

Civil Aviation Authority
Aviation House
Beehive Ring Road
Crawley
West Sussex
RH6 0YR

4 July 2023

Dear Sirs and Madams

Letter of comfort: Financial model assurance for the NERL price control NR23 (IPP Cont. Ref. 3397)

Vercity is pleased to provide this letter to the Civil Aviation Authority (“CAA”) on the completion of the external assurance review on the financial model “CAA NERL PCM_10e - v0.13.xlsb” (“the Model”) dated 19 June 2023 for the purposes of the CAA’s Provisional Decisions.

In response to the scope of work as outlined in the IPP and agreed with the CAA, we have:

- provided assurance that the Model is logical, accurate and appropriate and has been built and developed robustly, by reviewing five versions of the Model, starting with the version provided to us in April 2023 up to the final version noted above;
- undertaken deep-dive reviews of areas of the Model considered to be complex and high risk. These included reviews to ensure that the calculations are materially correct for tax, working capital, gearing, financial ratios and RP3 TRS traffic risk sharing revenue adjustments. We have also undertaken reviews of further areas as directed by the CAA, including determined costs, pension cost sharing, inflation allowance and traffic variance adjustments;
- checked that the Model’s inputs are consistent with the underlying data in the relevant input files and source documents, which included the data transfer spreadsheet. We also raised matters on areas where it was identified there were errors in the Model’s inputs;
- reviewed financial and regulatory outputs files and verified that outputs from the Model have been correctly extracted and transposed into graphs which will be used in the CAA’s Provisional Decisions;
- checked that the Model and regulatory asset base (“RAB”) rules as updated for the CAA’s Provisional Decisions are consistent. This included a review of the consistency of the arithmetic expressions and numbers cited in the RAB rules to the Model;
- checked that the Model and draft licence conditions, as updated for the CAA’s Provisional Decisions, are consistent. This included a review of the consistency of the arithmetic expressions and numbers cited in the draft licence to the Model; and

- reviewed the Model's User Guide to ensure consistency with the Model and ensured it provides a comprehensive description of how to use the Model.

During our engagement, we held regular discussions with the CAA to identify emerging issues and agree possible solutions. While this letter should not be taken as a guarantee that the Model is correct in terms of its results, we can confirm that no material errors were identified in the final version of the Model reviewed.

Yours faithfully

Vercity Management Services Ltd