

23<sup>rd</sup> October 2013

Heathrow Airport Limited  
The Compass Centre, Nelson Road,  
Hounslow, Middlesex TW6 2GW  
T: 0844 335 1801  
W: heathrow.com

Dear Colleague,

## **Consultation process for 2014/15 airport charges**

### Introduction

Heathrow Airport (“Heathrow”) consults with its customers, typically from October each year, to set the airport charges effective from 1<sup>st</sup> April in the following year. Charges are based on the CAA’s determined maximum allowable yield.

At the request of the airline community, Heathrow also provides early sight of the provisional departing passenger charge ahead of the formal consultation process. This enables airlines to include an approximate increment in the passenger service charge (PSC) when tickets are sold for the following year.

Next year, 2014/15, is the first year of the next regulatory period (Q6) and the CAA’s final decision on maximum allowable yield will not be announced until early January 2014. This means that Heathrow will not know the maximum allowable yield applicable for the next charging period at the time when we would normally consult with our customers.

Therefore, Heathrow will have to adopt a different approach to the consultation process to ensure it effectively addresses the timing issues of the CAA’s final decision, whilst complying with the consultation requirements of the Airport Charges Regulation 2011.

### 2014/15 consultation process

Heathrow has considered how to address the timing issues of the CAA’s final decision efficiently and ensure predictability is maintained through the transition to the new regulatory period. In order to achieve this, the following outlines the process for 2014/15:

1. Hold airport charges for the first three months of 2014/15 (i.e. 1<sup>st</sup> April 2014 to 30<sup>th</sup> June 2014) at 2013/14 levels.
2. Commence the consultation process to set charges for 1<sup>st</sup> July 2014 to 31<sup>st</sup> March 2015 after the CAA’s final decision is announced. This would effectively spread any variation in annual charges over nine months rather than the usual twelve months. Consultation will be based on the existing structure of charges. The consultation process will be as follows.

End January 2014	Consultation commences by issuing consultation document
End February 2014	Formal consultation meeting
End April 2014	Final decision announced
1 <sup>st</sup> July 2014	Prices effective

Heathrow will also provide early sight of the provisional departing passenger charges ahead of the consultation to set charges effective 1<sup>st</sup> July 2014, which we will aim to provide within a week of the CAA’s final decision.

### Indicative 2014/15 maximum allowable yield

Heathrow considers it important to provide transparency on airport charges and is providing an indicative view of the maximum allowable yield for 2014/15 based on the “CAA’s final proposals”.

The CAA recently published its final proposals for Q6, where it proposed airport charges on a per passenger basis would be capped at RPI+0% per year. However, this price profile is then translated through the CAA’s formula to calculate airport charges on a per passenger basis. Therefore, after applying the CAA’s formula, the maximum allowable yield for 2014/15 is £23.182<sup>1</sup>, which is effectively a circa 7% increase from the 2013/14 maximum allowable yield, over the twelve month period. However, spreading this charge over the nine month period would result in an increase of circa 9% from the 2013/14 maximum allowable yield.

The reasons why the 2014/15 maximum allowable yield is expected to increase from the 2013/14 maximum allowable yield are as follows:

1. 2013/14 maximum allowable yield included a significant trigger adjustment that lowered the yield by around £50m. These triggers no longer apply in 2014/15 and represent a large proportion of the increase in the 2014/15 yield;
2. 2014/15 maximum allowable yield includes the RPI uplift; and
3. 2014/15 maximum allowable yield includes the correction factor for the under-recovery of charges in 2012/13, which increases the 2014/15 yield.

Heathrow will be consulting on the CAA’s final decision for charges effective 1<sup>st</sup> July 2014, which will account for changes since the CAA’s final proposals, which will include the CAA’s decision on whether to change the regulatory year end from 31 March to 31 December. The implications of this possible change are unknown at this stage.

The transition from one price control period to another is always a complex process. We have given the Q5 to Q6 transition considerable thought and, believe our approach combines efficiency with ensuring the airline community has the required clarity on which it can plan.

If you would like further information or clarification, please contact me directly or Chris Butler: [Chris\\_Butler@heathrow.com](mailto:Chris_Butler@heathrow.com)

Yours sincerely



Fidel Lopez  
**Commercial Director**

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<sup>1</sup> Note: this estimate does not include any adjustment for core/development capital expenditure or for capital triggers, as the detail of these elements have not yet been finalised by the CAA.