

Heathrow Airport Limited

Airport Charges for 2023

Consultation Document

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Context and executive summary

Following an extremely challenging two years and since the UK Government's removal of all travel restrictions, passenger numbers have been improving and Heathrow has seen traffic increase during 2022. As a result, and as part of our longstanding ramp up plan, we reopened Terminal 4 and continue to increase our own security, engineering and services teams, as well as supporting other employers across the airport with their recruitment. However, while we rebuild capacity, service and operational resilience after the pandemic, resources across the airport ecosystem remain tight, in line with circumstances at other airports around the world and we are working closely with airlines and ground handlers to match supply and demand.

Following the lifting of travel restrictions in the UK, we saw a surge in demand from late March with peaks over the Easter period, Jubilee half-term and summer getaway. However, the legacy of the pandemic continues to pose challenges for the entire sector as it rebuilds capacity. That legacy manifested itself primarily in the form of volatile passenger demand and changing profiles of passengers, combined with resourcing shortfalls across various teams within the whole airport ecosystem. As a result, despite maximising and optimising capacity as much as possible, operational performance deteriorated as passenger numbers grew above 100,000 daily departing passengers. Therefore, to ensure the overall safety and resilience of the operation and deliver the service that our passengers and Team Heathrow colleagues expect, a capacity cap has been implemented in accordance with Local Rule A. Whilst this period has proved challenging, coordinated and forward planning are helping ensure passengers at Heathrow travel on their journeys with their bags, despite some longer than usual queues.

Challenges remain, but long-term recovery will be secured through stimulating and stabilising passenger volumes – this objective sits at the heart of Heathrow's proposed pricing structure. We will do this while retaining our collective focus on sustainability.

Decarbonising the aviation sector remains a key priority in our sustainable growth plan and will be a prerequisite for the aviation sector's continued growth. In 2021, Heathrow became the first major UK airport to successfully integrate Sustainable Aviation Fuels (SAF) into its operation, ahead of the G7 Summit. More SAF deliveries followed, including at the time of COP26, where 34 States also joined an International Aviation Climate Ambition Coalition to advance ambitious actions to cut aviation carbon emissions, including through adoption of an aspirational long-term goal in line with limiting global warming to 1.5 degrees.

SAF is key to taking the carbon out of flying – but represents a tiny fraction of the jet fuel market globally. Following strong Government leadership through its publication of the Jet Zero Strategy in July 2022, Government must now deliver on promises to introduce a SAF mandate, by 2025, with a target of at least 10% SAF in the UK aviation fuel mix by 2030.

Currently, over three-quarters of movements at Heathrow are delivered by airlines committed to 10% SAF by 2030 which is ahead of the Climate Change Committee target of 7.5%. The first year of our SAF incentive was over-subscribed with SAF delivery on track to exceed the 0.5% target. Taking the carbon emissions out of flying remains an ethical and business imperative for Heathrow. We are playing a leadership role in creating momentum to help the sector solve the problem across all our carbon emission scopes.

To secure the recovery of passenger volumes, the ultimate objective of our pricing proposal is to attract passengers, while maintaining responsible investment in our world class passenger terminals and operational facilities which is key to maintaining the levels of service that our airlines and passengers expect. We will do this while maintaining a safe, reliable operation which balances service and financeability.

Heathrow is proposing to set 2023 prices to recover a yield of £31.920 per passenger. Details of the proposed charges are set out in Chapters 9 and 12.

Our 2023 consultation proposals include:

- The introduction of a weight-based cargo charge with an associated minimum cargo charge for cargo movements to ensure charging for freighters remains competitive and reflects the use of airport facilities. The same weight-based cargo charge will apply to belly hold cargo although it will be recovered as part of the maximum allowable yield and will therefore drive down other charges;
- The standardisation of the noise chapter structure in response to airline feedback which is designed to support longer term fleet procurement plans;
- The acceleration of the multi-year Sustainable Aviation Fuel incentive from 1.0% to 1.5% SAF mix at Heathrow, designed to encourage uptake at Heathrow and stimulate UK SAF production;
- An amendment to the proportions of the movement charge recovered by Noise and NOx charges from 80/20 respectively to 60/40 reflecting the increased focus on reducing aviation related emissions; and
- The removal of the minimum departure charge for domestic routes and a lower noise charge for aircraft with a maximum take-off weight of less than 30 metric tonnes to stimulate new domestic connections.

Publication of this consultation document initiates the consultation process. We are keen to listen to customer feedback throughout this process and we thank those who have already expressed early views.

We will hold a consultation meeting on 6 September 2022 to present the details of our 2023 charging proposals and respond to any questions. We request written responses from the airline community by 30 September 2022. We will consider all comments received during the consultation period. We intend to issue our decision by 31 October 2022 for implementation from 1 January 2023. The finalisation of the 2023 tariffs is dependent upon the publication of the final H7 Licence by the CAA. Any delay to the CAA decision may cause the above timeline to be extended. Should this situation arise, we will endeavour to provide a direction statement at the end of October to support 2023 business planning processes by airlines.

In addition, we would welcome additional feedback on the possibility of building into the charges regime, measures based on operational performance in advance of the 2024 airport charges consultation process. The aim of this would be to incentivise efficient use of the airport and reduce both disruption and costs which would benefit the entire airport community.

To that end, we would like to understand whether there is any early airline feedback on the potential for future charges being linked to operational metrics such as:

- Check in transaction times;
- Failure to tip;
- Digital process improvement;
- Arrivals and/or departures punctuality; and
- Baggage delivery.

Please note that this list is not exhaustive and we would welcome any additional areas that you would consider worthwhile exploring.

1 Introduction and consultation programme

1.1 Purpose

- 1.1.1 The purpose of this document is to set out Heathrow's proposal for the level of airport charges and invite the airline community to provide views on the proposals.
- 1.1.2 We are proposing to set airport charges for 2023 based on the Final Proposals issued by the Civil Aviation Authority as part of the H7 price control review process.¹ In the event that the final decision results in a different price control condition which requires Heathrow to reprice, we will do so as required.

1.2 Economic regulation

- 1.2.1 In December 2012, the Civil Aviation Act 2012 (Act) came into force. The Act allows the CAA to set the maximum yield per passenger that may be levied by Heathrow through the application of a price control condition under a licence. The Q6 price control condition expired at the end of 2021, and a temporary price cap was put in place for 2022. At the time of publishing this consultation no price control condition is in place for the start of 2023. The CAA is currently in the process of determining the final price control condition for the period 2022 to 2026 and it has issued Final Proposals setting out its current proposal. This process is anticipated to result in new price control conditions coming into force in Q4 2022.
- 1.2.2 Airport charges are levied on operators of aircraft in connection with the landing, parking, take-off of aircraft, or use of the facilities and services at the airport (including charges that are to any extent determined by reference to the number of passengers on board the aircraft).
- 1.2.3 Under the terms of the Licence granted to Heathrow, the CAA requires Heathrow to (i) meet service quality conditions; and (ii) consult on capital investment and other regulated charges.
- 1.2.4 The CAA conditions for service quality require² Heathrow to make payments to airlines if it fails to meet the assigned targets. The service quality measures include: terminal seat availability; cleanliness; way-finding; flight information; passenger-sensitive equipment; arrivals reclaim; stands; jetties; pier service; fixed electrical ground power; pre-conditioned air; central security queuing; transfer security queuing; staff security queuing; control post queuing; stand entry guidance; and track transit system. Heathrow publishes the monthly scores on service quality measures and the full details of SQR on its website, and can be found at www.heathrow.com³. The Q6 service quality regime has remained in place for 2022 and from 2023 will be updated to the new Outcome Based Regulation.

¹ <https://www.caa.co.uk/commercial-industry/airports/economic-regulation/h7/consultations/final-and-initial-proposals-for-h7-price-control/>

² https://www.caa.co.uk/media/n4dbpdwr/heathrow-licence_20220202.pdf - schedule 1 page 29 to 78

³ <https://www.heathrow.com/company/about-heathrow/performance/airport-operations/quality-rebate-and-bonus-scheme>

1.2.5 The CAA states that “Consumers’ interests are furthered not only by ensuring that the cost to them of the airport operation services provided by HAL is appropriate, but also by seeking to ensure that the services HAL provides meet their needs in terms of their range, availability, continuity and quality”.

1.2.6 The outcomes outlined in the CAA Final Proposals are:

- an airport I want to travel from that offers me a good value choice of flights;
- I am confident I can get to and from the airport;
- I have a predictable and reliable journey;
- I feel comfortable and secure at the airport;
- I have an enjoyable experience at the airport; and
- I feel cared for and supported

1.2.7 Details of the measures can be found at table 3.1 and 3.2 in CAP2365B⁴

1.2.8 Monthly performance will be published on our website under the above link.

1.2.9 Details of Heathrow’s capital investment plan can be found at www.heathrow.com⁵, a list of other regulated facilities and services can be found at www.heathrow.com/orc and a list of property accommodation can be found at www.heathrow.com/property. Services and infrastructure provided by Heathrow as part of airport charges form part of the quinquennial licence determination, details of which can be found at www.heathrow.com⁶. In addition, the full schedule of airport charges is listed in the Conditions of Use, which can be found at www.heathrow.com/cou.

1.3 Approach to setting the 2023 airport charge

1.3.1 In 2022, Heathrow used the CAA price of £30.19, which the CAA set in December 2021.

1.3.2 Since then, the CAA released its Final Proposals for H7 on 28 June 2022. For the purpose of this consultation, we have calculated the airport charge based on the price control condition contained in the Final Proposals. The subsequent sections set out the formula to set the airport charge for 2023.

1.3.3 The CAA plans to publish its final decision for H7 sometime in 2022 and we will implement any changes required to 2023 pricing following the publication and review of that final decision.

1.4 Airport charges consultation programme

1.4.1 Heathrow is consulting on the level of charges for 2023 with the airline community and plans to announce its final decision by 31 October 2022, in accordance with the requirements of the Airport Charges Regulations 2011. The publication of this

⁴ CAP2365B: Economic regulation of Heathrow Airport Limited: H7 Final Proposals Section 1: Overall approach and building blocks (caa.co.uk)

⁵ <https://www.heathrow.com/company/about-heathrow/economic-regulation/h7-update>

⁶ <https://www.heathrow.com/company/about-heathrow/economic-regulation/h7-update>

consultation document is the start of our consultation on the annual setting of airport charges.

1.4.2 The airport charges consultation programme is as follows:

Date	Milestone
26 Aug 2022	Publication of Heathrow consultation document
06 Sep 2022	Consultation meeting
30 Sep 2022	Airline written responses submitted by close of business
31 Oct 2022	Heathrow announces 2023 prices
1 Jan 2023	Prices and updated Conditions of Use applicable

1.4.3 The consultation meeting will be held on 6 September 2022 which will provide the airline community with the opportunity to comment on the pricing and Conditions of Use proposals, in addition to providing any written comments by 30 September 2022. The meeting will be open to all airlines and their representative bodies.

Date: Tuesday 6 September 2022
Time: 15:30 to 17:30
Location: Microsoft Teams Meeting

Please let us know if you would like to attend the consultation meeting using the **email address provided below**.

1.5 How to respond

We invite interested parties to submit written responses to the proposals set out in this document by close of **business on 30 September 2022**. **Responses should be sent to: airline_relations@heathrow.com**. **You should also use this email address in the event you have any questions on the consultation document, associated process or would like to arrange a bilateral session to further engage on the proposals.**

Please clearly mark any **information that should be treated as confidential in responses to this consultation**.

Heathrow representatives will also be available for bilateral sessions should any party request it.

2 Calculating the maximum allowable yield

2.1 Calculating the maximum allowable yield

2.1.1 Based on the CAA's H7 Final Proposals price control licence condition, the following price formula has been used for calculation of the 2023 yield:

$$M_{2023} = Y_{2022} \times (1 + CPI_{2023} + X + B_{2021}) + \frac{AC_{2023}}{Q_{2023}} - \frac{T_{2023}}{Q_{2023}} + \frac{TDO_{2023}}{Q_{2023}} - AK_{2023}$$

Where:

- a) M_{2023} is the maximum revenue yield per passenger using the Airport in Regulatory Year 2023 expressed in pounds sterling;
- b) Y_{2022} is the maximum revenue yield per passenger using the Airport in Regulatory Year 2022 at £30.190, as defined in Condition C1.3(a)⁷;
- c) CPI_{2023} is the percentage change between: (i) the average value of the Office for National Statistics monthly D7BT Consumer Price Index over Regulatory Year 2023; and (ii) the average value of the Office for National Statistics monthly D7BT Consumer Price Index over Regulatory Year 2022;
- d) $X = -5.74\%$;
- e) B_{2021} is the bonus factor in Regulatory Year 2023, based on the Licensee's service quality performance in Regulatory Year 2021, as defined in Condition C1.6⁸;
- f) AC_{2023} is the Licensee's allowed capex adjustment in the Regulatory Year 2023, as defined in Condition C1.7 to C1.12⁹;
- g) Q_{2023} is the number of passengers using the Airport in the Regulatory Year 2023;
- h) T_{2023} is the capital trigger factor in the Regulatory Year 2023, as defined in Condition C1.13 to C1.14¹⁰;
- i) TDO_{2023} is the terminal drop-off charge factor in Regulatory Year 2023, as defined in Condition C1.15 to C1.16¹¹; and
- j) AK_{2023} is the additional correction factor for Regulatory Year 2023, as defined in Condition C1.19 to C1.20¹².

The relevant year, "2023", means the period of twelve months from 1 January 2023 to 31 December 2023.

⁷ See pp.9-10 of CAA's H7 Final Proposals

⁸ See pp 14 of CAA's H7 Final Proposals

⁹ See pp.15-17 of CAA's H7 Final Proposals

¹⁰ See pp.19-20 of CAA's H7 Final Proposals

¹¹ See p.20 of CAA's H7 Final Proposals

¹² See pp.24-25 of CAA's H7 Final Proposals

2.2 Maximum allowable yield forecast for 2023

2.2.1 The combined impact of all the elements of the formula results in a forecast 2023 maximum allowable yield of £31.920 (passenger only flights). The full details of the formula are shown below.

2.3 Bonus factor

2.3.1 The formula includes a bonus factor that allows the airport to recover a bonus when performance on certain service quality measures exceeds a specified service standard. The bonus term in any given year is based on actual service quality, based on the period preceding the relevant year by two years, which is 2021 for the 2023 airport charges. Heathrow achieved a bonus in 2021. Further detail is provided in Chapter 3.

2.4 Allowed capex adjustment

2.4.1 The allowed capex adjustment adjusts the maximum allowable yield to account for the cumulative difference between the capex allowance included in the H7 settlement, as set out in the CAA's H7 Final Proposals, and forecast capex spend.

2.4.2 Heathrow forecasts to transition the same amount of cumulative capex up to 31 December 2023 as the CAA's allowance, therefore no adjustment has been applied. Further detail is provided in Chapter 4.

2.5 Triggers

2.5.1 The CAA's Final proposals set out that triggers will continue to apply for Q6 projects, where triggers reduce the maximum allowable yield when the Licensee (Heathrow) has not met specified capital investment project dates. As of July 2022, there is only one project that is forecast to not meet its trigger milestone date that falls into 2023, which is the Main Tunnel Life Safety Systems project.

2.5.2 The Main Tunnel Life Safety Systems project is forecast to be completed by March 2023 and has a trigger milestone date of December 2016. Therefore 2023 airport charges take account of three months of trigger payments.

2.5.3 Any trigger payment which may arise in 2023 due to new triggered projects or any deviation in actual completion dates will be corrected through the K Factor when setting 2025 airport charges.

2.6 Terminal drop-off charge

2.6.1 The CAA has added a Terminal Drop-Off Charge mechanism to the Licence which includes a risk sharing mechanism under which Heathrow would bear 35% of any differences between the actual revenue and the CAA forecast for drop-off charge revenues in each year.

2.6.2 As Heathrow forecasts to recover the same amount as set out in the CAA’s Final Proposals in 2023, there is no adjustment applied to the forecast maximum allowable yield for 2023.

2.7 Passengers

2.7.1 Heathrow passenger forecast for 2023 is 65,233k (twelve months – January 2023 to December 2023).

2.8 CPI 2023

2.8.1 The price control condition requires Heathrow to use an up-to-date, publicly available forecast CPI percentage change between 2023 and 2022.

2.8.2 The August 2022 Monetary Policy Report from the Bank of England provides an up-to-date CPI forecast for Q3 2022 – Q4 2023¹³. Heathrow has used the actual D7BT CPI index¹⁴ as a starting point up to Q2 2022, and then applied the Bank of England’s CPI forecast to calculate the CPI for 2023. The table below shows the calculations.

Calculation of 2023 inflation

Year / Quarter	BoE Yearly Inflation (Mean)	CPI Index (Quarterly)	Actual/ Forecast	Average yearly CPI Index in Q4	Forecast Inflation for 2023
2021 Q3	-	111.9	Actual		
2021 Q4	-	114.4	Actual		
2022 Q1	-	115.9	Actual		
2022 Q2	-	120.9	Actual		
2022 Q3	9.96%	123.0	Forecast		
2022 Q4	13.20%	129.5	Forecast	122.3	
2023 Q1	13.00%	131.0	Forecast		
2023 Q2	12.16%	135.6	Forecast		
2023 Q3	10.92%	136.5	Forecast		
2023 Q4	6.80%	138.3	Forecast	135.3	10.62%

2.8.3 Heathrow has adopted the percentage change between 2023 average forecast CPI Index, at 135.3 and 2022 average forecast CPI Index, at 122.3. This results in a forecast CPI of 10.62%.

2.8.4 Given that we are using a CPI forecast, any over/underestimate against the actual CPI will be adjusted through the K Factor in 2025.

2.9 Additional K factor

2.9.1 The Additional K Factor in the formula is to compensate for the unanticipated over-recovery against the maximum allowable yields in 2020 and 2021. As the CAA chose to set a single number as the maximum allowable yield for the 2022 charge, the over-

¹³ <https://www.bankofengland.co.uk/monetary-policy-report/2022/august-2022>

¹⁴ <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7bt/mm23>

recovery in 2020 was not applied at that point, hence there being two years to correct.

2.9.2 The mechanism in the proposed Licence permits Heathrow to determine how much of the 2020 and 2021 over-recoveries are returned in the 2023 airport charges, so long as the over-recoveries are returned in full by no later than the 2026 airport charges.

2.9.3 Given the novel nature of the proposed AK factor and the fact that it is subject to active consultation Heathrow does not intend to include an adjustment for 2023. This aligns with Heathrow’s response to the CAA’s final proposals and is also compliant with the condition as currently drafted by the CAA.

2.10 Application of the regulatory pricing formula

2.10.1 Based on the regulatory pricing formula, the 2023 forecast maximum allowable is set out below.

$$M_{2023} = Y_{2022} \times (1 + \text{CPI}_{2023} + X + B_{2021}) + \frac{AC_{2023}}{Q_{2023}} - \frac{T_{2023}}{Q_{2023}} + \frac{TDO_{2023}}{Q_{2023}} - AK_{2023}$$

Where:

Y_{2022}	= 30.190
(CPI_{2023})	= 10.629%
X	= -5.74%
B_{2021}	= 0.865%
AC_{2023}	= 0.000
T_{2023}	= 435 (k)
TDO_{2023}	= 0.000
Q_{2023}	= 65,233 (k)
AK_{2023}	= 0.000

2.10.2 Applying the above formula results in a 2023 forecast maximum allowable yield of £31.920. Heathrow proposes to set charges to recover the forecast maximum allowable yield for 2023.

2.10.3 As set out above, this is our provisional calculation based on the CAA's final proposals, published in June 2022. We expect that the final decision on the H7 price control will result in some changes being required to the charges as set out in this document. Once the H7 price control decision has been released and finally settled, we will reflect on any changes required and publish them as necessary.

3 Bonus factor

3.1.1 The price control licence condition for the maximum allowable yield includes a bonus component for performance of certain service quality measures. A service quality bonus can be achieved when performance for certain measures exceeds the specified target levels. Full details of the bonus can be found in the Licence granted to Heathrow Airport Limited.

3.1.2 The service quality bonus can be recovered from 2014 to 2021 for departure lounge seating availability, cleanliness, way-finding and flight information. For the purposes of the 2023 forecast maximum allowable yield, the service quality bonus can be recovered for the Regulatory Period 2021 from 1 January 2021 to 31 December 2021.

3.1.3 Heathrow has achieved the service quality bonus for 2021 at 0.865%. This is included in the 2023 forecast maximum allowable yield.

3.1.4 The table below sets out the 2021 performance of these measures for the purpose of the bonus

Departure lounge seating availability (QSM)	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Total
Terminal 1 (actual)	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Terminal 2 (actual)	4.50	4.54	4.52	4.53	4.53	4.54	4.54	4.51	4.52	4.53	4.54	4.54	4.52
Terminal 3 (actual)	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.56	4.58	4.55	4.50	4.50
Terminal 4 (actual)	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Terminal 5 (actual)	4.27	4.37	4.41	4.42	4.43	4.43	4.42	4.40	4.37	4.35	4.34	4.32	4.32
BNS(T1) _{k,d}	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%
BNS(T2) _{k,d}	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%
BNS(T3) _{k,d}	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%
BNS(T4) _{k,d}	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%
BNS(T5) _{k,d}	0.0128%	0.0203%	0.0233%	0.0240%	0.0248%	0.0248%	0.0240%	0.0225%	0.0203%	0.0188%	0.0180%	0.0167%	0.0250%
Bonus term =	0.0128%	0.0203%	0.0233%	0.0240%	0.0248%	0.0248%	0.0240%	0.0225%	0.0203%	0.0188%	0.0180%	0.0167%	0.250%
Cleanliness (QSM)	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Total
Terminal 1 (actual)	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Terminal 2 (actual)	4.44	4.46	4.47	4.48	4.49	4.49	4.49	4.49	4.49	4.49	4.48	4.48	4.48
Terminal 3 (actual)	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.41	4.40	4.40	4.50	4.50
Terminal 4 (actual)	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Terminal 5 (actual)	4.38	4.42	4.45	4.46	4.47	4.47	4.46	4.46	4.44	4.42	4.41	4.41	4.41
BNS(T1) _{k,d}	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%
BNS(T2) _{k,d}	0.0240%	0.0260%	0.0270%	0.0280%	0.0290%	0.0290%	0.0290%	0.0290%	0.0290%	0.0290%	0.0280%	0.0276%	0.0276%
BNS(T3) _{k,d}	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0210%	0.0200%	0.0200%	0.0300%	0.0300%
BNS(T4) _{k,d}	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%
BNS(T5) _{k,d}	0.0180%	0.0220%	0.0250%	0.0260%	0.0270%	0.0270%	0.0260%	0.0260%	0.0240%	0.0220%	0.0210%	0.0207%	0.279%
Bonus term =	0.0180%	0.0220%	0.0250%	0.0260%	0.0270%	0.0270%	0.0260%	0.0260%	0.0210%	0.0200%	0.0200%	0.0207%	0.279%
Way finding (QSM)	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Total
Terminal 1 (actual)	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Terminal 2 (actual)	4.35	4.38	4.38	4.39	4.39	4.40	4.41	4.41	4.41	4.42	4.43	4.43	4.43
Terminal 3 (actual)	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.40	4.39	4.40	4.38	4.38
Terminal 4 (actual)	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Terminal 5 (actual)	4.32	4.34	4.35	4.35	4.36	4.37	4.37	4.38	4.38	4.37	4.37	4.36	4.36
BNS(T1) _{k,d}	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%
BNS(T2) _{k,d}	0.0150%	0.0180%	0.0180%	0.0190%	0.0190%	0.0200%	0.0210%	0.0210%	0.0210%	0.0220%	0.0230%	0.0227%	0.0227%
BNS(T3) _{k,d}	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0200%	0.0190%	0.0200%	0.0179%	0.0179%
BNS(T4) _{k,d}	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%
BNS(T5) _{k,d}	0.0120%	0.0140%	0.0150%	0.0150%	0.0160%	0.0170%	0.0170%	0.0180%	0.0180%	0.0170%	0.0170%	0.0160%	0.0160%
Bonus term =	0.0120%	0.0140%	0.0150%	0.0150%	0.0160%	0.0170%	0.0170%	0.0180%	0.0180%	0.0170%	0.0170%	0.0160%	0.192%
Flight information (QSM)	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Total
Terminal 1 (actual)	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70
Terminal 2 (actual)	4.50	4.54	4.55	4.55	4.56	4.57	4.57	4.56	4.56	4.57	4.59	4.59	4.59
Terminal 3 (actual)	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.56	4.55	4.53	4.53	4.53
Terminal 4 (actual)	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70
Terminal 5 (actual)	4.43	4.50	4.52	4.52	4.53	4.53	4.53	4.54	4.54	4.54	4.53	4.53	4.53
BNS(T1) _{k,d}	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%
BNS(T2) _{k,d}	0.0100%	0.0140%	0.0150%	0.0150%	0.0160%	0.0170%	0.0170%	0.0160%	0.0170%	0.0170%	0.0190%	0.0187%	0.0187%
BNS(T3) _{k,d}	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0160%	0.0150%	0.0130%	0.0133%	0.0133%
BNS(T4) _{k,d}	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%	0.0300%
BNS(T5) _{k,d}	0.0030%	0.0100%	0.0120%	0.0120%	0.0130%	0.0130%	0.0130%	0.0140%	0.0140%	0.0140%	0.0130%	0.0132%	0.0132%
Bonus term =	0.0030%	0.0100%	0.0120%	0.0120%	0.0130%	0.0130%	0.0130%	0.0140%	0.0140%	0.0140%	0.0130%	0.0132%	0.144%
Bonus term =	0.0457%	0.0662%	0.0752%	0.0770%	0.0808%	0.0817%	0.0800%	0.0805%	0.0733%	0.0698%	0.0680%	0.0668%	0.8650%
Rounded to 3 decimal places Bt =	0.046%	0.066%	0.075%	0.077%	0.081%	0.082%	0.080%	0.081%	0.073%	0.070%	0.068%	0.067%	0.865%

4 Allowed capital adjustment

- 4.1.1 H7 will see the continuation of capital investment being classified as either Development or Core. This requires Heathrow to forecast the amount of capital that will transition from Development to Core (including Development spend).
- 4.1.3 Core capital represents firm investment commitments where scope and cost estimates can be reasonably certain. Core capital investment is estimated at a P50 level (where the likelihood of the cost being higher than the estimate is equal to the likelihood being lower). Development capital projects have a lower definition of scope and cost estimations than Core projects (and are estimated at a P80 level).
- 4.1.4 Development and Core capital investment are subject to the Gateway process with airlines. The Gateway process has a number of Gateway events. The first two Gateways are where the scope and cost estimates are developed. The project is transitioned to Core after Gateway 3 when the scope and cost estimates are well defined. The project is then progressed through the remaining Gateways.
- 4.1.5 This two-tier approach to capital investment is designed so that Heathrow does not earn a return on any Development capital allowance that has not been used. The mechanism to take this into effect is the allowed capex adjustment in the maximum allowable yield. This requires Heathrow to make an estimate on a cumulative basis of how much Development capital allowance will be spent or transitioned to Core. This adjustment only applies to Development capital investment.
- 4.1.6 Heathrow will use the CAA's capital forecast set out in its Final Proposals. Therefore, there is a zero adjustment to the 2023 forecast maximum allowable yield.

5 Capital triggers

- 5.1.1 The CAA's maximum allowable yield formula for H7 continues to include a trigger element for projects that commenced in Q6, which means that if a trigger project is not complete by a specified project trigger date, then the allowable yield is reduced.
- 5.1.2 Q6 triggers are placed around a subset of "key projects". Triggers have been attached to projects at Gateway 3 through governance with airlines.
- 5.1.3 There is only one project that is forecast to not meet its trigger milestone date that falls into 2023: the Main Tunnel Life Safety Systems project.
- 5.1.4 The Main Tunnel Life Safety Systems project is forecast to be completed by March 2023 and has a trigger milestone date of December 2016. Therefore the 2023 airport charges take account of the three months of anticipated trigger payments, resulting in a trigger value of £435,000.
- 5.1.5 Full details are shown below for the Main Tunnel Life Safety System:

Trigger date	= December 2016
Forecast Completion	= March 2023
Expected Delay	= 75 months
Months falling into 2023	= 3 months
Monthly Payment	= £115,515 in 2018 prices
Expected Payment	= £346,545 in 2018 prices
Inflation Index (RPI)	= 1.255 ¹⁵
Expected Payment	= £434,948 in 2023 prices
Forecast Passengers (000s)	= 65,233 in 2023
Impact on Yield	= £0.007 in 2023

- 5.1.6 Therefore the 2023 maximum allowable yield is reduced to account for the expected trigger payment of £434,948.
- 5.1.7 Any trigger payment which may arise in 2023 due to new triggered projects or any deviation in actual completion dates will be corrected through the K Factor when setting 2025 airport charges.

¹⁵ The monthly payment for triggers is shown in 2018 prices and then is required to be adjusted to account for the difference in ONS CHAW Retail Price Index average 2018 and forecast average 2023 i.e. 353.41/281.58.

6 Terminal drop-off charge

6.1.1 The CAA has added a Terminal Drop-Off Charge mechanism to the Licence which includes a risk sharing mechanism under which Heathrow would bear 35% of any differences between the actual revenue and the CAA forecast for drop-off charge revenues in each year.

6.1.2 As Heathrow forecasts to recover the same amount as set out in the CAA's Final Proposals in 2023, there is no adjustment applied to the forecast maximum allowable yield for 2023.

6.1.3 TDO_t is the Terminal drop-off charge factor that:

- a. implements risk sharing; and
- b. provides protection to the Licensee from the risk that a change to legislation prevents it from recovering revenue from Terminal drop-off charges in Regulatory Year t.

6.1.4 TDO_t shall be calculated in accordance with:

If $w_t = 0$	If $w_t = 1$
$-0.65 \times (OTDO_t - FTDO_t)$	$-1.00 \times (OTDO_t - FTDO_t)$

where:

- a. $w_t = 1$ if a change to legislation comes into force in Regulatory Year t that prevents the Licensee from recovering the full amount of the Forecast, and = 0 otherwise;
- b. $OTDO_t$ is the outturn revenue collected by the Licensee from Terminal drop-off charges in Regulatory Year t; and
- c. $FTDO_t$ is the forecast of the revenue that the Licensee will collect from Terminal drop-off charges in Regulatory Year t and is set out in the CAA's final decision setting the price control applicable to the Licensee for H7.

6.1.5 At the time of consultation $w_{2023} = 0$, since new legislation has not come into force.

6.1.6 $OTDO_{2023}$ equals £37m, and $FTDO_{2023}$ also equals £37m, since our revenue expectation is in line with the CAA's figure in the Final Proposals.

6.1.7 The calculation is therefore: $-0.65 \times (37 - 37) = 0$. This results in no adjustment to the 2023 forecast maximum allowable yield.

7 Additional correction factor

7.1 Overview

- 7.1.1 The CAA proposes to include an additional correction factor AK_t in the H7 Licence.
- 7.1.2 The Additional K Factor is a novel mechanism which was proposed by the CAA for the first time in the Final Proposals. The CAA has stated it is to compensate for the unanticipated over-recovery against the maximum allowable yield in 2020 and 2021. As the CAA chose to set a single number as the maximum allowable yield for the 2022 charge, any potential over-recovery in 2020 was not applied at that point, hence there being two years to correct.
- 7.1.3 Given the novel nature of the proposed AK factor and the fact that it is subject to active consultation Heathrow does not intend to include an adjustment for 2023. This aligns with Heathrow's response to the CAA's final proposals and is also compliant with the condition as currently drafted by the CAA.
- 7.1.4 AK_t is the additional correction factor to be made in Regulatory Year t to return in full during Regulatory Years 2023 to 2026 the Licensee's over recovery of revenue from airport charges compared with M_{2020} and M_{2021} . AK_t is calculated as follows:

$$AK_t = \frac{1}{Q_t} \times \left[wR2020_t \times (R_{2020} - Q_{2020} \times M_{2020}) \times \frac{P_t}{P_{2020}} \times (1 + RWACC)^{t-2020} + wR2021_t \times (R_{2021} - Q_{2021} \times M_{2021}) \times \frac{P_t}{P_{2021}} \times (1 + RWACC)^{t-2021} \right]$$

where:

- Q_t bears the same meaning as in Condition C1.2(g);
- $wR2020_t$ is the proportion of the Licensee's over-recovery of revenue from airport charges in Regulatory Year 2020 to be included in the adjustment of the maximum allowable yield for Regulatory Year t and shall be subject to:

$$\sum_{t=2023}^{t=2026} wR2020_t = 1$$

$$0 \leq wR2020_{2023} \leq 1$$

$$0 \leq wR2020_{2024} \leq 1$$

$$0 \leq wR2020_{2025} \leq 1$$

$$0 \leq wR2020_{2026} \leq 1$$

- The Licensee shall publish the value of $wR2020_t$ in the annual consultation for setting charges for Regulatory Year t .
- $wR2021_t$ is the proportion of the Licensee's over-recovery of revenue from airport charges in Regulatory Year 2021 to be included in the adjustment of the maximum allowable yield for Regulatory Year t and shall be subject to:

$$\sum_{t=2023}^{t=2026} wR2021_t = 1$$

$$0 \leq wR2021_{2023} \leq 1$$

$$0 \leq wR2021_{2024} \leq 1$$

$$0 \leq wR2021_{2025} \leq 1$$

$$0 \leq wR2021_{2026} \leq 1$$

- e. The Licensee shall publish the value of wR_{2021_t} in the annual consultation for setting charges for Regulatory Year t .
- f. R_t is the total revenue from airport charges in respect of relevant air transport services levied at the Airport in Regulatory Year t expressed in pounds sterling;
- g. M_t bears the same meaning as in Condition C1.2(b);
- h. P_t bears the same meaning as in Condition C1.7(a);
- i. P_{2020} is the average value of the Office for National Statistics monthly CHAW Retail Price Index over Regulatory Year 2020 and is equal to 293.14;
- j. P_{2021} is the average value of the Office for National Statistics monthly CHAW Retail Price Index over Regulatory Year 2021 and is equal to 305.00; and
- k. RWACC bears the same meaning as in Condition C1.7(c).

7.1.5 For the purposes of Condition C1.19, the values of R_t , Q_t and M_t shall be calculated in accordance with the price control conditions applicable to the Licensee in this licence as they were in each of the Regulatory Years 2020 and 2021.

7.1.6 Based on the formula in the proposed Licence, the 2023 Additional K factor is set out below.

$$AK_t = \frac{1}{Q_t} \times \left[wR_{2020_t} \times (R_{2020} - Q_{2020} \times M_{2020}) \times \frac{P_t}{P_{2020}} \times (1 + RWACC)^{t-2020} + wR_{2021_t} \times (R_{2021} - Q_{2021} \times M_{2021}) \times \frac{P_t}{P_{2021}} \times (1 + RWACC)^{t-2021} \right]$$

Where:

Q_t	= 65,233 (k)
wR_{2020_t}	= 0
wR_{2021_t}	= 0
R_{2020}	= 572,000 (k)
R_{2021}	= 466,000 (k) ¹⁶
Q_{2020}	= 22,110 (k)
Q_{2021}	= 19,393 (k)
M_{2020}	= 21.738
M_{2021}	= 15.461
P_t	= 353.41
P_{2020}	= 293.14
P_{2021}	= 305.00
RWACC	= 4.18%

¹⁶ R2021 has been restated from £483m which is the figure published in the 2021 Regulatory Accounts to correct for an error identified after publication. The restated figure is £466m, which has been subject to a set of specified assurance procedures which have been carried out by an independent external party.

7.1.7 Heathrow has chosen to adopt a zero assumption for wR2020t and wR2021t thereby using the flexibility proposed by the CAA.

7.2 M_{2020} supporting calculations

7.2.1 The following components support the calculation of M_{2020} :

Specified yield	A	23.183
12 months RPI movement April 2019	3.0% x A	0.695
X	-1.5% x A	-0.348
Bonus term	0.042% x A	0.010
Trigger payments (000s)	-3,072 / B	-0.139
Development capex	- 40,154/ B	-1.816
Category B	10,000 / B	0.452
Business rates	-34,638 / B	-1.567
Actual 2020 passengers (000s)	B	22,110
K factor for 2018 under-recovery		1.267
		21.738

M_{2020} is therefore 21.738.

7.1.7 The following explanations apply to the above components:

- The specified yield is the average yield per passenger for the period t-1 (2019).
- The 12 months RPI movement is the percentage change (positive or negative) in the Office for National Statistics (ONS) CHAW Retail Price Index between April in year t-1 and the immediately preceding April. For 2020 this is the change from April 2018 to April 2019.
- The bonus term allows the airport to recover a bonus when performance on certain service quality measures exceed a specified service standard. The bonus term in any given year is based on actual service quality, based on the two year preceding the relevant year. Therefore for 2018 a bonus was achieved for wayfinding.
- Trigger payments reduce the maximum allowable charges when the airport has not achieved specific trigger dates associated with relevant projects. 2020 captures twelve months for the Main Tunnel and three months for Hold Baggage Screening.
- Development capex is the cumulative development capex adjustment, which adjusts the actual maximum allowable yield to account for the actual difference between the development capex allowance and actual development spend. Heathrow has used less than the development capex allowance on a cumulative basis to 2020 of £1,048m which equates to an average RAB of £750m. Applying the cumulative development adjustment results in the 2020 maximum allowable yield reducing by £40.1m, equivalent to £1.816 pence per passenger.

- f. Category B increases the maximum allowable yield, where Heathrow can recover up to £10 million per year for costs associated with obtaining planning permission for a new northwest runway (i.e. Category B costs). Heathrow will recover £10m for 2020.
- g. Business rates revaluation factor adjusts the forecast maximum allowable yield to account for the difference between the actual change in the rates revaluation undertaken by the Valuation Office Agency in 2018 compared to the 9% allowance in the settlement. The actual business rates revaluation has been lower than the 9%. This reduces the forecast maximum allowable yield.
- h. Actual 2020 passengers were 22,110k (twelve months – January 2020 to December 2020).
- i. K factor for 2018 in the formula has increased the 2020 actual maximum allowable yield to compensate for the unanticipated under-recovery.

7.3 M_{2021} supporting calculations

7.1.8 The following components support the calculation of M_{2021} :

Specified yield	A	23.531
12 months RPI movement April 2020	1.50% x A	0.353
X	-1.50% x A	-0.353
Bonus term	0.059% x A	0.014
Trigger payments (000s)	-1,440 / B	-0.074
Development capex	-91,483 / B	-4.717
Category B	0 / B	0.000
Business rates	-40,639 / B	-2.096
Actual 2021 passengers (000s)	B	19,393
K factor for 2019 over-recovery		-1.197
		15.461

7.1.9 M_{2021} is therefore 15.461.

7.1.10 The following explanations apply to the above components:

- a. The specified yield is the average yield per passenger for the period t-1 (2020).
- b. The 12 months RPI movement is the percentage change (positive or negative) in the Office for National Statistics (ONS) CHAW Retail Price Index between April in year t-1 and the immediately preceding April. For 2021 this would be the change from April 2019 to April 2020.
- c. The bonus term allows the airport to recover a bonus when performance on certain service quality measures exceed a specified service standard. The bonus term in any given year is based on actual service quality, based on the two year preceding the relevant year. Therefore for 2019 a bonus was achieved for wayfinding.

- d. Trigger payments reduce the maximum allowable charges when the airport has not achieved specific trigger dates associated with relevant projects. 2021 captures twelve months for the Main Tunnel and three months for Hold Baggage Screening.
- e. Development capex is the cumulative development capex adjustment, which adjusts the actual maximum allowable yield to account for the actual difference between the development capex allowance and actual development spend. Heathrow has used less than the development capex allowance on a cumulative basis to 2021 of £2,293m which equates to an average RAB of £1,710m. Applying the cumulative development adjustment results in the 2021 maximum allowable yield reducing by £91.5m, equivalent to £4.717 pence per passenger.
- f. Category B increases the maximum allowable yield, where Heathrow can recover up to £10 million per year for costs associated with obtaining planning permission for a new northwest runway (i.e. Category B costs). Heathrow will recover £10m for 2020.
- g. Business rates revaluation factor adjusts the forecast maximum allowable yield to account for the difference between the actual change in the rates revaluation undertaken by the Valuation Office Agency in 2018 compared to the 9% allowance in the settlement. The actual business rates revaluation has been lower than the 9%. This reduces the forecast maximum allowable yield.
- h. Actual 2021 passengers were 19,393k (twelve months – January 2021 to December 2021).
- i. K factor for 2019 in the formula has decreased the 2021 actual maximum allowable yield to compensate for the unanticipated over-recovery.

8 Forecast 2023

- 8.1.1 Our forecasting approach continues to be one which combines the advantages of using the full functionality of our proven, existing models, with a scenario-based approach that covers the range of outcomes, whilst giving the flexibility to update as we gain more information.
- 8.1.2 Our modelling suite is built up of three distinct parts: travel restrictions model; capacity supply model and econometric model. The capacity supply and econometric models were built pre-pandemic. In preparation for the Initial Business Plan, we had comprehensively reviewed our forecasting models with independent input to build on the improved accuracy of the Q6 models. This gives us confidence that the models are designed based on a robust forecasting methodology, sound mathematical techniques and industry best practice.
- 8.1.3 The travel restrictions model was created as a direct response to the challenges of forecasting passengers within the COVID-19 pandemic and continues to be relevant considering there are still destination groups serving Heathrow under restrictions. The model is described below and was used to create Heathrow's current forecast for 2022 and beyond.
- 8.1.4 The travel restrictions model breaks down Heathrow demand into 40 geographic destination groups (e.g., UK, Greece, Western US). For each group it then forecasts a timeline of graduated stages of relaxing or increasing border controls, taking account of restrictions at either end of the route. For each level of restriction, we then assume a level of associated demand, which is specific to each destination group and trip purpose. This level of demand is based, for the most part, on observed behaviour since the pandemic began. The end output is a set of monthly volumes by group based on a set of scenario definitions.
- 8.1.5 We use this suite of forecasting models to build each forecast scenario individually and create a probabilistic output using Monte Carlo simulation. The output from each scenario is then combined using a weighting, to reflect that each scenario is not equally as likely as the other. This weighting means producing more Monte Carlo runs from those scenarios which are more likely. A full probabilistic range is then created from the weighted combination of the scenarios. The P90 (90% of the outputs exceed the P90 estimate) is taken as the low case, the P50 as the mid and the P10 as the high (10% of the outputs exceed the P10 estimate). Our forecast of 54.4m passengers for 2022 and 65.2m for 2023 is our P50 scenario.

9 Overview of proposed airport charges for 2023

9.1 Strategic objectives

9.1.1 As the aviation industry recovers from COVID-19 and demand for air travel increases, Heathrow's focus is on sustainable growth, efficient use of airport infrastructure and domestic connectivity. Our pricing proposals for 2023 intend to deliver three strategic objectives:

Strategic Objective	Proposed Changes
Incentivise the best use of airport	Weight-based cargo charge Minimum cargo charge Noise chapter standardisation
Promote sustainable growth	SAF Incentive – acceleration of ambition NOx/Noise ratio amendment
Support the development of domestic connectivity	Removal of the minimum departure charge for domestic routes Discount for aircraft with MTOW < 30t

9.2 How Heathrow recovers the Maximum Allowable Yield

9.2.1 Heathrow does not propose to make any significant adjustments to the charge proportions across which we recover the maximum allowable yield (MAY), however the introduction of a weight-based cargo charge (see further information at paragraph 9.10 below) will result in additional revenue being generated within the MAY. This additional revenue will reduce the amount we would usually recover via passenger, movement and parking charges and will therefore lower prices in those categories, resulting in slight changes to current proportions, as shown in the table below.

Charge	2022 proportion	2023 proportion
Passenger	57%	54.5%
Movement	39%	39.2%
Parking	4%	3.7%
Cargo	N/A	2.6%

9.2.2 The ratio of departing passenger revenue recovery remains at 75% RoW and 25% domestic/CTA/European. No changes are proposed to this.

9.3 Domestic and Common Travel Area passenger charges

9.3.1 The UK Government has consistently maintained a policy of enhancing domestic connectivity and recently, through its levelling up agenda, has announced the introduction of a new domestic band of Air Passenger Duty in 2023¹⁷, effectively cutting the levy by 50%, which will help to support greater connectivity within the UK. The Transport Secretary is also considering Sir Peter Hendy's Union Connectivity Review final report¹⁸ which included recommendations to improve domestic aviation connectivity through revising subsidy rules, reducing tax and by

¹⁷ Air Passenger Duty: banding reforms from April 2023 - GOV.UK (www.gov.uk)

¹⁸ Union connectivity review: final report - GOV.UK (www.gov.uk)

intervening in the assignment of slots at London airports – the Government’s formal response is expected later in the year. Supporting domestic connectivity is clearly in the public and general interest and the Government has stated its expectation that Heathrow plays its part. Ministers have been clear that they will hold Heathrow “*to account on how it has worked constructively with airlines and regional airports to protect and strengthen the domestic connections*”¹⁹.

- 9.3.2 On 1 January 2017, Heathrow introduced a departing passenger charge discount of an additional £5.00 to the existing European Destination passenger charge for passengers travelling to UK destinations (including the nations and Crown Dependencies). This UK connectivity discount was introduced in direct response to the National Connectivity Task Force (NCTF) report which identified the need to make routes to regional airports more attractive.
- 9.3.3 In 2021, a new category of passenger charge was introduced for those destinations defined as the Common Travel Area Destinations, being the Crown Dependencies (the Bailiwick of Jersey, Bailiwick of Guernsey and the Isle of Man) and Ireland. Since that time, the UK connectivity discount has applied to passengers travelling to Domestic or CTA Destinations. Passengers travelling between UK and CTA destinations are subject to different government requirements from those passengers travelling between Domestic Destinations or travelling between the UK and European destinations. This includes variation in the customs arrangements for these passengers. In addition, there are differing infrastructure requirements between Domestic and CTA passengers. To recognise this a £0.25 differential was included in the charges for CTA passengers.
- 9.3.4 In 2022, the UK connectivity discount was increased to £7.50. It is reasonable to expect that ticket prices to Domestic and CTA Destinations are more open to changes in the departing passenger charge. During 2022, departing passengers to Domestic and CTA Destinations received a total reduction of £17.50/£17.25 (£10.00 European plus £7.50 UK connectivity discount plus CTA differential where applicable).
- 9.3.5 We do not propose any changes to the UK connectivity discount or the CTA differential for 2023 charges.

9.4 Minimum passenger departure charge – domestic destinations

Passenger ATMs

- 9.4.1 In line with the NCTF recommendations, it is important to provide the conditions for development of domestic routes, driving regional connectivity. So far, we have supported this by introducing a discount within our passenger charges, via the UK connectivity discount.
- 9.4.2 Demand on new routes to and from regional airports is often low and it takes a considerable amount of time to build a customer base. Heathrow’s current Minimum Departure Charge (MDC) for domestic movements is equivalent to

¹⁹ Airports National Policy Statement - Hansard - UK Parliament

carrying 58 passengers on each flight, which represents a high load factor on the aircraft that might operate such routes.

- 9.4.3 Heathrow charges also make up a much higher percentage of the total ticket price on new domestic flights when compared to European or ROW flights, as they often use lower capacity aircraft or have smaller loads as the routes are being established. To stimulate the development of new domestic routes, and in alignment with rationale outlined in section 9.3.1, above, we propose to remove the MDC for routes to Domestic Destinations (England, Wales, Scotland and Northern Ireland).
- 9.4.4 This proposal is intended to support the launch of new domestic routes. It is not expected to materially impact the majority of currently served domestic routes as the current passenger demand on those routes is generally higher than the threshold for the application of the current MDC.
- 9.4.5 The load factor equivalents for CTA, European and ROW destinations remain the same and no changes are proposed to these for 2023
- 9.4.6 The minimum departure charges proposed for 2023 are:

Destination	2022 Min Dep Charge	2023 Min Dep Charge	Load factor equivalent
Domestic	£778.36	N/A	58 (2022), 0 (2023)
CTA	£820.20	£861.60	60
European	£1,610.84	£1,663.97	77
RoW	£2,745.50	£2,643	50

9.5 Discount for aircraft with Maximum Take-off Weight < 30t

- 9.5.1 As set out above, one of Heathrow’s strategic objectives is to support domestic connectivity. As shown in the table below, smaller aircraft, often used to launch and operate new domestic routes, incur a significantly higher equivalent cost per passenger in respect of movement charges than larger aircraft used to operate routes to CTA, European and RoW destinations. Coupled with the much lower ticket price that airlines can charge on domestic routes, this presents a challenge to the introduction of new domestic connectivity.
- 9.5.2 To drive domestic connectivity and incentivise the launch of new domestic routes, we propose to introduce a 50% discount for aircraft below a Maximum Take-off Weight (MTOW) of 30 metric tonnes. This discount would apply to the noise element of the movement charge and by lowering the per passenger movement cost, would improve the economic viability of launching such routes, aligning with recent Government changes to domestic Air Passenger Duty²⁰.

²⁰ Autumn Budget and Spending Review 2021: documents - GOV.UK (www.gov.uk)

Aircraft	Capacity	Noise chapter	2022 noise charge	2022 charge per pax	2023 proposed noise	2023 proposed per pax
MTOW < 30t						
E145	49	14L	£1,587.42	£32.40	£819.67	£16.73
AT72	72	14L	£1,587.42	£22.05	£819.67	£11.38
DH8D	78	14L	£1,587.42	£20.35	£819.67	£10.51
MTOW > 30t						
A319	144	14B	£2,643.50	£18.36	£2,341.90	£16.26
A320 Neo	180	14S	£1,115.12	£6.20	£936.76	£5.20
B788	216	14S	£1,115.12	£5.16	£936.76	£4.34
A359	336	14S	£1,115.12	£3.32	£936.76	£2.79
A388	469	14S	£1,115.12	£2.38	£936.76	£2.00

9.6 European passenger charges

9.6.1 The European destination passenger charge was reduced in 2017 in order to stimulate demand. This was required as there was a notable imbalance in the load factors on flights to European destinations when compared with flights to Non-European destinations. Since the introduction of the reduction in 2017 and prior to COVID-19, the European load factor had increased by 3 percentage points.

9.6.2 Pre COVID-19, the IATA average load factor figure for 2019 was 81.9%²¹. As shown in the table below, European destination load factors at Heathrow were lower than average while Non-European load factors remained close to the global IATA average. COVID-19 volatility continues to impact this metric however indicative data from 2022 suggests a continuation of the pre COVID-19 trend.

European/Non-European load factors²²

Year	European	Non-European	Δ
2012	70.70%	80.10%	9.40%
2013	71.70%	80.60%	8.90%
2014	73.20%	79.70%	6.50%
2015	73.50%	79.30%	5.80%
2016	73.60%	78.10%	4.50%
2017	75.30%	80.60%	5.30%
2018	76.65%	81.27%	4.62%
2019	76.61%	82.78%	6.17%
2020	56.42%	44.64%	-11.78%
2021	55.65%	37.84%	-17.81%
2022 Jan - Jul	70.90%	73.72%	2.82%
Av	70.38%	72.60%	2.22%

9.6.3 Similar to domestic destinations, it is reasonable to expect that a European destination total ticket price is more open to influence by smaller modulations in

²¹ <https://www.iata.org/contentassets/a686ff624550453e8bf0c9b3f7f0ab26/wats-2019-mediakit.pdf>

²² Data Source: Heathrow passengers database

Heathrow’s passenger charges when compared with Rest of World destinations where Heathrow’s charges represent a significantly lower percentage of the overall ticket price. We therefore intend to maintain the modulation between European and Non-European departing passenger charges.

9.7 Rest of the World passenger charges

9.7.1 There are no proposed changes to Rest of the World charges.

9.8 Transfer and transit passenger charges

9.8.1 Heathrow currently has a discount applied to departing passenger charges for passengers transferring or transiting through the airport. This discount was introduced to encourage transfer passengers to travel through Heathrow to support the hub status of the Airport. The key to any hub is to have a good mix of transfer and origin and destination passengers, to feed the entire network. Doing so is beneficial for all airlines in maintaining the hub network and ensuring airport assets are used as efficiently as possible.

9.8.2 The following table sets out a summary of the level of transfer/transit passengers at Heathrow:

Transfer/transit levels 2012-2022²³

Period	Total Passengers	Transfer/transit Passengers	Transfer/transit Passengers %
2012	69,985k	19,199k	27.40%
2013	72,333k	19,479k	26.90%
2014	73,375k	19,966k	27.20%
2015	74,959k	19,754k	26.40%
2016	75,676k	19,500k	25.80%
2017	78,040k	19,588k	25.10%
2018	80,102k	19,895k	24.80%
2019	80,900k	18,577k	23.00%
2020	22,111k	4,572k	20.61%
2021	19,395k	3,113k	16.05%
2022 YTD	32,386k	6,102k	18.84%

9.8.3 As the above table shows, transfer/transit passengers continue to make up a significant proportion of Heathrow’s passenger volume, despite COVID-19 volatility in 2020 and 2021 and remain key to the hub operation, providing benefit to the connecting network. In some cases, transfer/transit passengers are vital to route viability. Whilst transfer/transit passenger volumes reduced as Heathrow operated at capacity, as traffic volumes recover, to continue to incentivise transfer

²³ Data source: ADB Heathrow Airport Limited

and transit traffic we will retain the current discounts and do not propose any changes to these for 2023.

9.9 Seasonal passenger charge - temporary suspension

9.9.1 Heathrow introduced seasonality across all passenger charges in 2020 to address the periods where the majority of empty seats across the year were held. This was suspended as a result of COVID-19 disruption which continues to impact Heathrow and therefore, the suspension will remain in place.

9.10 Cargo charging

9.10.1 Cargo is a core component of airline decision making and of their economic success, driving revenue through volume and yield growth. The presence of belly cargo underpins many passenger routes and is particularly important to the success of new routes. Our cargo-only airlines provide vital additional capacity and the ability to fly express or specialist products to and from the airport. In support of Heathrow's role as a passenger and cargo hub, many airlines use Heathrow as their European hub, trucking – or flying – cargo to and from the continent to Heathrow.

Cargo ATMs – weight based cargo charge

9.10.2 Currently, cargo movements are charged using the same structure as passenger movements, in that they pay the departing passenger, movement and parking charges as if they were a passenger movement. As cargo movements do not carry any passengers on board, it results in the application of the Minimum Departure Charge (MDC) to all cargo departures, which is essentially a set sum applied to cargo departures that does not take into account any specific aspects of the cargo load or wider cargo economy.

9.10.3 We are proposing to change the way that cargo movements are charged to better reflect the true nature of a cargo versus passenger movement and any changes in the cargo environment and furthermore, to support the principle of incentivising the best use of airport infrastructure and assets from all airport users.

9.10.4 The weight-based cargo charge proposed consists of a charge per tonne, applicable to all cargo tonnage loaded or unloaded from any aircraft at Heathrow Airport. Airlines provide details of that tonnage via messages as detailed in Schedule 1 of the Heathrow Conditions of Use.

9.10.5 We propose to apply a flat charge for 2023 of £40 per metric tonne which, compared to prior year charges, is set at a level that is below the average and incentivises use of our facilities and encourages cargo at Heathrow.

9.10.6 We will continue to ensure that infrastructure is effectively used and cargo is treated equivalently.

Cargo ATMs – minimum cargo charge

9.10.7 In line with the change to weight-based cargo charge set out above, we also propose to change the application of the minimum departure charge for cargo-

only movements from one based on passenger loads to one based on cargo loads.

9.10.8 The Minimum Cargo Charge (MCC) would, in line with the way that the minimum departing passenger charge is structured, set out a minimum load, in this case tonnage, that the aircraft would be expected to carry so as to incentivise the best use of airport infrastructure and assets.

9.10.9 The MCC would apply on both arrivals and departures and would not apply to passenger ATMs.

9.10.10 The current distribution of cargo tonnage across destinations is shown in the table below:

Destination	2021 tonnage (CATMs)	% of total	Proportion of tonnage over 30 mt per CATM ²⁴
UK/CTA	1,915	0.3%	2%
European	81,920	12.7%	45%
RoW	561,909	87.0%	44%

9.10.11 In order to incentivise fuller aircraft which makes better use of the airport infrastructure and based on the information in the table above which highlights that nearly 50% of cargo in 2021 already travels in movements which carry over 30 tonnes, we are proposing to set the minimum charge at the tonnage levels contained in the table below.

9.10.12 The data set out in the table above clearly demonstrates that RoW and European cargo operations have a similar profile. We therefore propose that the MCC structure is split into 2 categories with the following minimum cargo loads:

Destination	Charge on:	Minimum cargo tonnage load	MCC total
Domestic/CTA	Arrival & departure	10 t	£400
European/RoW	Arrival & departure	30 t	£1,200

Passenger ATMs (PATM) – weight-based cargo charge

9.10.13 Currently, passenger movements do not incur any charge for arriving or departing cargo contained in the belly hold. As we propose to introduce a weight-based cargo charge for CATMs, and to ensure we continue to charge in an equivalent manner for cargo and passenger flights, we propose to charge on the same basis for cargo flown in PATMs. This means that each tonne of cargo loaded or unloaded on a PATM at Heathrow Airport is proposed to be subject to a charge of £40/per metric tonne.

9.10.14 The revenue earned through the weight-based cargo charges for PATMs would form part of the recovery of the MAY. This means Heathrow would not make

²⁴ Heathrow cargo tonnage data

any incremental revenue by introducing a weight-based cargo charge for PATMs. We propose that any revenue generated from PATM weight-based cargo charges would be apportioned equally across all tariffs, driving reductions in passenger, movement, and parking charges. As set out in paragraph 9.2 (above), we estimate that 2.6% of MAY would be recovered through the weight-based cargo charge on PATMs.

9.10.15 As these movements are passenger ones, the current MDC will continue to apply and the MCC will not.²⁵

9.10.16 The proposed changes to cargo charging for both CATM and PATM are summarised in the table below:

CHARGE TYPE		PATM WITHOUT CARGO		PATM WITH CARGO		CATM (CARGO ONLY)	
CURRENT	PROPOSED	CURRENT	PROPOSED	CURRENT	PROPOSED	CURRENT	PROPOSED
Minimum Departure Charge	Minimum Departure Charge	✓	✓	✓	✓	✓	✗
	Minimum Cargo Charge	✗	✗	✗	✗	✗	✓
	Weight-based charge (per tonne)	✗	✗	✗	✓	✗	✓ ²⁶

9.11 Standardisation of noise chapters

9.11.1 Heathrow 2.0 sets out our aim to “reduce the number of people highly sleep disturbed and highly annoyed compared to 2019” and we are committed to working with airlines and other key stakeholders to achieve this.

9.11.2 In 2017, we introduced a new structure of environmental charges, recognising the implementation of the chapter 14 noise classification and the continuing requirement to incentivise airlines to bring their quietest in class aircraft to Heathrow Airport. As airline fleets have been updated, we have continued to incentivise use of best-in-class aircraft and improved environmental and noise performance by introducing a new chapter 14 super low charging category in 2022.

9.11.3 These charges have been successful in incentivising the use of quieter aircraft at Heathrow, as shown in the table below. During the Covid-19 pandemic, drastically reduced schedules allowed airlines to deploy their quietest and cleanest aircraft. As passenger and movement numbers continue to recover, we anticipate that the proportion of operations in chapters 14 low and chapter 14 super low may reduce for a limited period.

²⁶ For tonnage above the Minimum Cargo Charge (MCC) threshold

Noise performance per chapter 2016-2022²⁷

% Mix	2016	2017	2018	2019	2020	2021	2022 H1
Chapter 3	0.1%	0.1%	0.1%	0.0%	0.1%	0.0%	0.1%
Chapter 4 high	12.8%	11.2%	8.8%	8.9%	6.6%	4.6%	3.7%
Chapter 4 base	27.6%	28.6%	28.6%	25.7%	22.4%	17.5%	16.6%
Chapter 14 high	8.8%	8.6%	7.6%	8.4%	8.6%	10.3%	7.9%
Chapter 14 base	35.9%	35.4%	34.0%	30.5%	25.2%	23.4%	30.4%
Chapter 14 low	14.8%	16.2%	21.0%	26.6%	37.1%	44.2%	5.2%
Chapter 14 super low							36.1%

9.11.4 During our 2022 airport charges engagement and through bilateral meetings with airlines, we received feedback regarding the structure of our noise charges. Some airlines said that:

- the intervals between noise chapter multipliers were not consistent;
- as a result, the modulation between certain noise chapters was considered too steep; and
- it was difficult to predict future charges and which may impact on their longer term fleet planning.

9.11.5 In response to this feedback, we propose to amend:

- the category names to ensure future clarity as quieter fleets would otherwise require the creation of additional noise categories;
- the multipliers which define the price differentials between each noise category to smooth out the relative impact of different aircraft and align with the strategic objectives articulated in Heathrow 2.0; and
- the names and multipliers of the noise categories with the ‘effective perceived noise in decibels’ (EPNdB) noise bandings moving in the future as the fleet mix operating at Heathrow Airport changes and technology advances.

Proposed naming convention and banding multipliers

EPNdB	Current 2022		Proposed 2023	
	Name	Multiplier	Name	Multiplier
Less than 10	Chapter 3	3.00	Ultra-high	8.0
Less than 15	Chapter 4 high	1.30	Super high	4.0
Less than 17	Chapter 4 base	0.85	High	2.0
Less than 20	Chapter 14 high	0.56	Base	1.5
Less than 23	Chapter 14 base	0.40	Low	1.0
Less than 26	Chapter 14 low	0.24	Super low	0.7
26 or more	Chapter 14 super low	0.17	Ultra-low	0.4

9.11.6 As set out above, we propose a trigger mechanism which would give airlines future predictability as to when there will be a change in EPNdB bandings. Our initial view is that this change would happen when the “Ultra-Low” category

²⁷ Data source: Heathrow billing data, based on provided noise certificates

reaches 50% of actual ATMs (both cargo and passenger) at Heathrow Airport. An example of how the bandings would change is set out below:

9.11.7 When the trigger point is reached, all noise bandings would increase by 3EPNdB in the year following the trigger occurrence i.e. if ATMs exceed 50% in the Ultra-Low category in 2024, EPNdB bands will shift in 2025 as set out in below table:

Proposed chapter name	EPNdB bands 2024	EPNdB bands after ATM trigger 2025
Ultra-high	Less than 10	Less than 14
Super high	Less than 15	Less than 17
High	Less than 17	Less than 20
Base	Less than 20	Less than 23
Low	Less than 23	Less than 26
Super low	Less than 26	Less than 29
Ultra-low	26 or more	29 or more

9.11.8 To be consistent with the CAA’s recommendations for standardised 3 or 5 EPNdB bandings, at the first occurrence of the trigger event, we would adjust the Ultra-High banding from ‘less than 15’ to ‘less than 14’. By doing this we would achieve a consistent 3EPNdB differentiator across all bandings.

9.11.9 We would keep the trigger threshold under review to ensure that Heathrow complies with any forthcoming noise objectives set by Government and that the proposal was having the desired effect.

9.11.10 By promoting better long term airline fleet procurement, this proposal is aligned to Heathrow’s commitment to work with airlines and continue to achieve improved environmental performance and reduce the impact that noise has on the communities neighbouring the airport.

9.11.11 There are no proposed changes to the EPNdB bandings for 2023.

9.12 Sustainable aviation fuel incentive acceleration

9.12.1 Climate change is possibly the greatest long-term challenge faced by aviation. There are different solutions which can contribute to decarbonising flying but it is widely accepted that sustainable aviation fuels (SAF) will play a significant role.

9.12.2 At Heathrow, our assessment shows that SAF is central to achieving net zero and we want to be a leading hub for its development and deployment. To this end, in 2022 we introduced a multi-year sustainable fuel incentive, recovered via the Emissions charge. The SAF incentive is designed to reduce the high-cost premium of SAF compared to standard aviation fuel and encourage investment in

SAF production, which in turn will help reduce the SAF premium and encourage further take up.

9.12.3 Our 2022 Airport Charges Decision Document set out details of a 4-year scheme which covers 50% of the SAF cost premium to reach a SAF mix at Heathrow of 0.5% in 2022 and increasing to 1% in 2023 and 2% in 2024 to reach 4% by 2025. The SAF incentive pot for 2022 was oversubscribed and we have received positive feedback from airlines and wider industry regarding the scheme. Further, we are currently on track to exceed the 0.5% SAF mix target we set out in 2022.

9.12.4 This positive momentum, coupled with the increased supply of SAF in key supplier markets in Western Europe, has encouraged us to consider increasing the scheme ambition for 2023. As such, we propose to increase the SAF mix target for 2023 from 1% to 1.5%.

9.12.5 The incentive pot proposed for 2023 is now £37m and this has been calculated using the assumed fuel requirements for Heathrow as a whole, applying a 1.5% target SAF mix, multiplying by a SAF price premium of £920²⁸ and then adjusted to reflect 50% of the premium. The table below outlines the amended proposal:

	2022	2023 current	2023 new proposal
SAF Mix	0.5%	1.0%	1.5%
Incentive pot	£10m	£23m	£37m
SAF premium	£920	£920	£920
Contribution	50%	50%	50%

9.12.6 As in 2022, the SAF incentive pot will continue to be recovered via the NO_x emissions charge.

9.12.7 We recognise that this increase in the NO_x emissions charge will drive additional revenue outside the MAY due to cargo ATM charges. As a result, we propose to create a SAF incentive pot for cargo operators. Based on the forecast incremental increase in NO_x charges for cargo operators driven by the SAF incentive, this will amount to £0.62m. The mechanism and rules of the incentive will be the same as for passenger carriers.

9.12.8 In 2022, the SAF incentive pot was apportioned to airlines using the Available Seat Kilometres (ASK) metric. For 2023, we propose to replace the ASK with Revenue Passenger Kilometre (RPK). The RPK metric provides a measure of seats that have been flown and occupied by passengers, rather than just flown. As the SAF incentive objective is to reduce the impact that aviation has on the environment, by using RPK as the baseline for apportionment, we incentivise airlines to lower emissions per passenger. In similar way, for Cargo SAF incentive pot apportion we will use Revenue Tonne Kilometre (RTK)

²⁸ Based on SAF cost at 3x kerosene; kerosene base price = \$650USD per metric tonne

9.13 Noise/NOx ratio amendment

9.13.1 Recognising the increased focus on emissions in particular, by the UK Government²⁹ which has resulted in the Jet Zero strategy - the framework and plan for achieving net zero aviation by 2050, Heathrow would like to rebalance the ratio of movement charges recovered between noise and NOx. The uplift of SAF fuel is incentivised at Heathrow through the SAF scheme detailed above, and increased SAF uptake is expected to drive reductions in carbon emissions. However, NOx released by aircraft, also contribute to global warming as well as negatively impacting local air quality. We would therefore like to reflect our commitment to the reduction of NOx emissions within the pricing structure.

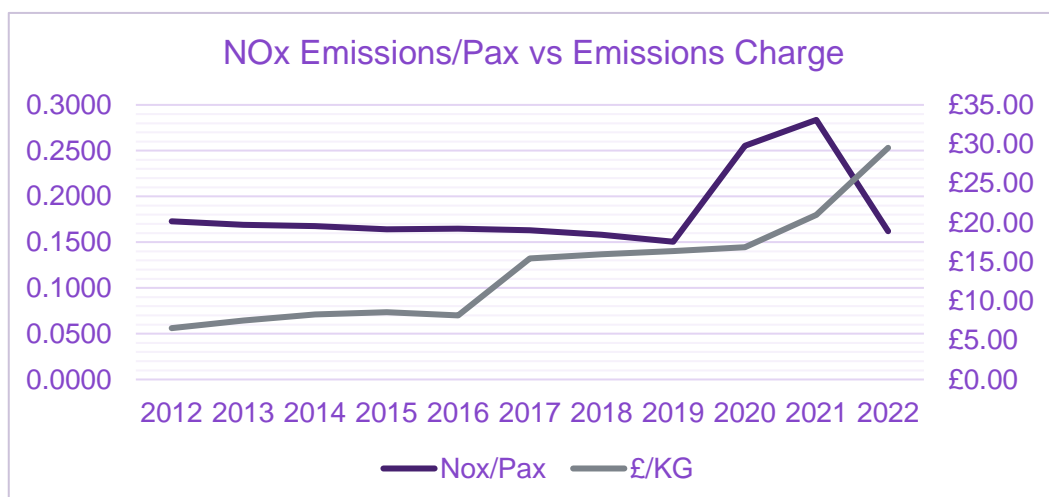
9.13.2 In 2022:

- 20% of the movement charge was recovered through NOx charges on landing; and
- 80% was recovered through Noise charges on landing and departure.

9.13.3 These charges are an effective incentive for reducing NOx levels and attracting the quietest in class aircraft at Heathrow Airport.

9.13.4 Our Heathrow 2.0 plan sets out an ambition to reduce airside NOx emissions by 18% by 2030 compared to 2019. To drive this reduction, we propose to increase the percentage of charges that we recover via NOx charges from 20% to 40%. As a result, the percentage recovered via noise charges would reduce from 80% to 60%.

9.13.5 There was a 4.6% reduction in NOx per pax in the 4 years to 2016 and following a ~90% increase in the NOx charge in 2017, there was an 8.7% reduction in NOx per pax over the next 3 years demonstrating the impact that the increased charge had in driving an acceleration in the reduction of emissions at Heathrow and that this proposal is likely to result in reduced emissions.



²⁹ Jet Zero strategy: delivering net zero aviation by 2050 - GOV.UK (www.gov.uk)

10 Calculating airport charges tariffs for 2023

10.1 Overview

10.1.1 The following steps have been applied to calculate the individual tariffs for 2023.

10.1.2 The forecast maximum allowable yield for 2023 is £31.920 per passenger.

10.1.3 Heathrow does not propose to make any significant adjustments to the charge proportions across which we recover the maximum allowable yield (MAY), however the introduction of a weight-based cargo charge will result in the rebalancing of all charges as set out in paragraph 9.2.1. Therefore, the charges are proposed to be recovered through the following apportionment: Passenger 54.5%, Movement 39.2%, Parking 3.7% and Cargo 2.6%.

10.2 Passenger charges

10.2.1 The 2023 MAY uses a passenger forecast of 65.2 million.

10.2.2 In 2023, passenger charges comprise charges for Origin & Destination and Transfer & Transit passengers which are then split by destination group (Domestic, European, CTA and RoW). As in 2022, these proposed charges have removed seasonality (see table below).

Pax charge table	Destination	2023 Single Tariff
O&D	Domestic	£14.11
O&D	European	£21.61
O&D	CTA	£14.36
O&D	RoW	£52.86
Transfer	Domestic	£10.58
Transfer	European	£16.21
Transfer	CTA	£10.77
Transfer	RoW	£39.65

10.2.3 The departure charge is calculated by reference to the set baseline charge then apportioned out based on transfer, UK connectivity discount, CTA differentiator and European routes charge.

10.2.4 Step 1 is to set the baseline charge which is determined by the departing passenger revenue required. This baseline is then apportioned out based on a multiplier to the individual destination groups. The multiplier applied for transfer passengers is reduced to 75%.

10.2.5 Step 2 is only applicable to the flights which are eligible for a Domestic connectivity discount of £7.50. The Domestic connectivity discount has the appropriate transfer multiplier applied as defined above to determine the final connectivity discount for the fare. This means that an O&D passenger receives the full £7.50 discount whereas transfer passengers receive a proportion of the £7.50 discount.

10.2.6 Step 3 is only applicable to flights which are eligible for a CTA differentiator of £0.25. The CTA differentiator has the appropriate transfer multiplier applied as defined above to determine the final additional differential for the fare. This

means that an O&D passenger receives the full additional £0.25 differential whereas transfer passengers receive a proportion of the additional £0.25 differential.

10.2.7 Heathrow proposes to maintain the emphasis on environmental performance with movement charges making up a larger proportion of recovery of the MAY as articulated in 10.1.3.

10.2.8 Step 4 is only applicable to European flights. The relevant European load factor price has the appropriate transfer multiplier applied as defined above to determine the final additional differential for the fare. This means that an O&D passenger receives the full £10 whereas transfer passengers receive a proportion of the £10.

10.2.9 The final step is to deduct the applicable Domestic connectivity discount (Step 2) and, add the CTA differentiator (Step 3) and deduct the European load factor reduction (Step 4) from the value calculated in Step 1.

10.2.10 No change to remote stand rebate, held at £4.00 per passenger.



10.3 Movement

10.3.1 The applicability of movement charges remains unchanged, where airlines will incur a movement charge for both take-off and landing. The proposed changes to these charges are covered in section 9, above.

10.3.2 The movement charge is calculated with reference to the set baseline charge then apportioned out based on the multiplier. The first step is to set the baseline charge which is determined by the environmental and noise revenue required. This baseline is then apportioned out based on a multiplier to the individual noise chapters, this multiplier is set by reference to weightings which are structured to incentivise the cleanest, quietest fleet. The actual charge will be calculated by multiplying the baseline charge against the multiplier.

10.3.3 The balancing of environmental charges is proposed to change so that 60% of the total environmental charge is recovered through noise charges and 40% of

the total environmental charge is recovered through NOx charges, as covered in paragraph 9.13, above.

10.4 Parking

10.4.1 There are no proposed amendments to either the parking charge multiplier or the ratio of narrow to wide body.

10.5 Cargo

10.5.1 The revenue requirement has been determined by multiplying the cargo price per tonne with the tonnage forecast for PATMs.

11 Forecast revenue for 2023

	Traffic Volume Units	Traffic Volume	Proposed Charge	Forecast Revenue
Movement Charge				
Noise Charge				
<u>Day Charge</u>				
Ultra high	[Landings]	0	£9,367.60	£0
Super High	[Landings]	13,019	£4,683.80	£60,980,017
High	[Landings]	28,209	£2,341.90	£66,063,286
Base	[Landings]	8,602	£1,756.43	£15,108,931
Low	[Landings]	38,826	£1,170.95	£45,462,781
Super Low	[Landings]	13,231	£819.67	£10,844,808
Ultra Low	[Landings]	98,180	£468.38	£45,985,476
Total	[Landings]	200,067		£244,445,299
<u>Day Charge</u>				
Ultra high	[Departures]	0	£9,367.60	£0
Super High	[Departures]	13,019	£4,683.80	£60,980,017
High	[Departures]	28,209	£2,341.90	£66,063,286
Base	[Departures]	8,602	£1,756.43	£15,108,931
Low	[Departures]	38,826	£1,170.95	£45,462,781
Super Low	[Departures]	13,231	£819.67	£10,844,808
Ultra Low	[Departures]	98,180	£468.38	£45,985,476
Total	[Departures]	200,067		£244,445,299
<u>Night Charge</u>				
Ultra high	[Landings]	0	£46,838.00	£0
Super High	[Landings]	1	£23,419.00	£23,419
High	[Landings]	6	£11,709.50	£70,257
Base	[Landings]	3	£8,782.15	£26,346
Low	[Landings]	15	£5,854.75	£87,821
Super Low	[Landings]	15	£4,098.35	£61,475
Ultra Low	[Landings]	10	£2,341.90	£23,419
Total	[Landings]	50		£292,738
<u>Night Charge</u>				
Ultra high	[Departures]	0	£46,838.00	£0
Super High	[Departures]	1	£23,419.00	£23,419
High	[Departures]	6	£11,709.50	£70,257
Base	[Departures]	3	£8,782.15	£26,346
Low	[Departures]	15	£5,854.75	£87,821
Super Low	[Departures]	15	£4,098.35	£61,475
Ultra Low	[Departures]	10	£2,341.90	£23,419
Total	[Departures]	50		£292,738
Emissions Charge on landing				
Total kg Nox rating	[kg]	4,702,044	£77.27	£363,326,955
Average kg Nox per landing	[kg]	23.5		£363,326,955
SAF Incentive				-£37,000,000
Total Movement Revenue	(a)			£815,803,029

Departing Passenger Charge				
Departing OD Passenger Charge				
European charge with dual discount	[Dep Pax]	1,113,821	£14.11	£15,716,015
CTA	[Dep Pax]	914,152	£14.36	£13,127,220
European charge with single discount	[Dep Pax]	9,836,417	£21.61	£212,564,976
Other	[Dep Pax]	13,362,006	£52.86	£706,315,663
Total	[Dep Pax]	25,226,397		£947,723,874
Departing Transfer Passenger Charge				
European charge with dual discount	[Dep Pax]	585,465	£10.58	£6,194,217
CTA	[Dep Pax]	229,289	£10.77	£2,469,445
European charge with single discount	[Dep Pax]	2,102,834	£16.21	£34,086,941
Other	[Dep Pax]	3,957,220	£39.65	£156,903,783
Total	[Dep Pax]	6,874,808		£199,654,387
Remote Stand Rebate				
Remote Stand Rebate	[Dep Pax + Arr Pax]	3,580,915	-£4.00	-£14,323,662
Total Departing Passenger Charge Revenue	(b)			£1,133,054,598

Parking Charge				
Narrow bodied				
Chargeable Period	[Units of 15 minutes]	556,976	£35.97	£20,034,434
Wide bodied				
Chargeable Period	[Units of 15 minutes]	763,358	£75.54	£57,664,032
Total Parking Charge	(c)	1,320,334		£77,698,466

Cargo charge				
Cargo	[tonnage]	1,320,260	£ 40.00	£52,810,393
Total Cargo Flights Revenue	(d)			£52,810,393

Terminal Pax Flights: Total Revenue	£2,079,366,487
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Non-Terminal Pax Flights (GA, Troops etc)				
Non-Terminal Pax Flights				
Movement Revenue	(e)			£1,166,061
Departing Passenger Revenue	(f)			£1,687,247
Parking Revenue	(g)			£113,768
Total Non-Terminal Pax Flights Revenue				£2,967,077

Total Regulated Revenue				
Total Regulated Revenue				
Movement Revenue	(a) + (e)			£816,969,090
Departing Passenger Revenue	(b) + (f)			£1,134,741,846
Parking Revenue	(c) + (g)			£77,812,234
Cargo Revenue	(d)			£52,810,393
Total Regulated Revenue				£2,082,333,563
Total Passengers				65,233,191
Total Regulated Yield				£31.920

12 Proposed airport charges tariffs effective 1 Jan 2023

	Final 2023 £ GBP	Final 2022 £ GBP
Charges on Movement		
Day Charge (Departures & Landing)		
Ultra high	£9,367.60	£9,839.34
Super High	£4,683.80	£4,263.71
High	£2,341.90	£2,787.81
Base	£1,756.43	£1,853.08
Low	£1,170.95	£1,321.75
Super Low	£819.67	£793.71
Ultra Low	£468.38	£557.56
Night Charge (Departures & Landing)		
Ultra high	£46,838.00	£49,196.70
Super High	£23,419.00	£21,318.55
High	£11,709.50	£13,939.05
Base	£8,782.15	£9,265.40
Low	£5,854.75	£6,608.75
Super Low	£4,098.35	£3,968.55
Ultra Low	£2,341.90	£2,787.80
Emissions charge (on landing)	£77.27	£29.53
Charges on Departing Passengers		
Origin and Destination		
European charge with dual discount <i>(with EU load factor and UK connectivity discount)</i>	£14.11	£13.42
Common Travel Area	£14.36	£13.67
European charge with single discount <i>(with EU load factor discount)</i>	£21.61	£20.92
Other	£52.86	£54.91
Transfer and Transit		
European charge with dual discount <i>(with EU load factor and UK connectivity discount)</i>	£10.58	£10.07
Common Travel Area	£10.77	£10.26
European charge with single discount <i>(with EU load factor discount)</i>	£16.21	£15.70
Other	£39.65	£41.18
Remote Stand Rebate	-£4.00	-£4.00
Minimum charge - Domestic	£0.00	£778.36
Minimum charge - Common Travel Area	£861.60	£820.20
Minimum charge - European	£1,663.97	£1,610.84
Minimum charge - Other	£2,643.00	£2,745.50

Charges on aircraft parking		
Narrow bodied	£35.97	£29.38
Wide bodied	£75.54	£61.70

Charges on cargo		
Cargo tonnage	£40.00	-
Minimum cargo charge - Domestic	£400.00	-
Minimum cargo charge - Common Travel Area	£400.00	-
Minimum cargo charge - European	£1,200.00	-
Minimum cargo charge - Other	£1,200.00	-

13 Future consultation direction

13.1 Influencing operational performance

13.1.1 As the COVID-19 pandemic has disrupted aviation operations around the world, Heathrow experienced varying degrees of performance regarding some key operational metrics which drive both financial consequences but also operational outcomes.

13.1.2 As a result, we would welcome additional feedback on the possibility of building into the charges regime, measures based on operational performance in advance of the 2024 airport charges process. The aim of this would be to incentivise the most efficient use of the airport and reduce both disruption and costs, which would benefit the entire airport community.

13.1.3 To that end, we would like to understand whether there is any early airline feedback on the potential for future charges being linked to operational metrics such as:

- Check in transaction times;
- Failure to tip;
- Digital process improvement;
- Arrivals and/or departures punctuality; and
- Baggage delivery.

13.1.4 Please note that this list is not exhaustive and we would welcome any additional areas that you would consider worthwhile exploring.

14 Financial and traffic information

14.1 Traffic statistics and charging parameters

14.1.1 The actual traffic statistics from 2008/09 to 2021 are set out below to provide more detailed data on those elements of the traffic mix at Heathrow airport which affect the airport charges yield per passenger.

14.2 Regulatory accounting information

14.2.1 Heathrow is a privately-owned company and a summary of its regulatory accounts are presented for the 12-month period to 31 December 2021. These accounts compare the airport's financial performance for the year ended 31 December 2021 to the year ended 31 December 2020.

14.2.2 The regulatory accounts include revenue and cost comparison, and calculations of the Regulated Asset Base.

14.2.3 The full regulatory accounts and annual reports are available from <http://www.heathrow.com/company/investor-centre/regulation/regulatory-accounts>.

£million (unless otherwise stated)	Section	2021	2020	Variance	%
Total Passengers (thousands)	2	19,393	22,110	(2,717)	(12%)
Revenue	3				
Airport Charges		554	647	(93)	(14%)
Other Revenue		647	512	135	26%
Total Revenue		1,201	1,159	42	4%
Expenditure	4				
Operating costs		(832)	(911)	79	(9%)
Assumed ordinary depreciation		(869)	(830)	(39)	5%
Total expenditure		(1,701)	(1,741)	40	(2%)
Regulatory operating loss (before exceptional operating costs)		(500)	(582)	82	(14%)
Exceptional operating costs	5	(31)	(184)	153	(83%)
Regulatory operating loss		(531)	(766)	235	(31%)
Capital expenditure	6	289	424	(135)	(32%)
Opening RAB	7	16,492	16,598	(106)	(1%)
Closing RAB	7	17,474	16,492	982	6%
Average RAB		16,983	16,545	438	3%
Return on average RAB		(3.13%)	(4.63%)	1.50%	(32%)

14.3 Passenger only flights – actual and forecast

	Actual															Actuals 2022 Jan-Jul	H7 Mid 2022 Jan - Dec
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014 Apr - Dec	2014 Jan - Dec	2015 Jan - Dec	2016 Jan - Dec	2017 Jan - Dec	2018 Jan - Dec	2019 Jan - Dec	2020 Jan - Dec	2021 Jan - Dec		
Arriving Passengers	33,055,283	33,167,916	33,282,772	35,092,421	35,305,114	36,597,073	28,931,264	37,099,981	38,007,791	38,366,587	39,412,880	40,462,508	40,942,699	11,182,236	9,875,569	16,495,199	27,621,189
Departing passengers																	
Origin and destination	14,688,784	14,661,948	14,743,673	11,716,309	11,661,207	12,079,601	9,626,253	12,265,144	12,624,009	12,741,755	13,174,509	13,668,591	13,930,655	4,308,040	4,238,098	6,122,558	10,826,453
Europe	18,185,232	18,302,809	18,084,452	14,213,133	13,699,869	14,069,905	11,034,173	14,113,855	14,531,642	14,903,829	15,695,509	16,105,068	16,805,579	4,356,843	3,731,841	6,746,984	11,220,461
Other																	
Transfer passengers																	
Europe	Transfer passengers not separately identified			3,856,432	4,028,131	4,081,838	3,307,956	4,220,781	4,299,434	4,274,123	4,346,998	4,306,358	3,973,195	1,003,570	706,383	1,372,841	2,319,851
Other				5,172,212	5,579,652	5,585,627	4,439,514	5,675,064	5,496,182	5,389,922	5,358,837	5,559,489	5,234,538	1,259,014	841,254	1,646,444	2,420,721
Transit passengers																	
Europe	1,859	2,834	1,623	646	1,462	1,293	699	1,103	349	3,757	1,258	2,617	1,371	476	319	1,218	n/a
Other	160,859	119,384	96,303	47,738	47,004	34,106	25,337	32,467	30,625	35,273	24,126	21,686	2,503	479	1,570	588	n/a
Departing passengers	33,036,734	33,086,975	32,926,051	35,006,470	35,017,325	35,852,370	28,433,932	36,308,414	36,982,241	37,348,659	38,601,237	39,663,809	39,947,841	10,928,422	9,519,465	15,890,633	26,787,486
Total terminal passengers	66,092,017	66,254,891	66,208,823	70,098,891	70,322,439	72,449,443	57,365,196	73,408,395	74,990,032	75,715,246	78,014,117	80,126,317	80,890,540	22,110,658	19,395,034	32,385,832	54,408,675
PATMs	467,130	453,780	453,938	473,761	464,686	467,779	356,773	468,359	469,671	470,764	471,082	472,744	473,235	177,281	160,744	199,410	362,543
UK (departing - origin and destination)	Transfer passengers not separately identified			1,363,803	1,370,661	1,508,293	1,212,869	1,558,413	1,480,713	1,340,789	1,367,353	1,345,333	1,440,158	464,594	606,054	523,376	988,153
UK (departing - transfers)				949,214	975,181	1,031,366	840,890	1,067,349	1,089,749	986,012	1,058,093	1,079,454	1,006,443	276,699	289,132	417,949	908,494
UK (departing - total)	2,741,311	2,573,120	2,460,251	2,313,017	2,345,842	2,539,659	2,053,759	2,625,762	2,570,462	2,326,801	2,425,446	2,424,787	2,446,601	741,293	895,186	941,325	1,896,647

