonstrate it is taking all reasonable steps to deliver them and provide Value for Money to customers. It should also identify any allowances for risk and contingency	<ul style="list-style-type: none"> <li>&gt; CAP 1994, p. 9, p. 11 and p. 16</li> <li>&gt; CAP 2160, p. 14 and p. 16</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <a href="#">Chapter 7</a> (determined costs and prices)</li> <li>&gt; <a href="#">Appendix J</a> (operating costs)</li> <li>&gt; Wages benchmarking study (<a href="#">link</a>)</li> <li>&gt; <a href="#">Appendix O</a> (benchmarking)</li> </ul>
Affordable charges	<ul style="list-style-type: none"> <li>&gt; NERL is supporting aviation recovery by ensuring charges are affordable as possible, including pension costs are reasonable and cost of capital is no higher than necessary and/or efficient</li> <li>&gt; Regulatory mechanisms are deployed to maximise the affordability of charges, taking into account views during customer consultation</li> </ul>	<ul style="list-style-type: none"> <li>&gt; CAP 1994, p. 9, p. 10, p. 19</li> <li>&gt; CAP 2119, p. 19</li> <li>&gt; CAP 2279, p. 11</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <a href="#">Chapter 7</a> (determined costs and prices)</li> <li>&gt; <a href="#">Appendix I</a> (determined costs, DUCs and prices)</li> <li>&gt; <a href="#">Appendix J</a> (operating costs)</li> <li>&gt; <a href="#">Appendix K</a> (cash pensions)</li> <li>&gt; <a href="#">Appendix M</a> (cost of capital)</li> <li>&gt; Cost of capital study (<a href="#">link</a>)</li> <li>&gt; <a href="#">Appendix P</a> (regulatory model and mechanisms)</li> </ul>
NERL financeability	NERL has robust longer-term financeability with as much 2020-2022 revenue recovery occurring in NR23 as possible, using a RAB approach based on financing and time value of money costs as well as taking into account stakeholders views expressed through customer consultation, where CAA role is not to decide whether there should be further Government support	<ul style="list-style-type: none"> <li>&gt; CAP 1994, p. 9</li> <li>&gt; CAP 2119, p. 15, p. 16</li> <li>&gt; CAP 2160, p. 14</li> <li>&gt; CAP 2279, p. 11</li> <li>&gt; CAP 2279, p. 9</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <a href="#">Chapter 7</a> (determined costs and prices)</li> <li>&gt; <a href="#">Appendix N</a> (financeability)</li> </ul>
Dealing with uncertainty	Costs – NERL demonstrates how costs vary with traffic, including descriptions key areas of flexibility and their materiality	<ul style="list-style-type: none"> <li>&gt; CAP 1994, p. 9</li> <li>&gt; CAP 2160, p. 7</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <a href="#">Chapter 4</a> (performance outcomes and metrics)</li> <li>&gt; <a href="#">Chapter 9</a> (regulatory mechanisms)</li> <li>&gt; <a href="#">Appendix C</a> (traffic forecast)</li> <li>&gt; <a href="#">Appendix Q</a> (scenarios)</li> </ul>

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	Service levels – NERL demonstrates how service levels vary with traffic and costs	<ul style="list-style-type: none"> <li>&gt; CAP 1994, p. 9</li> <li>&gt; CAP 2160, p. 7, p. 14</li> <li>&gt; August guidance, p. 1, p. 2</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <a href="#">Chapter 5</a> (service delivery)</li> <li>&gt; <a href="#">Appendix E</a> (capacity)</li> <li>&gt; <a href="#">Appendix F</a> (environment)</li> <li>&gt; <a href="#">Appendix Q</a> (scenarios)</li> </ul>
	Risk-sharing – NERL optimises the calibration between itself and customers, including comparison to relevant benchmark of EU framework and “other mechanisms”	<ul style="list-style-type: none"> <li>&gt; CAP 1994, p. 9, p. 10</li> <li>&gt; CAP 2160, p. 17</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <a href="#">Chapter 7</a> (determined costs and prices)</li> <li>&gt; <a href="#">Appendix P</a> (regulatory model and mechanisms)</li> <li>&gt; <a href="#">Appendix K</a> (cash pensions)</li> <li>&gt; <a href="#">Appendix N</a> (financeability)</li> </ul>
Stakeholder views	NERL conducted customer consultation that was effective and efficient, including being more flexible than previously by focusing on specific topics that shared our initial thinking about proposals instead of a single consolidated initial business plan	<ul style="list-style-type: none"> <li>&gt; CAP 1994, pp. 30-31</li> <li>&gt; CAP 2119, p. 28</li> <li>&gt; CAP 2160, p. 8, p. 11, p. 17 and pp. 19-21</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <a href="#">Chapter 2</a> (customer and passenger priorities)</li> <li>&gt; <a href="#">Appendix B</a> (customer and passenger consultation)</li> <li>&gt; Customer consultation co-chairs report (<a href="#">link</a>)</li> </ul>
	NERL should ensure that the views of consumers/passengers are properly reflected in its business plan, through a survey and seeking advice from the CAA consumer panel	<ul style="list-style-type: none"> <li>&gt; CAP 2160, p. 7 and p. 16</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <a href="#">Chapter 2</a> (customer and passenger priorities)</li> <li>&gt; Passenger research report (<a href="#">link</a>)</li> </ul>
Shareholder contribution	NERL should consider whether additional support from providers of equity finance is warranted, such as foregone dividends, new equity injections, shareholder loans or guarantees	<ul style="list-style-type: none"> <li>&gt; CAP 1994, p. 17. P. 25</li> <li>&gt; CAP 2119, p. 19</li> <li>&gt; CAP 2279, p. 9-10</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <a href="#">Appendix N</a> (financeability)</li> </ul>
Investment programme	NERL's investment programme needs to: <ul style="list-style-type: none"> <li>&gt; deliver airspace modernisation (that remains a key strategic driver for NR23) and robust technical resilience</li> <li>&gt; be incurred efficiently</li> <li>&gt; deliver benefits including opex interaction/savings</li> <li>&gt; identify where discretionary spend has been delayed (where appropriate to do so) and</li> <li>&gt; how the programme scale could adjust to different traffic</li> </ul>	<ul style="list-style-type: none"> <li>&gt; CAP 1994, p. 19, p. 25</li> <li>&gt; CAP 2160, p. 15-16</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <a href="#">Chapter 6</a> (capital investment)</li> <li>&gt; <a href="#">Appendix H</a> (capital investment)</li> </ul>

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		CAA guidance	NERL NR23 BP
Options	NERL should provide information to stakeholders about options and trade-offs	<ul style="list-style-type: none"> <li>&gt; CAP 2160, p. 15</li> <li>&gt; August guidance p. 1</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <a href="#">Chapter 1</a> (summary)</li> <li>&gt; <a href="#">Appendix Q</a> (scenarios)</li> </ul>

*Mapping CAA guidance to NR23 business plan*