

Heathrow Airport

Airport Charges for 2011/12

Consultation Document

Date: 12th November 2010

Prepared by: Heathrow Airport Limited



Making every journey better.

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Executive Summary

This document sets out Heathrow Airport's proposals on the level of airport charges for 2011/12. Heathrow is proposing to set 2011/12 prices to recover the maximum allowable yield permitted by the Regulator. The forecast maximum allowable yield for 2011/12 is £17.443.

The proposed charges are in line with the five year price cap (2008/09 to 2012/13), which limits the increase in the price cap to $RPI + 7.5\%$ ¹. The following summary sets out the rationale for Heathrow's proposal to recover the forecast maximum allowable yield.

Heathrow is mid way through a programme to rebuild and refurbish the airport to improve facilities for passengers and airlines. This is essential to achieving Heathrow's vision of becoming UK's direct connection to the world and Europe's hub of choice by making every journey better. The capital programme has been extensively consulted on with the airline community.

The rate of increase allowed in the Q5 settlement reflected the need for Heathrow to be able to pay for the investment programme of around £5 billion during the five years to 31 March 2013. However, passenger volumes have fallen significantly short of the Q5 settlement forecast, leaving Heathrow with a material shortfall in income. Passenger numbers for the first two years to 31 March 2010 were 10.8 million or 7.6% lower than anticipated. In terms of income generated in the first two years of Q5 for airport charges (net) this meant a shortfall of £114.7 million or 5.9% than anticipated.

The lower passenger numbers has resulted in Heathrow achieving a much lower rate of return than was allowed for by the CAA in Q5. Although, there have been recent signs of partial recovery, with Heathrow experiencing its busiest month ever in July and its busiest August, passenger numbers for 2010/11 remain significantly below the level anticipated for Q5.

Issuing of this consultation document marks the start of the consultation process. Heathrow will be holding a formal consultation meeting on 1st December 2010 and will be seeking formal responses from the airline community by 10th December 2010. Heathrow then intends to announce its final decision, having considered all the comments received during the consultation period, on 22nd December 2010, for implementation from 1st April 2011.

¹ There are other components in the formula to calculate the forecast maximum allowable yield including triggers, bonus, and k factor.

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Chapter 1 – Introduction and Consultation Programme

Purpose

- 1.1 Heathrow consults every year with the airline community on setting the level of airport charges, applicable from 1st April. 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.
- 1.2 Heathrow is proposing to set airport charges for 2011/12 to recover the forecast maximum allowable yield.
- 1.3 This consultation document sets out the calculations for the 2011/12 forecast maximum allowable yield based on CAA's Q5 settlement, and how this translates into prices for airport charges based on the structure of airport charges announced on 29th October 2010.
- 1.4 Heathrow is inviting comments from the airline community on the proposal so that these can be considered when we make our final decision. Heathrow will be holding a consultation meeting on 1st December 2010, and will then announce the final level of prices for airport charges on 22nd December 2010.

Economic Regulation

- 1.5 Under the Airports Act 1986 the CAA is required to set the maximum amount that may be levied by Heathrow during successive five-year periods, known as quinquennia. The CAA published its final decision in March 2008 on the price caps which apply to the fifth quinquennium (Q5) from 2008/09 to 2012/13, which included the opening yield for 2008/09 and the necessary formula for calculating the maximum allowable yield for subsequent years.
- 1.6 2011/12 is the fourth year of the fifth *regulatory period* at Heathrow. The basis of the *price control regulation* is the application of the *RPI-X formula* to determine *the maximum airport charge revenue yield*.

Structural Changes to Airport Charges

- 1.7 Heathrow has been through a consultation process with the airline community on the review of airport charges structure. The final decision on the structure for airport charges was announced on 29th October 2010.
- 1.8 The price increases have been applied to the announced structure of airport charges following consultation. The price increase enables Heathrow to recover the 2011/12 forecast allowable yield.

Consultation Programme

- 1.9 Heathrow will be consulting on the level of charges with the airline community and will then announce its final prices on 22nd December 2010.
- 1.10 The publication of this consultation document on 12th November 2010 is the start of our consultation on the annual setting of airport charges for 2011/12.
- 1.11 The consultation programme is as follows:

Table 1

Date	Milestone
12 Nov 2010	HAL published consultation document on 2011/12 price proposals
1 Dec 2010	Formal consultation meeting
10 Dec 2010	Airline written responses due
22 Dec 2010	HAL announces 2011/12 prices
1 Apr 2011	Prices applicable from

- 1.12 Heathrow will be holding a formal consultation meeting on 1st December 2010 to give the airline community the opportunity to comment on the price proposals. The meeting will be open to all airlines and representative bodies.

Date: Wednesday 1st December 2010

Time: 10:00 to 12:00 (GMT)

Location: The Compass Centre
Nelson Road
Hounslow
Middlesex
TW6 2GW
UK

- 1.13 Please let us know if you would like to attend the consultation meeting using the contact details provided in the “how to respond” section.

How to respond

1.14 We will be holding a consultation meeting where interested parties can comment on the proposals.

1.15 We also invite interested parties to submit written responses to the proposals set out in this document by 10th December 2010. Responses should be sent to: airlinerelations@baa.com

1.16 Alternatively, comments may be posted to:

Airline Relations
The Compass Centre
Nelson Road
Hounslow
Middlesex
TW6 2GW
UK

Or, if you have any questions on the consultation document please contact airline relations on the above e-mail address.

1.17 The following chapters in this document set out the calculation of the 2011/12 forecast maximum allowable yield and the proposed airport charges for 2011/12.

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Chapter 2 – Calculating the Airport Charges Yield

Calculating the airport charge yield - The formula

2.1 Based on the final CAA decision document the following price formula has been used for calculation of the 2011/12 yield:-

$$M_{2011/12} = \left(1 + \frac{RPI_{t-1} + X + B_t}{100} \right) Y_{t-1} - \frac{TRIGGER_t}{Q_t} - K_t$$

Where :-

- $M_{2011/12}$ = maximum average revenue yield per passenger using Heathrow airport in relevant year (2011/12) expressed in £
- RPI_{t-1} = the percentage change (whether positive or negative in value) in the Retail Price Index between that published with respect to August in the relevant year t-1 and that published with respect to the immediately preceding August. For 2011/12 this would be the change from August 2009 to August 2010
- X = 7.5
- B_t = forecast bonus term in 2011/12
- Y_{t-1} = specified average revenue yield per passenger for the period t-1 (2010/11)
- $TRIGGER_t$ = reduction in maximum allowable charges when the airport has not achieved particular capital investment project milestones on time
- Q_t = forecast passengers using Heathrow airport in relevant year 2011/12
- K_t = correction factor (k factor) per passenger (whether of a positive or negative value)

Maximum allowable yield forecast 2011/12

2.2 The combined impact of all the elements of the formula results in a forecast 2011/12 maximum allowable yield of £17.443 (passenger only flights). The full details of the formula are shown below.

Specified average yield

2.3 The specified average revenue yield for 2010/11 is £15.663.

Specified yield 2008/09		£13.134
12 months RPI movement to August 08	4.800%	£0.630
X	7.500%	£0.985
Specified yield 2009/10		£14.749
12 months RPI movement to August 09	-1.300%	-£0.192
X	7.500%	£1.106
Specified yield 2010/11		£15.663

Bonus Term

2.4 The CAA has included a bonus term in the yield formula. This term is positive if performance on certain service quality measures exceed a specified service standard. The bonus term in any given year is based on forecast service quality for that year. As in previous years Heathrow has decided that no forecast bonus should be included in the yield calculation. B_t is set at 0% in the 2011/12 yield calculation. The bonus element of the formula will be calculated on actual performance and recovered through the k factor in subsequent years.

Triggers

2.5 All trigger projects due to be completed in 2008/09 have been completed, however T4 baggage sorter and T4-T1 tunnel refurbishment were not completed by their milestone dates so have therefore incurred trigger payments. The trigger payments were captured through the k factor for 2008/09 in the setting of airport charges for 2010/11 and through the k factor for 2009/10 in setting of airport charges for 2011/12.

2.6 All trigger projects due to be completed in 2009/10 have been completed. In setting airport charges for 2009/10, T4 check-in extension – South West Bank project was forecast not to be completed by its milestone date. Since setting the charges for 2009/10, T3 refurbishment of Pier 7 has not been completed by its milestone date. This was not captured in setting airport charges for 2009/10, but will be incorporated in the k factor for 2009/10 in setting airport charges for 2011/12.

2.7 Eastern Maintenance Base and T3 refurbishment of check-in and security search projects fall into the period for 2010/11, and both were forecast not to be completed by their milestone dates in setting airport charges for 2010/11. In addition, these projects will remain incomplete by their milestone dates into

2011/12. Therefore, setting airport charges for 2011/12 will capture those months that fall into this period.

- 2.8 Table 2 lists the projects and their forecast completion dates that are relevant for 2011/12. Two projects are forecast not to be completed by their milestone dates; (i) T2A Phase 1 demolition of T2 and (ii) Completion of Outer Pier North. The total trigger payment associated with these two projects is £7.0m.
- 2.9 In addition, Eastern Maintenance Base and T3 refurbishment of check-in and security search have completion milestone dates in the period of 2010/11. These two projects will not be complete by their milestone dates and will continue to incur trigger payments in setting airport charges for 2011/12 of £2.6m.
- 2.10 Therefore the total trigger payment associated with 2011/12 is £9.6m. The Q5 amount of trigger payments to 2011/12 is £13.6m.

Table 2

2011/12	Milestone month	Forecast Completion Date
T2A Phase 1 demolition of T2	Mar-11	May-11
Completion of Outer Pier North	Jan-12	Mar-13
T3 refurbishment of Immigration, landside departures and baggage hall refurbishment	Mar-11	Mar-11
Post T5 transfer baggage (T5-T3)	Nov-11	Nov-11
T2A phase 1 completion – Weather tight	Feb-12	Jan-12
Completion of T5 Satellite C	May-11	Jan-11
Projects carried forward into 2011/12		
Eastern maintenance base	Mar-10	Mar-13
T3 refurbishment of check-in and security search	Mar-10	Jul-11

K Factor

- 2.11 The k factor in the formula for 2011/12 increases the maximum allowable yield to compensate for the unanticipated under-recovery against the maximum allowable yield in 2009/10, together with an allowance for interest and an adjustment for PSDH. The k factor is £0.005 (after PSDH) and the calculation is shown in Chapter 3.

Passengers

- 2.12 Heathrow forecast passengers for 2011/12 are 71,045k.

Application of the Regulatory Pricing Formula

2.13 Based on the regulatory pricing formula, the forecast maximum allowable yield for Heathrow in 2011/12 is set out below.

$$M_{2011/12} = \left(1 + \frac{RPI_{t-1} + X + B_t}{100} \right) Y_{t-1} - \frac{TRIGGER_t}{Q_t} - K_t$$

Where :-

RPI _{t-1}	=	4.7	
X	=	7.5	
B _t	=	0.0	- this figure is a forecast
Y _{t-1}	=	£15.663	
Trigger _t	=	£9,654k	- this figure is a forecast
Q _t	=	71,045k	- this figure is a forecast
K _t	=	£0.005	- this figure is a forecast

Hence;

$$M_{2011/12} = \left(1 + \frac{4.7 + 7.5 + 0}{100} \right) 15.663 - \frac{9,654}{71,045} - (0.005)$$

$$M_{2011/12} = (1.122 * 15.663) - 0.136 - (0.005)$$

$$M_{2011/12} = 17.443$$

Charges in 2010/11

2.14 The forecast maximum allowable yield at Heathrow in 2010/11 was calculated at £15.284.

Specified yield 2008/09		£13.134
12 months RPI movement to August 08	4.800%	£0.630
X	7.500%	£0.985
Specified yield 2009/10		£14.749
12 months RPI movement to August 09	-1.300%	-£0.192
X	7.500%	£1.106
Bonus term	0.000%	£0.000
Trigger payments (000s)	£2,740	-£0.040
K factor from 2008/09 over recovery		-£0.339
Forecast 2010/11 maximum allowable yield		£15.284

Proposed pricing

- 2.15 Heathrow is proposing to set prices for 2011/12 to recover the forecast maximum allowable yield of £17.443 per passenger (details of the charges are shown in Chapter 7).
- 2.16 There will be a retrospective adjustment to reflect the underspend in PSDH on an ex-post basis. The underspend will be treated outside the maximum allowable yield by providing airlines with monthly rebates. The net rebate provided to airlines takes account of; (i) rebate for the full implied return in the regulatory settlement; and (ii) charge for the actual spend in the previous year on a ex-post approach. Details of the PSDH rebate are included in Chapter 5.

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Chapter 3 - Correction Factor for 2009/10

The Correction factor

- 3.1 The k factor sets out the level of over recovery or under recovery on a per passenger basis. This over recovery is when Heathrow exceeds the maximum allowable yield on a per passenger basis. The under recovery is when Heathrow does not achieve the maximum allowable yield on a per passenger basis. This over/under recovery generally reflects a change in mix of actual movements compared to the forecasts used to set the airport charges for that relevant year.
- 3.2 The k factor formula has a component to calculate the actual allowable yield, the k factor formula is shown below:

$$K_t = \frac{T_{t-2} - (Q_{t-2}M_{t-2})}{Q_t} \left(1 + \frac{I_{t-2}}{100}\right)^2$$

- 3.3 When setting prices for 2009/10 Heathrow agreed to price below the price cap by 7.4 pence reflecting that spend on Project for the Sustainable Development of Heathrow (PSDH) had not been as high as anticipated by the CAA at the time of the Q5 settlement for 2008/09. Full details of PSDH expenditure is shown in Chapter 5.
- 3.4 Therefore, 2009/10 actual maximum allowable yield has been adjusted to ensure Heathrow does not recover the 2008/09 underspend in PSDH. This adjustment is shown separately after the calculation of the actual maximum allowable yield.

Actual maximum allowable yield 2009/10 formula (Before PSDH adjustment)

3.5 The combined impact of all the elements of the formula results in 2009/10 actual maximum allowable yield of £14.658 (passenger only flights). The section below presents the components of the formula.

3.6 M_{t-2} relates to 2009/10 and is shown below:

$$M_{2009/10} = \left(1 + \frac{RPI_{t-1} + X + B_t}{100} \right) Y_{t-1} - \frac{TRIGGER_t}{Q_t} - K_t$$

Where: -

$M_{2009/10}$	=	actual maximum average revenue yield per passenger using Heathrow airport in relevant year (2009/10) expressed in £
RPI_{t-1}	=	August 2007 to August 2008
X	=	7.5
B_t	=	actual bonus factor in 2009/10
Y_{t-1}	=	£13.134
$TRIGGER_t$	=	actual reduction in maximum allowable charges when the airport has not achieved particular capital investment project milestones on time
Q_t	=	actual passengers using Heathrow airport in relevant year 2009/10
K_t	=	correction factor per passenger

Application of the Regulatory Pricing Formula (Before PSDH adjustment)

3.7 Based on the regulatory pricing formula, the actual maximum allowable yield in 2009/10 for the k factor is set out below.

$$M_{2009/10} = \left(1 + \frac{RPI_{t-1} + X + B_t}{100} \right) Y_{t-1} - \frac{TRIGGER_t}{Q_t} - K_t$$

Where: -

RPI_{t-1}	=	4.8
X	=	7.5
B_t	=	0.269
Y_{t-1}	=	£13.134
$TRIGGER_t$	=	£828k
Q_t	=	66,152k
K_t	=	0.114

Hence;

$$M_{2009/10} = \left(1 + \frac{4.8 + 7.5 + 0.269}{100} \right) 13.134 - \frac{828}{66,152} - 0.114$$

$$M_{2009/10} = (1.1257 * 13.134) - 0.013 - 0.114$$

$$M_{2009/10} = 14.658$$

3.8 The actual maximum allowable yield for 2009/10 is £14.658 (before PSDH adjustment).

3.9 The PSDH adjustment to the actual maximum allowable yield is shown from paragraph 3.21.

3.10 The components of the formula are explained in the following sections.

Bonus term

3.11 The regulatory pricing formula includes a bonus component for performance of certain service quality measures. Heathrow has decided that this will be recovered through the k factor. Therefore the 2009/10 actual performance is captured in the k factor for 2009/10 in setting airport charges for 2011/12. This approach will be subject to review in future years. The pricing formula set by the CAA is as follows:

$$B_t = \sum_{\text{MarchSpecified Elements}}^{\text{April}} \text{MAX}[0, \text{MIN}[BNS(T1)_{kj}, BNS(T2)_{kj}, BNS(T3)_{kj}, BNS(T4)_{kj}, BNS(T5)_{kj}, BNS(HET)_{kj}]]$$

Table 3

“Specified Element”	Performance Metric	Lower performance limit (LPL _k)	Upper performance limit (UPL _k)	Maximum annual bonus (MAB _k)
Departure lounge seat availability	QSM	3.8	4.5	0.36
Cleanliness	QSM	3.9	4.5	0.36
Way-finding	QSM	4.0	4.5	0.36
Flight information	QSM	4.2	4.5	0.36
Passenger sensitive equipment (general)	Availability	99% of time	100% of time	0.40
Arrivals reclaim (Baggage Carousels)	Availability	99% of time	100% of time	0.40

3.12 Full details of the bonus formula is available from “Heathrow and Gatwick Airports, CAA price control proposals, November 2007, Chapter 5” and “Airport Regulation, Economic Regulation of Heathrow and Gatwick Airports 2008-2013, CAA Decision, Annex C”. In particular:

3.13 *“The total annual bonus would be built up from the aggregate of any monthly bonuses for each qualifying element over the year. The bonus receivable in respect of any month would be determined as follows:*

- *a bonus in respect of any element will only be payable if the minimum performance being achieved for that element in all terminals at that airport exceeds the standard in the SQR scheme. The scale of the bonus will be determined by the performance achieved in the worst performing terminal, thus providing that users would not be paying a bonus for a level of service higher than that achieved at their own terminal; and*
- *the quantification of relevant bonuses will be based pro rata on where the monthly performance lies between an upper and lower performance limit and the maximum bonus in any particular month.²*

² Heathrow and Gatwick Airports, CAA price control proposals, November 2007, Chapter 5, page 68.

3.14 An example of the calculation is shown below for February 2010.

3.15 In February 2010, arrivals reclaim measure was applicable for the bonus term. The bonus term is determined by the performance of the worst performing Terminal when all Terminals exceed the lower performance limit.

$$BNS(T3)_{kj} = \frac{1}{12} \cdot MAB_k \cdot \frac{MP(T3)_{kj} - LPL_k}{UPL_k - LPL_k}$$

$$MP(T3)_{kj} = 99.50\%$$

$$LPL_k = 99.00\%$$

$$UPL_k = 100.00\%$$

$$MAB_k = 0.40\%$$

T1 Actual performance result	= 99.62%
T2 Actual performance result	= 100.00% ³
T3 Actual performance result	= 99.50%
T4 Actual performance result	= 99.67%
T5 Actual performance result	= 99.82%

In February 2010 all Terminals exceeded the lower performance limit and Terminal 3 was the worst performing Terminal. Terminal 3 results are used to calculate the bonus term for that month.

Hence:

$$BNS(T3)_{kj} = \frac{1}{12} \cdot 0.40\% \cdot \frac{99.50\% - 99.00\%}{100\% - 99.00\%}$$

$$BNS(T3)_{kj} = (0.033\%) \cdot ((0.500\%) / (1.000\%))$$

$$BNS(T3)_{kj} = 0.0167\%$$

$$BNS(T3)_{kj} = 0.017\% \text{ (rounded to 3 decimal places)}$$

3.16 An alternative to using percentages to calculate the bonus term as expressed above, is to divide the percentage by a multiple of 100 (i.e. 99.50/100 = 0.9950).

3.17 The formula is performed for all areas to determine the bonus term. The bonus term for 2009/10 is 0.269%. The breakdown of the full calculation is shown in Table 4.

³ For months including or after "Such Time as T2 is Decommissioned" then: $MP(T2)_{kj} = 100\%$.

Table 4

Departure lounge seating availability (QSM)	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Total
Terminal 1 (actual)	4.14	4.14	4.11	4.12	4.13	4.14	4.14	4.13	4.10	4.09	4.08	4.07	
Terminal 2 (actual)	3.85	3.88	3.90	3.93	3.97	3.99	4.03	4.06	4.50	4.50	4.50	4.50	
Terminal 3 (actual)	3.58	3.60	3.61	3.62	3.63	3.63	3.64	3.67	3.69	3.70	3.70	3.72	
Terminal 4 (actual)	4.06	4.11	4.15	4.18	4.21	4.22	4.19	4.18	4.18	4.15	4.14	4.12	
Terminal 5 (actual)	4.05	4.04	4.04	4.05	4.05	4.05	4.04	4.04	4.03	4.03	4.03	4.04	
BNS(T1) _{KI}	0.0146%	0.0146%	0.0133%	0.0137%	0.0141%	0.0146%	0.0146%	0.0141%	0.0129%	0.0124%	0.0120%	0.0116%	
BNS(T2) _{KI}	0.0021%	0.0034%	0.0043%	0.0056%	0.0073%	0.0081%	0.0099%	0.0111%	0.0300%	0.0300%	0.0300%	0.0300%	
BNS(T3) _{KI}	-0.0094%	-0.0086%	-0.0081%	-0.0077%	-0.0073%	-0.0073%	-0.0069%	-0.0056%	-0.0047%	-0.0043%	-0.0043%	-0.0034%	
BNS(T4) _{KI}	0.0111%	0.0133%	0.0150%	0.0163%	0.0176%	0.0180%	0.0167%	0.0163%	0.0163%	0.0150%	0.0146%	0.0137%	
BNS(T5) _{KI}	0.0107%	0.0103%	0.0103%	0.0107%	0.0107%	0.0107%	0.0103%	0.0103%	0.0099%	0.0099%	0.0099%	0.0103%	
Bonus term =	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.000%
Cleanliness (QSM)	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Total
Terminal 1 (actual)	3.99	4.00	4.01	4.00	4.01	4.01	4.00	4.00	4.00	3.99	3.99	3.98	
Terminal 2 (actual)	3.90	3.92	3.92	3.92	3.93	3.94	3.95	3.95	4.50	4.50	4.50	4.50	
Terminal 3 (actual)	3.88	3.88	3.89	3.88	3.87	3.86	3.85	3.85	3.86	3.86	3.87	3.87	
Terminal 4 (actual)	3.97	3.98	4.00	4.03	4.07	4.06	4.06	4.06	4.05	4.04	4.04	4.04	
Terminal 5 (actual)	4.23	4.23	4.23	4.24	4.23	4.22	4.21	4.21	4.20	4.21	4.21	4.21	
BNS(T1) _{KI}	0.0045%	0.0050%	0.0055%	0.0050%	0.0055%	0.0055%	0.0050%	0.0050%	0.0050%	0.0045%	0.0045%	0.0040%	
BNS(T2) _{KI}	0.0000%	0.0010%	0.0010%	0.0010%	0.0015%	0.0015%	0.0020%	0.0025%	0.0025%	0.0300%	0.0300%	0.0300%	
BNS(T3) _{KI}	-0.0010%	-0.0010%	-0.0005%	-0.0010%	-0.0015%	-0.0020%	-0.0025%	-0.0025%	-0.0025%	-0.0020%	-0.0015%	-0.0015%	
BNS(T4) _{KI}	0.0035%	0.0040%	0.0050%	0.0065%	0.0085%	0.0080%	0.0080%	0.0080%	0.0075%	0.0075%	0.0070%	0.0070%	
BNS(T5) _{KI}	0.0165%	0.0165%	0.0165%	0.0170%	0.0165%	0.0160%	0.0155%	0.0155%	0.0150%	0.0155%	0.0155%	0.0155%	
Bonus term =	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.000%
Way finding (QSM)	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Total
Terminal 1 (actual)	4.00	4.01	4.01	4.00	4.01	4.01	4.01	4.00	4.00	3.99	3.99	3.98	
Terminal 2 (actual)	4.00	3.99	3.99	3.98	3.98	3.99	3.99	4.00	4.50	4.50	4.50	4.50	
Terminal 3 (actual)	4.07	4.06	4.06	4.06	4.05	4.04	4.03	4.03	4.03	4.04	4.03	4.04	
Terminal 4 (actual)	4.07	4.07	4.07	4.07	4.05	4.05	4.05	4.05	4.06	4.06	4.06	4.07	
Terminal 5 (actual)	4.14	4.15	4.15	4.16	4.16	4.16	4.16	4.16	4.17	4.17	4.18	4.18	
BNS(T1) _{KI}	0.0000%	0.0006%	0.0006%	0.0000%	0.0006%	0.0006%	0.0006%	0.0000%	0.0000%	-0.0006%	-0.0006%	-0.0012%	
BNS(T2) _{KI}	0.0000%	-0.0006%	-0.0006%	-0.0012%	-0.0012%	-0.0006%	-0.0006%	0.0000%	0.0300%	0.0300%	0.0300%	0.0300%	
BNS(T3) _{KI}	0.0042%	0.0036%	0.0036%	0.0036%	0.0030%	0.0024%	0.0018%	0.0018%	0.0018%	0.0024%	0.0018%	0.0024%	
BNS(T4) _{KI}	0.0042%	0.0042%	0.0042%	0.0042%	0.0030%	0.0030%	0.0030%	0.0030%	0.0036%	0.0036%	0.0036%	0.0042%	
BNS(T5) _{KI}	0.0084%	0.0090%	0.0090%	0.0096%	0.0096%	0.0096%	0.0096%	0.0096%	0.0102%	0.0102%	0.0108%	0.0108%	
Bonus term =	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.000%
Flight information (QSM)	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Total
Terminal 1 (actual)	4.23	4.23	4.24	4.24	4.24	4.24	4.25	4.24	4.24	4.24	4.23	4.22	
Terminal 2 (actual)	4.15	4.15	4.13	4.13	4.12	4.13	4.15	4.17	4.50	4.50	4.50	4.50	
Terminal 3 (actual)	4.31	4.31	4.32	4.33	4.33	4.32	4.31	4.31	4.31	4.32	4.32	4.33	
Terminal 4 (actual)	4.19	4.17	4.18	4.18	4.21	4.22	4.22	4.24	4.25	4.25	4.24	4.25	
Terminal 5 (actual)	4.34	4.35	4.37	4.38	4.39	4.38	4.37	4.37	4.36	4.37	4.37	4.36	
BNS(T1) _{KI}	0.0030%	0.0030%	0.0040%	0.0040%	0.0040%	0.0040%	0.0050%	0.0040%	0.0040%	0.0040%	0.0030%	0.0020%	
BNS(T2) _{KI}	-0.0050%	-0.0050%	-0.0070%	-0.0070%	-0.0080%	-0.0070%	-0.0050%	-0.0030%	0.0300%	0.0300%	0.0300%	0.0300%	
BNS(T3) _{KI}	0.0110%	0.0110%	0.0120%	0.0130%	0.0130%	0.0120%	0.0110%	0.0110%	0.0110%	0.0120%	0.0120%	0.0130%	
BNS(T4) _{KI}	-0.0010%	-0.0030%	-0.0020%	-0.0020%	0.0010%	0.0020%	0.0020%	0.0040%	0.0050%	0.0050%	0.0040%	0.0050%	
BNS(T5) _{KI}	0.0140%	0.0150%	0.0170%	0.0180%	0.0190%	0.0180%	0.0170%	0.0170%	0.0160%	0.0170%	0.0170%	0.0160%	
Bonus term =	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0040%	0.0040%	0.0030%	0.0020%	0.013%
Pax Sensitive Equip. (general)	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Total
Terminal 1 (actual)	99.32%	99.70%	99.36%	99.31%	99.60%	99.65%	99.74%	99.66%	99.65%	98.16%	97.48%	99.62%	
Terminal 2 (actual)	99.67%	99.74%	99.65%	99.47%	99.61%	99.67%	99.65%	99.78%	100.00%	100.00%	100.00%	100.00%	
Terminal 3 (actual)	99.59%	99.59%	99.55%	99.65%	99.54%	99.72%	99.57%	99.67%	99.55%	99.61%	99.62%	99.57%	
Terminal 4 (actual)	99.59%	99.56%	99.54%	99.50%	99.39%	99.64%	99.52%	99.58%	99.50%	99.31%	99.59%	99.44%	
Terminal 5 (actual)	99.41%	99.66%	99.74%	99.68%	99.63%	99.72%	99.76%	99.77%	99.83%	99.77%	99.74%	99.74%	
BNS(T1) _{KI}	0.0107%	0.0233%	0.0120%	0.0103%	0.0200%	0.0217%	0.0247%	0.0220%	0.0217%	-0.0280%	-0.0507%	0.0207%	
BNS(T2) _{KI}	0.0223%	0.0247%	0.0217%	0.0157%	0.0203%	0.0223%	0.0217%	0.0260%	0.0333%	0.0333%	0.0333%	0.0333%	
BNS(T3) _{KI}	0.0197%	0.0197%	0.0183%	0.0217%	0.0180%	0.0240%	0.0190%	0.0223%	0.0183%	0.0203%	0.0207%	0.0190%	
BNS(T4) _{KI}	0.0197%	0.0187%	0.0180%	0.0167%	0.0130%	0.0213%	0.0173%	0.0193%	0.0167%	0.0103%	0.0197%	0.0147%	
BNS(T5) _{KI}	0.0137%	0.0220%	0.0247%	0.0227%	0.0210%	0.0240%	0.0253%	0.0257%	0.0277%	0.0257%	0.0247%	0.0247%	
Bonus term =	0.0107%	0.0187%	0.0120%	0.0103%	0.0130%	0.0213%	0.0173%	0.0193%	0.0167%	0.0000%	0.0000%	0.0147%	0.154%
Arrivals reclaim	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Total
Terminal 1 (actual)	99.65%	99.45%	99.23%	98.24%	99.01%	98.91%	99.39%	99.74%	99.45%	97.74%	99.62%	99.50%	
Terminal 2 (actual)	99.61%	99.72%	99.85%	99.91%	99.63%	99.83%	99.91%	99.96%	100.00%	100.00%	100.00%	100.00%	
Terminal 3 (actual)	99.52%	99.64%	99.67%	99.39%	99.51%	99.14%	99.62%	99.26%	99.45%	99.65%	99.50%	99.68%	
Terminal 4 (actual)	99.75%	99.58%	99.66%	99.73%	99.21%	99.44%	99.27%	99.67%	99.43%	99.24%	99.67%	99.63%	
Terminal 5 (actual)	99.42%	99.78%	99.76%	99.69%	99.76%	99.71%	99.87%	99.86%	99.87%	99.82%	99.82%	99.89%	
BNS(T1) _{KI}	0.0217%	0.0150%	0.0077%	-0.0253%	0.0003%	-0.0030%	0.0130%	0.0247%	0.0150%	-0.0420%	0.0207%	0.0167%	
BNS(T2) _{KI}	0.0203%	0.0240%	0.0283%	0.0303%	0.0210%	0.0277%	0.0303%	0.0320%	0.0333%	0.0333%	0.0333%	0.0333%	
BNS(T3) _{KI}	0.0173%	0.0213%	0.0223%	0.0130%	0.0170%	0.0047%	0.0207%	0.0087%	0.0150%	0.0217%	0.0167%	0.0227%	
BNS(T4) _{KI}	0.0250%	0.0193%	0.0220%	0.0243%	0.0070%	0.0147%	0.0090%	0.0223%	0.0143%	0.0080%	0.0223%	0.0210%	
BNS(T5) _{KI}	0.0140%	0.0260%	0.0253%	0.0230%	0.0253%	0.0237%	0.0290%	0.0287%	0.0290%	0.0273%	0.0273%	0.0297%	
Bonus term =	0.0140%	0.0150%	0.0077%	0.0000%	0.0003%	0.0000%	0.0090%	0.0087%	0.0143%	0.0000%	0.0167%	0.0167%	0.102%
Bonus term =	0.0247%	0.0337%	0.0197%	0.0103%	0.0133%	0.0213%	0.0263%	0.0280%	0.0350%	0.0040%	0.0197%	0.0333%	0.2693%
Rounded to 3 decimal places Bt =	0.025%	0.034%	0.020%	0.010%	0.013%	0.021%	0.026%	0.028%	0.035%	0.004%	0.020%	0.033%	0.269%

Triggers

3.18 There were six trigger projects due for completion within 2009/10 as shown in Table 5.

Table 5

	Milestone Month	Forecast Completion Date⁴	Completion Date
T4 check-in extn - South West bank of desks	Jun-09	Sep-09	Aug-09
T4 check-in extn - North East bank of desks	Jan-10	Oct-09	Oct-09
T4 A380 jetty facilities	May-09	May-09	Apr-09
T3 refurbishment - completion of Pier 5 refurbishment	Jul-09	Jun-09	May-09
T3 refurbishment - completion of Pier 7 refurbishment	Aug-09	Aug-09	Oct-09
Completion of Mid-field Pier North	Jan-10	Jan-10	Nov-09

3.19 Three projects are included in the k factor for 2009/10:

- “T4 check-in extension – South West bank of desks” was forecast not to be complete by its milestone date by three months when setting airport charges for 2009/10. However, this project was actually completed two months after its milestone date.
- “T3 refurbishment of Pier 7” was forecast to meet its milestone date when setting airport charges for 2009/10. However, this project has not met its milestone date by two months.
- “T4 completion of baggage sorter” was a milestone project in 2008/09. This project was not complete by its milestone date by six months, of which two months were captured in the k factor for 2008/09 when setting airport charges for 2010/11. However, four months of this project fall into 2009/10 and will be captured in the k factor for 2009/10 in setting airport charges for 2011/12.

Summary of trigger payment

T4 check-in extension – South West bank of desks	= £207,000 in 2009/10 prices
T3 refurbishment of Pier 7	= £207,000 in 2009/10 prices
T4 completion of baggage sorter	= £414,000 in 2009/10 prices
Total Payment	=£828,000 in 2009/10 prices

3.20 Full details of the trigger calculations can be found in Chapter 4.

⁴ The forecast completion date is consistent to the forecast presented in the “BAA Heathrow Airport, 2009/10 Airport Charges Consultation” document.

K factor for 2009/10 (Before PSDH adjustment)

	2009/10 Passengers 000s	Actual yield (£)	2009/10 Revenue £000s	Allowable yield (£)	Under/Over-recovery
Heathrow	66,152	14.576	964,260	14.658	Under-Recovery

Total revenue from airport charges (passenger only flights) at Heathrow in:	2009/10	Actual (£000s)	T_{t-2}	964,260	
Passengers using Heathrow Airport in:	2009/10	Actual (000s)	Q_{t-2}	66,152	
Maximum allowable revenue yield at Heathrow in:	2009/10	Actual (£)	M_{t-2}	14.658	
Interest rate from weekly Treasury Bill Discount rate*:	2009/10	Actual	I_{t-2}	0.4754%	
Forecast Passengers using Heathrow in:	2011/12	Forecast (000s)	Q_t	71,045	
Correction amount:	$K_t = ((T_{t-2} - (Q_{t-2} \times M_{t-2})) / Q_t \times (1 + I_{t-2} / 100))^2$		Forecast (£)	K_t	-0.077

*Based on Sep 09 to Aug 10 average (see table 6).

Table 6

3 month T bill				
Tender Date	Maturity date	Size (£ mn)	Cover	Avg Yield (%)
04-Sep-09	07-Dec-09	1,500	1.56	0.365
11-Sep-09	14-Dec-09	1,500	2.89	0.386
18-Sep-09	21-Dec-09	1,500	2.24	0.367
25-Sep-09	29-Dec-09	1,500	3.57	0.388
02-Oct-09	04-Jan-10	1,500	2.77	0.398
09-Oct-09	11-Jan-10	1,500	2.59	0.416
16-Oct-09	18-Jan-10	1,500	2.03	0.432
23-Oct-09	25-Jan-10	1,500	3.49	0.459
30-Oct-09	01-Feb-10	1,500	3.74	0.456
06-Nov-09	08-Feb-10	1,500	2.28	0.453
13-Nov-09	15-Feb-10	1,500	3.54	0.460
20-Nov-09	22-Feb-10	1,500	2.00	0.452
27-Nov-09	01-Mar-10	1,500	2.09	0.457
04-Dec-09	08-Mar-10	1,500	2.47	0.452
11-Dec-09	15-Mar-10	1,500	1.90	0.453
18-Dec-09	22-Mar-10	1,500	3.20	0.465
31-Dec-09	06-Apr-10	1,500	2.32	0.492
08-Jan-10	12-Apr-10	2,000	2.35	0.487
15-Jan-10	19-Apr-10	2,000	3.47	0.485
22-Jan-10	26-Apr-10	2,000	1.99	0.489
29-Jan-10	04-May-10	2,000	2.16	0.488
05-Feb-10	10-May-10	2,000	3.94	0.486
12-Feb-10	17-May-10	2,000	3.01	0.486
19-Feb-10	24-May-10	2,000	3.06	0.489
26-Feb-10	01-Jun-10	2,000	2.61	0.492
05-Mar-10	07-Jun-10	2,000	3.29	0.508
12-Mar-10	14-Jun-10	2,000	3.53	0.512
19-Mar-10	21-Jun-10	2,000	3.23	0.513
26-Mar-10	28-Jun-10	2,000	2.03	0.514
01-Apr-10	05-Jul-10	1,500	3.72	0.511
09-Apr-10	12-Jul-10	1,500	3.69	0.515
16-Apr-10	19-Jul-10	1,500	4.92	0.509
23-Apr-10	26-Jul-10	1,500	3.59	0.505
30-Apr-10	02-Aug-10	1,500	3.45	0.505
07-May-10	09-Aug-10	1,500	2.73	0.499
14-May-10	16-Aug-10	1,500	3.50	0.501
21-May-10	23-Aug-10	1,500	4.13	0.497
28-May-10	31-Aug-10	1,500	3.37	0.495
04-Jun-10	06-Sep-10	1,500	4.06	0.487
11-Jun-10	13-Sep-10	1,500	3.39	0.484
18-Jun-10	20-Sep-10	1,500	3.46	0.478
25-Jun-10	27-Sep-10	1,500	1.88	0.488
02-Jul-10	04-Oct-10	1,500	2.42	0.489
09-Jul-10	11-Oct-10	1,500	2.03	0.494
16-Jul-10	18-Oct-10	1,500	1.48	0.503
23-Jul-10	25-Oct-10	1,500	2.37	0.508
30-Jul-10	01-Nov-10	1,500	2.50	0.499
06-Aug-10	08-Nov-10	1,500	2.01	0.501
13-Aug-10	15-Nov-10	1,500	2.68	0.495
20-Aug-10	22-Nov-10	1,500	2.46	0.489
27-Aug-10	29-Nov-10	1,500	2.40	0.495

Average:

0.4754

Application of the Regulatory Pricing Formula (After PSDH adjustment)

3.21 The actual maximum allowable yield for 2009/10 is £14.658 (before PSDH adjustment). After adjusting for 2008/09 PSDH underspend in setting airport charges for 2009/10, this reduces the actual maximum allowable yield to £14.582.

3.22 This adjustment ensures that Heathrow does not recover the 2008/09 PSDH underspend through the k factor for 2009/10 in setting airport charges for 2011/12.

3.23 The 2009/10 actual maximum allowable yield (before PSDH) is adjusted for the 2008/09 implied regulatory return in the Q5 regulatory settlement, which Heathrow agreed to compensate airlines by setting airport charges in 2009/10 below the forecast maximum allowable yield by 7.4 pence. The 2008/09 implied regulatory return equated to £5 million and has been adjusted into a yield by using actual 2009/10 passenger numbers:

$$£5 \text{ million} / 66,152\text{K} = £0.076$$

3.24 Therefore the 2009/10 actual maximum allowable yield (before PSDH) is £14.658 and has been adjusted downwards by 7.6 pence to £14.582.

3.25 The below table sets out the adjusted k factor with adjusted actual maximum allowable yield:

Adjusted 2009/10 K Factor Analysis		
Actual airport charges revenue 2009/10	A	964,260
Actual passengers 2009/10	B	66,152
Actual yield		£14.576
Adjusted actual maximum allowable yield for 2009/10	C	£14.582
Interest rate	D	0.4754%
Forecast passengers 2011/12	E	71,045
Adjusted K factor from 2009/10 under recovery = $((A-(B*C))/E*((1+D)^2))$		-£0.005

Chapter 4 - Trigger Implications

- 4.1 The CAA formula for Q5 includes a trigger element which means that if a project is not complete by a specified project milestone date then the allowable yield is reduced. This chapter sets out the trigger calculations that have been used in the calculation of the forecast maximum allowable yield for 2011/12, and provides a status of all trigger projects to 2011/12.
- 4.2 Two projects due for completion within 2011/12 are subject to triggers (i) T2A Phase 1 demolition of T2 and (ii) Completion of Outer Pier North. In addition, two projects were not complete by their milestone dates and follow into 2011/12, these projects are (i) Eastern Maintenance Base and (ii) T3 refurbishment of check-in and security search. The 2011/12 forecast maximum allowable yield has been reduced to take account of these anticipated trigger payments.
- 4.3 The following sets out the trigger project status for each year from 2008/09 to 2011/12.

2008/09 Triggers

Table 7

	Milestone Month	Forecast Completion Date⁵	Completion Date
T4 new CIP - shell & core	Feb-09	Dec-08	Dec-08
T4 completion of baggage sorter	Jan-09	Jan-09	Jul-09
T1 completion of T1 bmi Nose Building	Jan-09	Jan-09	Oct-08
Completion of T4-T1 tunnel refurbishment	Jan-09	Jan-09	Mar-09

- 4.4 All four projects in 2008/09 were forecast to be delivered on time when setting airport charges for 2008/09. However, two projects were not completed by the relevant milestone dates:
- T4 completion of baggage sorter
This project was not delivered to the milestone date by six months. Two months of this project were captured by the k factor for 2008/09 in setting airport charges for 2010/11. The remaining four months are captured in the k factor for 2009/10 in setting airport charges for 2011/12.

⁵ In setting airport charges for 2008/09 the final price control decision was not announced. Therefore the price proposals put forward by the CAA in November 2007 were used (Heathrow and Gatwick airports, CAA price control proposals, November 2007). The November 2007 proposals only included three trigger projects for 2008/09 (i) T4 new CIP - shell & core, (ii) T4 completion of baggage sorter, and (iii) T1 completion of T1 bmi Nose Building. These projects were forecast to be completed on time.

- Completion of T4-T1 tunnel refurbishment
This project was not delivered by the milestone date by two months and both months were captured in the k factor for 2008/09 when setting airport charges for 2010/11.

4.5 The trigger calculation associated with the 2008/09 projects that are captured in the k factor for 2009/10 in setting airport charges for 2011/12 is shown below.

- **T4 completion of baggage sorter**

Milestone Month	= January 2009
Actual Completion	= July 2009
Actual Delay	= 6 months
Months falling into 2009/10	= 4 months
Monthly Payment	= £100,000 in 2007/08 prices
Expected Payment	= £400,000 in 2007/08 prices
Inflation Index (RPI)	= 1.035 ⁶
Actual Payment	= £414,000 in 2009/10 prices
Actual Passengers (000s)	= 66,152 in 2009/10
Impact on Yield	= £0.0063 in 2009/10 prices
Total Payment	= £414,000 in 2009/10 prices

⁶ Actual average RPI for 2008/09 was 3% and actual average RPI for 2009/10 was 0.5%

2009/10 Triggers

Table 8

	Milestone Month	Forecast Completion Date⁷	Completion Date
T4 check-in extn - South West bank of desks	Jun-09	Sep-09	Aug-09
T4 check-in extn - North East bank of desks	Jan-10	Oct-09	Oct-09
T4 A380 jetty facilities	May-09	May-09	Apr-09
T3 refurbishment - completion of Pier 5 refurbishment	Jul-09	Jun-09	May-09
T3 refurbishment - completion of Pier 7 refurbishment	Aug-09	Aug-09	Oct-09
Completion of Mid-field Pier North	Jan-10	Jan-10	Nov-09

4.6 All projects due to be completed in 2009/10 are now complete.

- The following projects have been delivered on time:
 - T4 check-in extn - North East bank of desks
 - T4 A380 jetty facilities
 - T3 refurbishment - completion of Pier 5 refurbishment
 - Completion of Mid-field Pier North

- The following projects were not complete by their milestone dates and will be captured in the k factor for 2009/10 in setting airport charges for 2011/12.
 - T3 refurbishment - completion of Pier 7 refurbishment
This project has not been completed by its milestone date by two months.

 - T4 check-in extension - South West bank of desks
This project was forecast not to be complete by its milestone date by three months when airport charges were set for 2009/10. However, this project was actually completed two months after its milestone date. This adjustment is captured in the k factor for 2009/10.

⁷ The forecast completion date is consistent to the forecast presented in the "BAA Heathrow Airport, 2009/10 Airport Charges Consultation" document.

4.7 The trigger calculation associated with the 2009/10 projects that is captured in the k factor for setting 2011/12 airport charges is shown below.

- **T4 check-in extension - South West bank of desks**

Milestone Month	= June 2009
Actual Completion	= August 2009
Actual Delay	= 2 months
Monthly Payment	= £100,000 in 2007/08 prices
Actual Payment	= £200,000 in 2007/08 prices
Inflation Index (RPI)	= 1.035 ⁸
Actual Payment	= £207,000 in 2009/10 prices
Actual Passengers (000s)	= 66,152 in 2009/10
Impact on Yield	= £0.0031 in 2009/10 prices

- **T3 refurbishment - completion of Pier 7 refurbishment**

Milestone Month	= August 2009
Actual Completion	= October 2009
Actual Delay	= 2 months
Monthly Payment	= £100,000 in 2007/08 prices
Actual Payment	= £200,000 in 2007/08 prices
Inflation Index (RPI)	= 1.035 ⁹
Actual Payment	= £207,000 in 2009/10 prices
Actual Passengers (000s)	= 66,152 in 2009/10
Impact on Yield	= £0.0031 in 2009/10 prices

T4 check-in extension – South West bank of desks	= £207,000 in 2009/10 prices
T3 refurbishment - completion of Pier 7 refurbishment	= £207,000 in 2009/10 prices
Total Payment	= £414,000 in 2009/10 prices

- In addition, T4 completion of baggage sorter incurred trigger payments in 2009/10 that are captured in the k factor in setting airport charges for 2011/12. Full details of this are shown in paragraph 4.5.

⁸ Actual average RPI for 2008/09 was 3% and actual average RPI for 2009/10 was 0.5%

⁹ Actual average RPI for 2008/09 was 3% and actual average RPI for 2009/10 was 0.5%

2010/11 Triggers

Table 9

	Milestone Month	Forecast Completion Date¹⁰	Forecast Completion Date
T3 Refurbishment Completion of check-in & Security Search	Mar-10	Sep-10	Jul-11
Eastern Maintenance Base Redevelopment Completion of the diversion of East Church Road	Mar-10	Jan-12	Mar-13

4.8 Both projects scheduled to be delivered in 2010/11 were forecast not to be complete by their milestone dates when airport charges were set for 2010/11. These projects have been delayed further and will carry forward into 2011/12.

4.9 Therefore, T3 Refurbishment Completion of check-in & Security Search will be delayed until July 2011. This results in four months of delay being captured in setting airport charges for 2011/12.

4.10 In addition, Eastern Maintenance Base is further delayed until March 2013. This results in twelve months being captured in setting airport charges for 2011/12.

4.11 The following sets out the trigger calculations that are captured in setting airport charges for 2011/12.

- **T3 Refurbishment Completion of check-in & Security Search**

Milestone Month	= March 2010
Forecast Completion	= July 2011
Expected Delay	= 16 months
Months falling into 2011/12	= 4 months
Monthly Payment	= £100,000 in 2007/08 prices
Expected Payment	= £400,000 in 2007/08 prices
Inflation Index (RPI)	= 1.075 ¹¹
Expected Payment	= £430,000 in 2011/12 prices
Forecast Passengers (000s)	= 71,045 in 2011/12
Impact on Yield	= £0.006 in 2011/12 prices

¹⁰ The forecast completion date is consistent to the forecast presented in the "Heathrow Airport Limited, 2010/11 Airport Charges Consultation" document.

¹¹ Actual average RPI for 2008/09 is 3.0%, average RPI forecast for 2009/10 is -0.7%, average RPI forecast for 2010/11 is 1.5%, and average RPI forecast for 2011/12 is 3.7%.

- **Eastern Maintenance Base**

Milestone Month	= March 2010
Forecast Completion	= March 2013
Expected Delay	= 36 months
Months falling into 2011/12	= 12 months
Monthly Payment	= £170,000 in 2007/08 prices
Expected Payment	= £2,040,000 in 2007/08 prices
Inflation Index (RPI)	= 1.075 ¹²
Expected Payment	= £2,193,000 in 2011/12 prices
Forecast Passengers (000s)	= 71,045 in 2011/12
Impact on Yield	= £0.031 in 2011/12 prices

¹² Actual average RPI for 2008/09 is 3.0%, average RPI forecast for 2009/10 is -0.7%, average RPI forecast for 2010/11 is 1.5%, and average RPI forecast for 2011/12 is 3.7%.

2011/12 Triggers

Table 10

	Milestone Month	Forecast Completion Date
T2A Phase 1 demolition of T2	Mar-11	May-11
T3 refurbishment of Immigration, landside departures and baggage hall refurbishment	Mar-11	Mar-11
Completion of T5 Satellite C	May-11	Jan-11
Post T5 transfer baggage (T5-T3)	Nov-11	Nov-11
Completion of the Outer Pier North	Jan-12	Mar-13
T2A phase 1 completion – Weather tight	Feb-12	Jan-12

4.12 Table 10 lists all the projects that have milestone dates that fall into the period for 2011/12. Of these projects, two are forecast not to be complete by their milestone dates; (i) T2A Phase 1 demolition of T2, delayed by two months and (ii) Completion of Outer Pier North, delayed by two months. Therefore, these two projects will incur trigger payments, which are captured in setting airport charges for 2011/12.

4.13 The forecast trigger calculation associated with the 2011/12 projects are shown below:

- **T2A Phase 1 demolition of T2**

Milestone Month	= March 2011
Forecast Completion	= May 2011
Expected Delay	= 2 months
Monthly Payment	= £2,780,000 in 2007/08 prices
Expected Payment	= £5,560,000 in 2007/08 prices
Inflation Index (RPI)	= 1.075 ¹³
Expected Payment	= £5,977,000 in 2011/12 prices
Forecast Passengers (000s)	= 71,045 in 2011/12
Impact on Yield	= £0.084 in 2011/12 prices

¹³ Actual average RPI for 2008/09 is 3.0%, average RPI forecast for 2009/10 is -0.7%, average RPI forecast for 2010/11 is 1.5%, and average RPI forecast for 2011/12 is 3.7%.

- **Completion of Outer Pier North**

Milestone Month	= January 2012
Forecast Completion	= March 2013
Expected Delay	= 14 months
Months falling into 2011/12	= 2 months
Monthly Payment	= £490,000 in 2007/08 prices
Expected Payment	= £980,000 in 2007/08 prices
Inflation Index (RPI)	= 1.075 ¹⁴
Expected Payment	= £1,053,500 in 2011/12 prices
Forecast Passengers (000s)	= 71,045 in 2011/12
Impact on Yield	= £0.015 in 2011/12 prices

4.14 In addition, Table 9 showed two projects that had trigger milestone dates in 2010/11 that will continue to incur trigger payments during 2011/12. The below summarises the trigger payment of these projects.

- **Total (including follow on projects into 2011/12)**

Projects with milestone dates in 2011/12

T2A Phase 1 demolition of T2	= £5,977,000 in 2011/12 prices
Completion of Outer Pier North	= £1,053,500 in 2011/12 prices

Projects carried forward into 2011/12

T3 Refurbishment Completion of check-in & Security Search	= £430,000 in 2011/12 prices
Eastern Maintenance Base	= £2,193,000 in 2011/12 prices
Expected Payment	= £9,653,500 in 2011/12 prices

¹⁴ Actual average RPI for 2008/09 is 3.0%, average RPI forecast for 2009/10 is -0.7%, average RPI forecast for 2010/11 is 1.5%, and average RPI forecast for 2011/12 is 3.7%.

Chapter 5 - Project for the Sustainable Development of Heathrow (PSDH)

- 5.1 This chapter sets out the calculations associated with changes in the expected spend on the Project for the Sustainable Development of Heathrow (PSDH).
- 5.2 In the final Q5 regulatory settlement the CAA allowed assumed investment in PSDH on the basis of spend forecasts. This spend would be added to the RAB and a return would be generated in line with the allowed cost of capital.
- 5.3 2008/09 airport charges were set in line with the CAA assumed PSDH investment. Pending the Government's announcement regarding the expansion of Heathrow, there was minimal expenditure on PSDH in 2008/09. Therefore the expected yield from airport charges in 2009/10 was set below the forecast maximum allowable yield to compensate for 2008/09 PSDH over recovery by 7.4 pence.
- 5.4 Subsequent to the 2009/10 Airport Charges Consultation meeting, it was agreed with airlines that Heathrow in future would take an ex-post approach to the remuneration of PSDH expenditure, rather than an ex-ante approach; i.e. PSDH costs from 2009/10 are recovered in the year after they are incurred.
- 5.5 Therefore, Heathrow agreed to rebate the airlines the full amount of the implied return on PSDH expenditure included in the 2009/10 regulatory settlement. This equated to £12.89m (nominal), and was refunded to airlines as a cash sum outside the maximum allowable yield during the course of 2009/10. The refund to airlines was made on a monthly basis based on individual airline's share of total airport charges invoiced.
- 5.6 The same approach applied in 2010/11, with Heathrow refunding the difference between the full amount of the implied return on PSDH expenditure included in the 2010/11 regulatory settlement and the regulatory return on the actual 2009/10 PSDH spend (actual PSDH spend in 2009/10 was £23.7m (nominal)). The refund for 2010/11 equated to £17.4m (nominal), which is being paid to the airlines on a monthly basis.
- 5.7 The same approach applies in 2011/12 i.e. expenditure incurred in 2010/11 is recovered through aeronautical charges from 2011/12. This will be based upon actual expenditure incurred, agreed with the airline community. Heathrow proposes to continue rebating the airlines the difference between the implied return on PSDH expenditure included in the 2011/12 regulatory settlement, and the regulatory return on actual 2010/11 expenditure recovered on an ex post basis from 2011/12.
- 5.8 Forecast expenditure for 2010/11 is £85m, giving forecast cumulative PSDH expenditure to the end of 2010/11 of £108.7m. This level of expenditure equates to a forecast PSDH rebate of £20.1m (nominal).

Table 11

	2011/12
	£(000s)
Cumulative capex to 2011/12 in Settlement (outturn prices)	516,347
Implied RAB (1)	442,778
Accounting return (2)	6.014%
Implied return	26,627
Latest forecast spend 2010/11 (outturn prices)	85,000
Implied RAB (3)	108,747
Accounting return (2)	6.014%
Implied return	6,540
Implied PSDH Rebate in 2011/12 (outturn prices)	20,087
<p>(1) The implied RAB takes the cumulative PSDH spend at the start of the year and at the end of the year and averages them.</p> <p>(2) 6.014% is the accounting return equivalent to the allowed cost of capital.</p> <p>(3) The implied RAB takes the actual 2009/10 spend and forecast spend for 2010/11</p>	

5.9 The conversion of price bases (i.e. real to nominal) for the PSDH calculations are based on CAA forecast RPI and the implied return is based on CAA forecast passengers used in the Q5 regulatory settlement, this will be subject to review.

5.10 The actual PSDH rebate will be refunded to airlines as a cash sum outside the maximum allowable yield in 2011/12. The refund to airlines will be made on a monthly basis based on individual airline's share of total airport charges invoiced.

Chapter 6 – Structural review of Airport Charges

- 6.1 Heathrow commenced the review of its airport charges structure at the start of 2010. Heathrow's structural review set out to support Heathrow's vision of becoming Europe's hub of choice and reinforce Heathrow's position as the UK's gateway to the world. The structural changes were designed to meet the following objectives:
- support Heathrow's hub status by introducing a discount for transfer passengers;
 - encourage efficient use of scarce resources by increasing the minimum departure charge and charging for transit passengers;
 - simplify the charging structure, for example in parking charges;
 - promote environmentally responsible behaviours by encouraging airlines to use aircraft with lower noise and air quality impacts; and
 - safeguard legal and regulatory compliance.
- 6.2 Heathrow's consultation proposals were developed based on a number informal engagement sessions from January 2010 to June 2010. Heathrow then started the formal consultation process by issuing its proposals on 2nd August 2010, followed by a formal consultation meeting on 2nd September 2010.
- 6.3 Heathrow invited interested parties to submit written responses to its proposals by 30th September 2010. Heathrow received a number of responses by the stipulated date, which were all considered by Heathrow in making its final decision.
- 6.4 Heathrow concluded this consultation by announcing its final structure on 29th October 2010.
- 6.5 Heathrow announced that the structure would be implemented on 1st April 2011, with the exception of the minimum charge on departure. This charge is to be phased over a two year period starting in April 2011.
- 6.6 Heathrow decided to retain the current aircraft parking charge structure but reduce the percentage it represents in respect of the overall charges. Heathrow will conduct a detailed review of the aircraft parking charge in consultation with airport users.

6.7 The final structural decision was:

- Rebalancing the overall charge (excluding ANS) to:
 - Landing 21%
 - Passenger 75%
 - Parking 4%
- Landing
 - Introduction of noise differentials between Chapter 4.
 - Increased differentials between noise Chapters.
 - Rebalancing Noise and Nox to 85% and 15% respectively (excluding ANS).
- ANS remains unchanged (33% movement and 67% weight)
- Passenger
 - Replacing existing departing passenger charge by destination to Europe and Other with a ratio of 1:1.4.
 - Introduction of a departing passenger transfer charge with a 25% discount.
 - Introduction of a transit charge at the same rate as the transfer charge.
 - Increase to the minimum charge on departure.
- Parking
 - Maintaining the existing structure for parking but with reduced overall balance to 4%.

6.8 The proposed airport charges tariffs shown in Chapter 7 and 8 are based on the final decision on the structure and its implementation timescales.

6.9 The review of airport charges consultation document and final decision on the structure of airport charges is available on www.heathrowairport.com/cou

Chapter 7 – Forecast Revenue for 2011/12

	Traffic Volume	Proposed Charge	Forecast Revenue
Landing Charge			
Noise Charge			
Peak			
Chapter 2	[Landings]	0	£4,912.05
Chapter 3 High	[Landings]	163	£4,912.05
Chapter 3 Base	[Landings]	21,352	£1,637.35
Chapter 4 High	[Landings]	63,383	£982.41
Chapter 4 Base	[Landings]	116,477	£818.68
Chapter 4 Minus	[Landings]	35,202	£491.21
Total	[Landings]	236,577	£210,678,418
Super Night Peak			
Chapter 2	[Landings]	0	£12,280.13
Chapter 3 High	[Landings]	0	£12,280.13
Chapter 3 Base	[Landings]	0	£4,093.38
Chapter 4 High	[Landings]	0	£2,456.03
Chapter 4 Base	[Landings]	75	£2,046.70
Chapter 4 Minus	[Landings]	0	£1,228.03
Total	[Landings]	75	£153,503
Emissions Charge			
Total kg Nox rating	[kg]	6,105,622	£6.09
Average kg Nox per landing	[kg]	25.8	£37,183,238
Revenue exc ANS Charges			£248,015,159
ANS Charge			
Per ATM Charge	[Landings]	236,652	£75.61
Per Metric Tonne	[Landings]	35,923,774	£1.03
Total			£17,893,258
Average Weight (Tonnes)			151.8
Total Landing Revenue	(a)		£302,909,904
Departing Passenger Charge			
Departing OD Passenger Charge			
Europe	[Dep Pax]	10,006,878	£21.80
Other	[Dep Pax]	16,155,040	£30.63
Total	[Dep Pax]	26,161,918	£712,978,815
Departing Transfer Passenger Charge			
Europe	[Dep Pax]	3,760,991	£16.35
Other	[Dep Pax]	5,360,646	£22.97
Total	[Dep Pax]	9,121,637	£184,626,242
Departing Transit Passenger Charge			
Europe	[Dep Pax]	0	£16.35
Other	[Dep Pax]	150,000	£22.97
Total	[Dep Pax]	150,000	£3,445,500
Remote Stand Rebate			
Remote Stand Rebate	[Dep Pax + Arr Pax]	3,745,000	-£4.08
Total Departing Passenger Charge Revenue	(b)	35,433,555	£885,770,957
Parking Charge			
Total Period	[Units of 15 minutes]	3,337,850	£3.38
Tonnage	[Units of 15 minutes]	678,129,971	£0.053
Total Parking Charge	(c)		£47,222,821
Terminal Pax Flights: Total Revenue			£1,235,903,682
Non-Terminal Pax Flights (GA, Troops etc)			
Non-Terminal Pax Flights			
Landing Revenue	(d)		£1,806,677
Departing Passenger Revenue	(e)		£1,321,174
Parking Revenue	(f)		£208,714
Total Non-Terminal Pax Flights Revenue			£3,336,565
Total Regulated Revenue (Pax Only Flights)			
Total Regulated Revenue			
Landing Revenue	(a) + (d)		£304,716,581
Departing Passenger Revenue	(b) + (e)		£887,092,131
Parking Revenue	(c) + (f)		£47,431,535
Total Regulated Revenue			£1,239,240,247
Total Passengers			71,045,264
Total Regulated Yield			£17.443

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Chapter 8 – Proposed Airport Charges Tariffs for 2011/12

	(a)	(b)	(c)
	Actual 2010/11 £ GBP	Final 2010/11 £ GBP	Proposed 2011/12 £ GBP
Charges on Landing			
Peak			
Chapter 2	2,328.00	4,177.92	4,912.05
Chapter 3 high	1,164.00	4,177.92	4,912.05
Chapter 3 base	776.00	1,392.64	1,637.35
Chapter 3 minus	698.40	n/a	n/a
Chapter 4 high	n/a	835.58	982.41
Chapter 4 base	659.60	696.32	818.68
Chapter 4 minus	n/a	417.79	491.21
Super Night Peak			
Chapter 2	5,820.00	10,444.80	12,280.13
Chapter 3 high	2,910.00	10,444.80	12,280.13
Chapter 3 base	1,940.00	3,481.60	4,093.38
Chapter 3 minus	1,746.00	n/a	n/a
Chapter 4 high	n/a	2,088.95	2,456.03
Chapter 4 base	1,649.00	1,740.80	2,046.70
Chapter 4 minus	n/a	1,044.48	1,228.03
Emissions charge (per kg of NOx)	2.73	5.18	6.09
ANS charge			
Per ATM	71.43	71.43	75.61
Per Metric tonne	0.97	0.97	1.03
Charge on departing passengers			
Domestic	13.43	n/a	n/a
International	22.97	n/a	n/a
Irish Republic	17.38	n/a	n/a
Europe - Destination	n/a	20.25	21.80
Other - Destination	n/a	28.45	30.63
Europe - Transfer	n/a	15.19	16.35
Other - Transfer	n/a	21.34	22.97
Europe - Transit	n/a	15.19	16.35
Other - Transit	n/a	21.34	22.97
Remote Stand Rebate (All paxs)	-3.79	-3.79	-4.08
Minimum charge	220.00	650.00	650.00
Charges on aircraft parking			
Fixed charge per 15 minutes	7.08	2.96	3.38
Variable charge per tonnage per 15 minutes	0.113	0.048	0.053

(a) - Final prices for 2010/11

(b) - "Hypothetical" prices in the final decision on structural changes to airport charges

(c) - Proposed prices for 2011/12

Please note tariffs have been rounded.

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Chapter 9 - Q5 Summary of Structural Changes

Overall	2010/11	Change in overall balance (excluding ANS) to Landing 17%, Passenger 73% and Parking 10%.
	2011/12	Change in overall balance (excluding ANS) to Landing 21%, Passenger 75% and Parking 4%.
Weight	2008/09	Introduction of Chapter 4 noise category with a charge differential of 90% of Chapter 3 base charge. Rate of increase in emissions charge will be double the rate of increase in landing charge Inclusion of ANS charge on a one third movement and two thirds tonnage basis
	2009/10	Introduction of a separate Chapter 4 equivalent noise category with a charge differential of 85% of Chapter 3 base charge. Rate of increase in emissions charge maintained at double the rate of increase in landing charge
	2010/11	Rate of increase in emissions charge maintained at double the rate of increase in landing charge
	2011/12	Introduction of differential in Chapter 4 noise category and increased differentials between noise Chapters Rebalancing Noise and emissions charge to 85% and 15% respectfully (excluding ANS)
Dep Pax	2008/09	No structural change
	2009/10	No structural change
	2010/11	No structural change
	2011/12	Introduction of new structure of departing passenger charge to Europe and Other Introduction of 25% discount to departing passenger charge for transfer passengers Introduction of departing passenger charge for transit passengers at the same rate charged to transfer passengers Increased minimum charge on departure to £1000, phased over two years. 2011/12 level at £650.
Parking	2008/09	No structural change
	2009/10	No structural change
	2010/11	No structural change
	2011/12	Rebalance of Parking charge to 4%

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Chapter 10 - Q4 Summary of Structural Changes

Weight	2003/04	Non Certified & Chapter 2 Vs Chapter 3 differential 300%
	2004/05	Weight band >16mt & <=55mt reduced to >16mt & <=50mt Emissions charge: £1 per kg of NO _x , surcharges & rebates, break even point 23 kg
	2005/06	No structural change
	2006/07	Removed break even point in emissions scheme and adjusted underlying landing charges to ensure change is revenue neutral to BAA.
	2007/08	No weight differential, noise and emissions surcharges and rebates remain
Dep Pax	2003/04	No structural change
	2004/05	Irish Republic charge 30 % mark up on domestic
	2005/06	No structural change
	2006/07	No structural change
	2007/08	No structural change, exemption on minimum charge for aircraft under 5 metric tonnes removed
Parking	2003/04	No structural change
	2004/05	No structural change
	2005/06	No structural change
	2006/07	No structural change
	2007/08	No structural change, parking discount for aircraft under 16 metric tonnes removed

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Chapter 11 - Regulation Glossary of Frequently Used Terms

11.1 The following are a number of terms and concepts relating to airport charges. Where appropriate, reference is made to further published sources.

Regulatory period

11.2 As determined by the Airports Act 1986, the CAA is required to review the level and conditions of airport charges at Heathrow Airport every five years. The first period was from 1 April 1987 to 31 March 1992, the second from 1 April 1992 to 31 March 1997 the third from 1 April 1997 to 31 March 2003 (six year period), the fourth from 1 April 2003 to 31 March 2008 and the fifth period began on 1 April 2008 and will continue to 31 March 2013. These five year periods, or quinquennia, have been labelled Q1, Q2, Q3, Q4 and Q5 by the CC/CAA.

Airports Act 1986, MMC4 1996 Ch2

Price control regulation

11.3 Before BAA was privatised in 1987, the UK Department of Transport sought the advice of various economic consultants on the most appropriate form of economic regulation for BAA London Airports. The incentive type regulation implicit in the RPI-X formula was adopted. This is similar to that used in regulating other UK privatised industries such as telecoms, gas and water, rather than the rate of return regulation favoured by regulators in other countries.

MMC 2 1991 4.107, MMC4 Ch5

RPI-X formula

11.4 In specifying the RPI-X formula in 1987, the UK Department of Transport decided that it should apply to the airport charges revenue yield, i.e. total airport charge revenue divided by total passengers, rather than applying to a basket of BAA airport charges. This formulation has been re-examined at each of the regulatory reviews and has been adopted for the fifth regulatory period. In the first period X was equal to 1, i.e. the airport charge yield should increase by one percentage point below the UK rate of inflation as forecast. In the second period, X was profiled as 8,8,4,1,1 over the five years and RPI was the value in the September prior to the financial year. In both periods, the yield entity was that derived for Heathrow and Gatwick separately and for the Heathrow, Gatwick and Stansted total, referred to as the SEAL (South East Airports Limited). In the third regulatory period the RPI-X formula, with X equal to 3, applied to the combined Heathrow and Gatwick yield. In the fourth regulatory period an RPI +6.5 formula was applied at Heathrow.

11.5 In the fifth regulatory period, which commenced in April 2008, an RPI+7.5 formula was applied at Heathrow.

MMC 2 1991 Ch4, MMC 4 1996 Ch5, CAP 664 para 170 on, CAA Decision Feb 2003 Annex 9, CAA Decision March 2008 Annex C.

Maximum allowable yield

11.6 The CAA state that when the airport operator fixes the amount to be levied by it by way of airport charges in respect of relevant air services they shall fix those charges at the levels best calculated to secure that the total airport charges divided by the total number of passengers does not exceed the maximum average yield per passenger.

CAA Decision, March 2008, Annex C

Relevant air services

11.7 These are defined as air services carrying passengers that join or leave an aircraft at the airport, including air services operated for the purpose of business or general aviation.

CAA Decision, March, 2008, Annex C

+S security claim factor

11.8 Allows for the pass through of costs arising from new security requirements such that 90% of additional costs above a defined threshold would be subject to pass through. The hurdles apply against the total annualised spends of all new requirements in the five year period.

CAA Decision, March 2008, Annex C

Correction factors - K

11.9 Because of the uncertainties of estimating the maximum allowable yield, any over or under-recoveries in airport charge revenues in the first three years of the regulatory period are corrected in the formula two years later by the application of a k factor, which allows for the difference in yield and adjustment for interest.

CAP 664 paras 168,169

Charging parameters

11.10 These are the individual values of numbers of aircraft in weight/noise categories and peak/off peak charging periods, their absolute weight and their NOx emissions rating. Numbers of passengers by charging type are used for calculating departing passenger charges and values of various weight and time values used for parking charges. Airport charges are applied to the appropriate actual and forecast values of these parameters to determine overall airport charge revenues and yields.

Aircraft using remote stands

11.11 At the regulatory reviews, users have raised issues of passenger service and charges for aircraft using non-pier stands. At present a reduction in the departing passenger charge at Heathrow applies for flights using stands designated as remote. This is in recognition of the costs imposed on airlines in providing coaching and the additional airport capital costs of providing piers and jetties.

11.12 There is also service quality rebates scheme in place, where rebates are paid to airlines when the quality of service fails to meet specified service levels.

CAP664 paras 139,140, CAA Decision March 2008.

Chapter 12 - Financial and Traffic Information

Traffic statistics and charging parameters

- 12.1 The traffic statistics for 2009/10 and the first half of 2010/11 are set out to provide more detailed data on those elements of the traffic mix at Heathrow airport which significantly affect the airport charges yield per passenger.
- 12.2 Further traffic information is contained in the BAA documents “Patterns of Traffic” and “Traffic Statistics” which have been circulated to users separately.

Regulatory accounting information

- 12.3 The regulatory accounts for Heathrow airport are presented for the 12 month period to 31 March 2010. These accounts compare the airport’s financial performance for the year ended 31 March 2010 on a comparable basis with the forecasts used by the CAA in determining the airport charges price caps for the 5 year period to 31 March 2013. The accounts include revenue and cost comparisons, and calculations of the Regulated Asset Base as determined by the CAA in its Decision document dated March 2008. The full regulatory accounts are available from www.baa.com.

Security costs

- 12.4 An analysis of security costs at Heathrow airport is provided for 2009/10.

HEATHROW AIRPORT TRAFFIC STATISTICS
FINANCIAL YEAR 2009/10 and first 6 MONTHS 2010/11

	Financial Year 2009/10	April-September 2010
Movements (000s)		
Passenger - ATM	453.8	228.1
Cargo - ATM	2.5	1.3
TOTAL ATMS	456.3	229.4
Non-Commercial flights	6.6	2.7
TOTAL	462.9	232.1
Passengers (000s)		
International	60,997.2	32,416.2
Domestic	5,135.5	2,538.8
TERMINAL TOTAL	66,132.7	34,955.0
Non - Terminal (Transit) (counted once)	122.2	74.4
TOTAL PASSENGERS	66,254.9	35,029.4
Aircraft Tonnes (000s)		
Landed - ATM	34,702.4	17,387.2

Heathrow Airport				
2009/10 Regulatory Performance				
£m (nominal)				
	Actual	Forecast	Var	Var %
Terminal passengers (000's)	66,133	72,500	-6,367.0	-8.8%
Revenue				
Net revenue from airport charges	955.4	1,029.2	-73.8	-7.2%
Other traffic charges	10.7	7.9	2.8	35.4%
Retail	331.4	331.8	-0.4	-0.1%
Property	128.8	120.7	8.1	6.7%
Rail	94.5	96.2	-1.7	-1.8%
Non regulated charges & other	222.1	189.2	32.9	17.4%
Other revenue	787.5	745.8	41.7	5.6%
Total revenue	1,742.9	1,775.0	-32.1	-1.8%
Expenditure				
Staff costs	231.5	244.6	13.1	5.4%
Maintenance & equipment costs	121.3	106.4	-14.9	-14.0%
Rent and rates	110.6	97.7	-12.9	-13.2%
Utility costs	107.9	92.9	-15.0	-16.1%
Police costs	31.4	35.1	3.7	10.5%
Rail costs	54.3	55.3	1.0	1.8%
Other costs	161.9	129.9	-32.0	-24.6%
Intragroup costs	137.6	103.5	-34.1	-32.9%
Operating costs	956.5	865.4	-91.1	-10.5%
Depreciation	434.0	434.0	0.0	0.0%
Total expenditure	1,390.5	1,299.4	-91.1	-7.0%
Regulatory operating profit (before exceptional operating costs)	352.4	475.6	-123.2	-25.9%
Exceptional operating costs	197.4	0.0	-197.4	
Regulatory operating profit	155.0	475.6	-320.6	-67.4%
Capital expenditure	804.3	1,234.5	-430.2	-34.8%
Opening RAB	9,742.9	10,096.7	-353.8	-3.5%
Closing RAB	10,728.5	11,539.1	-810.6	-7.0%
Weighted average RAB	10,235.7	10,817.9	-582.2	-5.4%
Return on weighted average RAB (before exceptional operating costs)	3.4%	4.4%	-1.0%	-21.7%
Return on weighted average RAB (after exceptional operating costs)	1.5%	4.4%	-2.9%	-65.6%

Please note: Forecast is Heathrow airport's estimate of the disaggregation of the CAA forecast for total other revenue and total opex.

HEATHROW AIRPORT - SECURITY COSTS 2009/10

Total costs of security at Heathrow airport, including the cost of policing

Direct expenditure	£000
Staff costs	136,115
Property related	292
Maintenance and equipment	458
General expenses	3,018
Capitalisation of revenue	(1,527)
Depreciation	4,228
Indirect charges	0
Police	31,471
sub total	174,055
Allocated expenditure	
Airside safety and security	238
Rates	956
Finance	3,719
Personnel	2,969
Medical	431
Airport management	28
Corporate charge	16,469
sub total	24,809
Total security costs	198,864
Total passengers	66,131
Security cost/passenger (£)	3.01