

Heathrow Airport

Airport Charges for 2014

Consultation Document

Date: 31 January 2014
Prepared by: Heathrow Airport Limited

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Executive Summary

This document frames Heathrow's consultation on the level of airport charges for 2014. Heathrow is proposing to set 2014 prices to recover the maximum allowable yield permitted by the Regulator. The forecast maximum allowable yield for 2014 is £23.155 per passenger (this is consistent with the CAA's notice on the Q6 price cap licence condition of RPI-1.5%).

Following discussion with the CAA, Heathrow concluded that it should consult on the 2014 airport charges after publication of the CAA's notice on the Q6 price cap licence condition¹. This ensures Heathrow's consultation is based on the CAA's decision and reflects the change in the regulatory year end from 31 March to 31 December, resulting in the first year of Q6 being a nine month period from 1 April 2014 to 31 December 2014, followed by four calendar years ending 31 December 2018.

In light of this, Heathrow has adopted the approach of holding airport charges, for the first three months of the 2014 regulatory period (i.e. 1 April 2014 to 30 June 2014), at the existing 2013/14 level. Heathrow is consulting on the proposal to recover the 2014 maximum allowable yield from 1 July 2014 to 31 December 2014. Adopting this approach effectively distributes the change in the 2014 charge over six months rather than nine months.

Heathrow has transformed passenger experience in Q5 and during Q6 will continue to meet passenger expectations and evolving airlines' needs. Passenger demand continues to outstrip supply at Heathrow and extensive capital expenditure of the past decade needs also to be recovered, whilst ensuring the airport maintains the highest standards of safety and security. In addition, this approach supports Heathrow's priorities on passenger experience, punctuality and resilience.

Publication of this consultation document initiates the consultation process. Heathrow will be holding a consultation meeting on 26 February 2014 and to further help inform the consultation, Heathrow requests written responses from the airline community by 26 March 2014. Heathrow will then consider all comments received during the consultation period, with a view to issuing a decision on 25 April 2014, for implementation from 1 July 2014.

¹ CAA issued "economic regulation at Heathrow from April 2014: notice of the proposed licence" on 10 January 2014.

Chapter 1 – Introduction and Consultation Programme

Purpose

- 1.1 The purpose of this document is to set out Heathrow's proposal for the level of airport charges and invites the airline community to provide views on the proposals.
- 1.2 Heathrow is proposing to set airport charges for 2014 to recover the forecast maximum allowable yield.
- 1.3 This consultation document sets out the calculations for the 2014 forecast maximum allowable yield based on the CAA's notice on the Q6 price cap licence condition².
- 1.4 This document also includes information on major capital investment projects subject to capital triggers, passenger forecasts/actuals and financial information on revenues and costs.
- 1.5 Heathrow is inviting comments from the airline community on the proposal so that these can be considered when we make our decision. Heathrow will be holding a consultation meeting on 26 February 2014, and we will then announce the level of prices for airport charges on 25 April 2014 (charges to be effective from 1 July 2014).

Economic Regulation

- 1.6 In December 2012, the Civil Aviation Act 2012 (the 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 the price control conditions under a new licence.
- 1.7 2014 is the first year of the sixth *regulatory period* at Heathrow. The basis of the price control regulation is the application of the RPI-X formula under Single Till regulation to determine the maximum airport charge revenue yield.
- 1.8 The CAA published its notice on the Q6 price cap licence condition on 10 January 2014 for the period April 2014 to December 2018, which includes the opening yield for 2014 and the necessary formula for calculating the maximum allowable yield for subsequent years. The CAA will grant the licence on 14 February 2014 which will take effect 1 April 2014.
- 1.9 The CAA has also decided to change the price control period from year end 31 March, to year end 31 December. This change results in the price control period changing in the initial year of Q6, 2014, to a nine month period, meaning that Q6 will be composed of an initial nine month period (1 April 2014 to 31 December 2014) followed by four years to 31 December 2018. Heathrow's

² Economic regulation at Heathrow from April 2014: notice of the proposed licence.

proposals are based on this change and all the consequential changes in the Licence Conditions that give effect to this policy.

- 1.10 Airport charges are levied on operators of aircraft in connection with the landing, parking or taking off of aircraft at the airport (including charges that are to any extent determined by reference to the number of passengers on board the aircraft)³.
- 1.11 The CAA also imposes service quality conditions and the requirement for consultation on capital investment and other regulated charges.
- 1.12 The CAA conditions for service quality measures penalise Heathrow if it fails to meet the assigned targets. The service quality measures include; 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. Further details on the service quality measures, including targets and penalties, can be found at www.heathrowairport.com⁴.
- 1.13 Details of Heathrow's capital investment plan can be found at www.heathrowairport.com⁵, a list of other regulated facilities and services can be found at www.heathrowairport.com/orc and a list of property accommodation can be found at www.heathrowairport.com/property. In addition, the full schedule of airport charges is listed in the Conditions of Use, which can be found at www.heathrowairport.com/cou.

Consultation process for 2014 charges

- 1.14 Heathrow consults with its customers, typically from October each year, to set the airport charges effective from 1st April in the following year, based on the CAA's permitted maximum allowable yield (based on the price control year end 31 March).
- 1.15 2014, is the first year of the Q6 regulatory period and the CAA's decision on price cap⁶ was not known ahead of the normal time we consult with our customers. Therefore, following discussions with the CAA, Heathrow adopted a different approach to the consultation process to ensure it effectively addresses the CAA's notice on the Q6 price cap licence condition, whilst complying with the consultation requirements of the Airport Charges Regulation 2011.
- 1.16 Heathrow considered how to address the timing issues of the CAA's notice on the Q6 price cap licence condition efficiently and ensure predictability is maintained through the transition to the new regulatory period. In order to

³ The Airport Charges Regulations 2011

⁴ <http://www.heathrowairport.com/about-us/company-news-and-information/economics-and-regulation/service-quality>

⁵ <http://www.heathrowairport.com/about-us/partners-and-suppliers/development#stakeholder>

⁶ This is referred to as "CAA's notice on the Q6 price cap licence condition" in this document.

achieve this, Heathrow decided to hold airport charges for the first three months of the 2014 regulatory period (i.e. 1 April 2014 to 30 June 2014) at 2013/14 charges.

1.17 This results in the CAA's notice on the Q6 price cap licence condition (i.e. maximum allowable yield) for 2014 being implemented from 1 July 2014 to 31 December 2014. This will effectively distribute the change in the 2014 charges over six months rather than the nine months.

Consultation Programme

1.18 Heathrow will be consulting on the level of charges with the airline community and will then announce its decision on 25 April 2014.

1.19 The publication of this consultation document is the start of our consultation on the annual setting of 2014 airport charges.

1.20 The consultation programme is as follows:

Table 1

Date	Milestone
31 Jan 2014	Publication of Heathrow consultation document on 2014 price proposals (to be effective 1 July 2014)
26 Feb 2014	Consultation meeting
26 Mar 2014	Airline written responses due
25 Apr 2014	Heathrow announces 2014 prices
1 Jul 2014	Prices applicable from

1.21 The consultation meeting will be held on 26 February 2014, which will provide the airline community with the opportunity to comment on the price proposals. The meeting will be open to all airlines and their representative bodies.

Date: Wednesday 26 February 2014

Time: 12:00 to 14:00 (GMT)

Location: Heathrow Academy
Newall Road
Hayes
Middlesex
UB3 5AP
UK

1.22 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

1.23 We invite interested parties to submit written responses to the proposals set out in this document by 26 March 2014. Responses should be sent to: airline_relations@heathrow.com

1.24 Alternatively, comments may be posted to:

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

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

Please clearly mark any confidential information in responses to this consultation.

Chapter 2 – Calculating the Maximum Allowable Yield

Calculating the Maximum Allowable Yield - The “formula”

2.1 Based on the CAA’s notice on the Q6 price cap licence condition the following price formula has been used for calculation of the 2014 yield:

$$M_{2014} = \text{£}22.261(1 + B_{2012/13}) + \frac{D_{2014}}{Q_{2014}} - \frac{T_{2014}}{Q_{2014}} - K_{2014}$$

2.2 The regulatory period “2014”, means the period of nine months between 1 April 2014 to 31 December 2014.

Where:

M_{2014} = maximum average revenue yield per passenger using Heathrow airport in relevant year (2014) expressed in £

£22.261 = Starting yield per passenger as defined by the CAA

$B_{2012/13}$ = bonus factor based on certain service quality performance in 2012/13

D_{2014} = cumulative development capex adjustment

T_{2014} = reduction in maximum allowable charges when the airport has not achieved specific capital investment milestones associated with relevant projects

Q_{2014} = forecast passengers using Heathrow airport in 2014

K_{2014} = correction factor (k factor) per passenger (whether positive or negative value) for 2012/13

Maximum allowable yield forecast for 2014

2.3 The combined impact of all the elements of the formula results in a forecast 2014 maximum allowable yield of £23.155 (passenger only flights). The full details of the formula are shown below.

Bonus Factor

2.4 The formula includes a bonus factor that 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 period preceding the relevant year. However, the CAA has set out that the bonus for actual Q5 performance will continue to be recovered through the K Factor.

Cumulative development capex adjustment

2.5 The cumulative development capex adjustment, adjusts the maximum allowable yield to account for cumulative difference between the development capex allowance and forecast development capex spend. Heathrow has forecast to use all the development capex allowance in 2014.

Triggers

2.6 Triggers reduce the maximum allowable charges when the airport has not achieved particular capital investment project milestones on time. As at 10th January 2014, details of trigger projects are being defined with the airline community and the CAA. Therefore in setting airport charges for 2014 there is no assumption for triggers and the value is set at zero (any trigger payment that may arise in 2014 will be corrected through the k factor when setting 2016 airport charges).

Passengers

2.7 Heathrow forecast passengers for 2014 are 56,601k (nine months - April 2014 to December 2014).

K Factor

2.8 The k factor in the formula for 2014 has increased the maximum allowable yield to compensate for the unanticipated under-recovery against the maximum allowable yield in 2012/13, together with an allowance for interest. The calculation is shown in Chapter 3.

Application of the Regulatory Pricing Formula

2.9 Based on the regulatory pricing formula, the forecast maximum allowable yield for Heathrow in 2014 is set out below.

$$M_{2014} = \pounds 22.261(1 + B_{2012/13}) + \frac{D_{2014}}{Q_{2014}} - \frac{T_{2014}}{Q_{2014}} - K_{2014}$$

Where :

$B_{2012/13} = 0$ - this figure is set at Zero
(2012/13 bonus is recovered through K factor)

$D_{2014} = 0$ - this figure is a forecast

$T_{2014} = 0$ - this figure is a forecast

$Q_{2014} = 56,601k$ - this figure is a forecast

$K_{2014} = -0.894$ - this figure is a forecast

Hence:

$$M_{2014} = 22.261(1 + 0) + \frac{0}{56,601} - \frac{0}{56,601} - (-0.894)$$

$$M_{2014} = 22.261 * (1) + 0 - 0 - (-0.894)$$

$$M_{2014} = 23.155$$

Charges in 2013/14

2.10 The forecast maximum allowable yield at Heathrow in 2013/14 was calculated at £21.664.

Table 2

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
12 months RPI movement to August 10	4.700%	£0.736
X	7.500%	£1.175
Specified yield 2011/12		£17.574
12 months RPI movement to August 11	5.200%	£0.914
X	7.500%	£1.318
Specified yield 2012/13		£19.806
12 months RPI movement to August 12	2.900%	0.574
X	7.500%	1.486
Bonus term	0.000%	0.000
Trigger payments (000s)	£53,694	-0.752
K factor from 2011/12 under recovery		0.550
Forecast 2013/14 maximum allowable yield		£21.664

Proposed pricing for 2014

2.11 Heathrow is proposing to set prices for 2014 to recover the forecast maximum allowable yield of £23.155 per passenger (details of the charges are shown in Chapter 6).

Chapter 3 - Correction Factor for 2012/13

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 passengers and movements compared to the forecasts used to set the airport charges for that relevant year, trigger completion dates and recovery of actual service quality bonus.
- 3.2 The k factor formula has a component to calculate the actual allowable yield, the k factor formula is shown below:

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

Formula for 2012/13 actual maximum allowable yield

- 3.3 The combined impact of all the elements of the formula results in 2012/13 actual maximum allowable yield of £19.398 (passenger only flights). The section below presents the components of the formula.
- 3.4 M_{t-2} relates to 2012/13 and its calculation is shown below:

$$M_{2012/13} = \left(1 + \frac{RPI_{t-1} + X + B_t}{100} \right) Y_{t-1} - \frac{TRIGGER_t}{Q_t} - K_t$$

Where:

$M_{2012/13}$	=	actual maximum average revenue yield per passenger using Heathrow airport in relevant year (2012/13) expressed in £
RPI_{t-1}	=	August 2010 to August 2011
X	=	7.5
B_t	=	actual bonus factor in 2012/13
Y_{t-1}	=	£17.574 (specified yield)
$TRIGGER_t$	=	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 2012/13
K_t	=	correction factor per passenger

Application of the Regulatory Pricing Formula

3.5 Based on the regulatory pricing formula, the actual maximum allowable yield in 2012/13 for the k factor is set out below.

$$M_{2012/13} = \left(1 + \frac{RPI_{t-1} + X + B_t}{100} \right) Y_{t-1} - \frac{TRIGGER_t}{Q_t} - K_t$$

Where: -

RPI_{t-1}	=	5.2
X	=	7.5
B_t	=	0.716
Y_{t-1}	=	£17.574
$TRIGGER_t$	=	£41,337k
Q_t	=	70,338k
K_t	=	-0.054

Hence;

$$M_{2012/13} = \left(1 + \frac{5.2 + 7.5 + 0.716}{100} \right) 17.574 - \frac{41,337}{70,338} - (-0.054)$$

$$M_{2012/13} = (1.1342 * 17.574) - 0.588 - (-0.054)$$

$$M_{2012/13} = 19.398$$

3.6 The actual maximum allowable yield for 2012/13 is £19.398.

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

Bonus term

3.8 The regulatory pricing formula includes a bonus component for performance of certain service quality measures, which will be recovered through the k factor.

3.9 The CAA has decided through its notice on the Q6 price cap licence condition to formalise the recovery of the bonus on actual performance based on two year lag. The recovery of the actual bonus for 2012/13 and 2013/14 will be recovered through the k factor when setting charges for 2014 and 2015, respectively. The actual bonus for these two periods, 2012/13 and 2013/14, shall be calculated by reference to the conditions as to airport charges imposed to the Airport under the Airports Act 1986 in force at 31 March 2014⁷.

3.10 The actual bonus for the period 2014 to 2018 shall be calculated by reference to the Licence Conditions that come into force 1 April 2014⁸.

3.11 Therefore the 2012/13 actual performance is captured in the k factor for 2012/13 in setting airport charges for 2014. The pricing formula set by the CAA is as follows:

$$B_t = \sum_{\substack{\text{April} \\ \text{March Specified} \\ \text{Elements}}} \sum \text{MAX} \left[0, \text{MIN} \left[\text{BNS}(T1)_{kj}, \text{BNS}(T2)_{kj}, \text{BNS}(T3)_{kj}, \text{BNS}(T4)_{kj}, \text{BNS}(T5)_{kj}, \text{BNS}(\text{HET})_{kj} \right] \right]$$

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 Q5 bonus formula is available in “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,*

⁷ Economic regulation at Heathrow from April 2014: notice of the proposed licence, page 83.

⁸ Economic regulation at Heathrow from April 2014: notice of the proposed licence, page 128.

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.⁹

3.14 An example of the calculation is shown below for March 2013.

3.15 In March 2013, arrivals reclaim measure was applicable for the bonus term. The bonus term is determined by the performance of the lowest performing Terminal when all Terminals exceed the lower performance limit. In this month all Terminals exceeded the lower performance limit and Terminal 1 was the lowest performing Terminal. Therefore, Terminal 1 result is used to calculate the bonus term for that month.

T1 Actual performance result	= 99.57%
T2 Actual performance result	= 100.00% ¹⁰
T3 Actual performance result	= 99.85%
T4 Actual performance result	= 99.62%
T5 Actual performance result	= 99.84%

$$BNS(T1)_{kj} = \frac{1}{12} \cdot MAB_k \cdot \frac{MP(T1)_{kj} - LPL_k}{UPL_k - LPL_k}$$

$$MP(T1)_{kj} = 99.57\%$$

$$LPL_k = 99.00\%$$

$$UPL_k = 100.00\%$$

$$MAB_k = 0.40\%$$

Hence:

$$BNS(T1)_{kj} = \frac{1}{12} \cdot 0.40\% \cdot \frac{99.57\% - 99.00\%}{100\% - 99.00\%}$$

$$BNS(T1)_{kj} = (0.033\%) \cdot ((0.570\%) / (1.000\%))$$

$$BNS(T1)_{kj} = 0.0190\%$$

$$BNS(T1)_{kj} = 0.019\% \text{ (rounded to 3 decimal places)}$$

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. 99.57/100 = 0.9957).

3.17 The formula is performed for all areas to determine the bonus term. The bonus term for 2012/13 is 0.716%. The breakdown of the full calculation is shown in Table 4.

⁹ Heathrow and Gatwick Airports, CAA price control proposals, November 2007, Chapter 5, page 68.

¹⁰ For months including or after "Such Time as T2 is Decommissioned" then: $MP(T2)_{kj} = 100\%$.

Triggers

3.18 There were five trigger projects with trigger completion dates in 2012/13, shown in Table 5.

Table 5

	Milestone Month	Forecast Completion Date¹¹	Latest Forecast Completion Date
Completion of T3 Integrated Baggage system	Mar-12	Oct-13	Nov-14
T2A Phase 1 Construction sufficiently progressed for operational trials to commence	Nov-12	Oct-13	Oct-13
Completion of Midfield Pier Centre	Nov-12	Nov-13	Nov-13
Completion of Passenger Connectivity to the Midfield Pier	Nov-12	Nov-13	Oct-13
Post T5 Transfer Baggage System Completion of the T3-T1 Tunnel & Baggage System	Jun-12	Mar-13	Mar-14

3.19 All five projects will not meet their completion milestone dates, and the k factor for 2012/13 includes the monthly trigger payments that fall into this period, as follows.

- “Completion of T3 Integrated Baggage system” was forecast not to be complete by its milestone date by nineteen months with twelve months falling into the year when setting airport charges for 2012/13.
- “T2A Phase 1 Construction sufficiently progressed for operational trials to commence” was forecast not to be complete by its milestone date by eleven months with four months falling into the year when setting airport charges for 2012/13.
- “Completion of Midfield Pier Centre” was forecast not to be complete by its milestone date by twelve months with four months falling into the year when setting airport charges for 2012/13.
- “Completion of Passenger Connectivity to the Midfield Pier” was forecast not to be complete by its milestone date by twelve months with four months falling into the year when setting airport charges for 2012/13.
- “Post T5 Transfer Baggage System Completion of the T3-T1 Tunnel & Baggage System” was forecast not to be complete by its milestone date by nine months with all nine months falling into the year when setting airport charges for 2012/13.

¹¹ The forecast completion date is consistent to the forecast presented in the “Heathrow Airport Limited, 2012/13 Airport Charges Consultation” document.

- 3.20 In addition, two projects were forecast not be delivered by their milestone dates when setting airport charges for 2012/13 and have not been delivered by their milestone dates; Eastern maintenance base and Completion of Outer Pier North.
- 3.21 Furthermore, the CAA has endorsed the suspension of the Eastern maintenance base trigger from November 2012. This results in a reduced trigger payment than that was forecast when setting 2012/13 airport charge (twelve months trigger payment was assumed when setting 2012/13 airport charges, but with the suspension of this trigger, this results in an eight month trigger payment).
- 3.22 Finally, a new trigger project, T5 TTS Enhancements, was endorsed by CAA in March 2012, which has a milestone completion date of May 2011 and a forecast completion date of March 2014. The k factor for 2012/13 includes the twelve month trigger payment.

Summary of trigger payment (2012/13 prices)

Projects with milestone dates in 2012/13

Completion of T3 Integrated Baggage system	=£16,764,720
T2A Phase 1 Construction sufficiently progressed for operational trials to commence	=£5,729,120
Completion of Midfield Pier Centre	=£3,146,320
Completion of Passenger Connectivity to the Midfield Pier	=£1,455,760
Post T5 Transfer Baggage System Completion of the T3-T1 Tunnel & Baggage System	=£4,332,060

Projects carried forward into 2012/13

Eastern maintenance base	=£1,596,640
Completion of Outer Pier North	=£6,903,120
T5 TTS Enhancements	=£1,408,800
Total Payment	=£41,336,540

K factor for 2012/13

	2012/13 Passengers 000s	Actual yield (£)	2012/13 Revenue £000s	Allowable yield (£)	Under/Over-recovery
Heathrow	70,338	18.683	1,314,098	19.398	Under-Recovery

Total revenue from airport charges (passenger only flights) at Heathrow in	2012/13	Actual (£000s)	R_{t-2}	1,314,098	
Passengers using Heathrow Airport in	2012/13	Actual (000s)	Q_{t-2}	70,338	
Maximum allowable revenue yield at Heathrow in	2012/13	Actual (£)	M_{t-2}	19.398	
Interest rate from weekly Treasury Bill Discount rate*	2012/13	Actual	I_{t-2}	0.285	
Forecast Passengers using Heathrow in	2014	Forecast (000s)	Q_t	56,601	
Correction amount	$K_t = ((R_{t-2} - (Q_{t-2} \times M_{t-2})) / Q_t \times (1 + I_{t-2} / 100))^2$		Forecast (£)	K_t	-0.894

*Based on Sep 12 to Aug 13 average (see table 6).

Table 6

Tender Date	Maturity date	Size (£ mn)	Cover	Avg Yield (%)
07-Sep-12	10-Dec-12	500	4.37	0.236
14-Sep-12	17-Dec-12	500	3.63	0.231
21-Sep-12	24-Dec-12	500	3.36	0.264
28-Sep-12	31-Dec-12	500	3.93	0.261
05-Oct-12	07-Jan-13	500	4.97	0.252
12-Oct-12	14-Jan-13	500	5.15	0.246
19-Oct-12	21-Jan-13	500	3.99	0.241
26-Oct-12	28-Jan-13	500	3.05	0.235
02-Nov-12	04-Feb-13	500	3.52	0.231
09-Nov-12	11-Feb-13	500	4.11	0.209
16-Nov-12	18-Feb-13	500	2.76	0.226
23-Nov-12	25-Feb-13	500	3.03	0.224
30-Nov-12	04-Mar-13	500	3.51	0.232
07-Dec-12	11-Mar-13	500	3.93	0.192
14-Dec-12	18-Mar-13	500	3.15	0.186
21-Dec-12	25-Mar-13	500	3.05	0.309
04-Jan-13	08-Apr-13	500	4.43	0.243
11-Jan-13	15-Apr-13	500	4.42	0.253
18-Jan-13	22-Apr-13	500	3.27	0.264
25-Jan-13	29-Apr-13	500	2.47	0.290
01-Feb-13	07-May-13	500	3.55	0.289
08-Feb-13	13-May-13	500	4.44	0.272
15-Feb-13	20-May-13	500	2.36	0.312
22-Feb-13	28-May-13	1,000	3.53	0.331
01-Mar-13	03-Jun-13	1,000	2.79	0.345
08-Mar-13	10-Jun-13	1,000	3.14	0.313
15-Mar-13	17-Jun-13	1,000	3.05	0.318
22-Mar-13	24-Jun-13	1,000	2.24	0.351
28-Mar-13	01-Jul-13	1,000	3.33	0.376
05-Apr-13	08-Jul-13	1,000	2.84	0.354
12-Apr-13	15-Jul-13	1,000	2.72	0.365
19-Apr-13	22-Jul-13	500	5.72	0.333
26-Apr-13	29-Jul-13	500	4.46	0.328
03-May-13	05-Aug-13	500	4.60	0.319
10-May-13	12-Aug-13	500	5.45	0.303
17-May-13	19-Aug-13	500	4.84	0.308
24-May-13	27-Aug-13	500	3.68	0.295
31-May-13	02-Sep-13	500	4.03	0.309
07-Jun-13	09-Sep-13	500	4.11	0.272
14-Jun-13	16-Sep-13	500	3.52	0.308
21-Jun-13	23-Sep-13	500	2.72	0.318
28-Jun-13	30-Sep-13	500	2.64	0.329
05-Jul-13	07-Oct-13	500	4.09	0.325
12-Jul-13	14-Oct-13	500	4.69	0.316
19-Jul-13	21-Oct-13	500	4.68	0.309
26-Jul-13	28-Oct-13	500	4.05	0.300
02-Aug-13	04-Nov-13	500	4.91	0.301
09-Aug-13	11-Nov-13	500	3.75	0.289
16-Aug-13	18-Nov-13	500	5.04	0.285
23-Aug-13	25-Nov-13	500	3.82	0.275
30-Aug-13	02-Dec-13	500	4.61	0.270
Average:				0.285%

Application of the Regulatory Pricing Formula

3.23 The actual maximum allowable yield for 2012/13 is £19.398 compared to the actual yield recovered £18.683, which results in an under recover of £0.894. This under recovery is recovered through the k factor for 2012/13 in setting airport charges in 2014.

3.24 The 2012/13 under recovery is primarily driven by a change in the landing charges mix for noise chapters, where there has been a higher proportion of lower category noise chapters compared to the forecasts used to set airport charges in 2012/13. In addition, there has been a parking charge correction to adjust for the higher chargeable periods assumed at the time of setting charges for 2012/13 than compared to the actual chargeable periods. Both of these factors have resulted in a change in mix leading to an under recovery.

Table 7

K factor analysis		
Airport charges revenue 2012/13	A	1,314,098
Passengers 2012/13	B	70,338
Actual yield		£18.683
Forecast to recover 2012/13	C	£19.398
Interest rate	D	0.285%
Forecast passengers 2014	E	56,601
K factor from 2012/13 under recovery = ((A-(B*C))/E*((1+D)^2)		-£0.894

Chapter 4 - Development Capital

- 4.1 Heathrow, the airlines and the CAA have recognised that agreeing investment plans at the time of the price review for the next five to six years, does not reflect the need for flexibility. Therefore, it was agreed that a two tier approach would be adopted, where capital investment would be classified as either, Core or Development, to ensure flexibility of the capital investment programme throughout Q6.
- 4.2 Core capital represents firm investment commitments where scope and cost estimates are reasonably certain. The CAA's allowance for Core capital investment is at a P50 level (this is the likelihood of the cost being higher is equal to the likelihood being lower). Development capital projects have a lower definition of scope and cost estimations than Core projects. The CAA's allowance for Development capital investment is at a P80 level to reflect the higher level of uncertainty.
- 4.3 Core and Development capital investment will be subject to the Gateway process with airlines. The Gateway process has a number of Gateway events. The first two Gateways' is where the scope and cost estimates are developed, after which the project is transitioned to Core, at Gateway 3, when the scope and cost estimates are well defined. The project is then progressed through the remaining Gateways' to detailed design and construction.
- 4.4 This approach to the two tier capital investment is designed so that Heathrow does not earn a return on any Development capital allowance that has not been used, or transitioned to Core. The mechanism to take this into effect is the cumulative development capital adjustment in the maximum allowable yield, which requires Heathrow to make an estimate (on a cumulative basis throughout Q6) of how much Development capital allowance will be spent or transitioned to Core.
- 4.5 This adjustment only applies to Development capital investment and the existing incentive mechanisms continue to apply.
- 4.6 For 2014 Heathrow is forecasting that the full Development capex allowance will be spent or transitioned to core. Therefore no adjustment is made in setting the 2014 maximum allowable yield.

Chapter 5 - Trigger Implications

- 5.1 The CAA's maximum allowable yield formula for Q6 will continue to include a trigger element which means that if a trigger project is not complete by a specified project milestone date then the allowable yield is reduced.
- 5.2 Q6 triggers will be placed around a subset of "key projects". However, unlike Q5, projects that triggers will be attached to have not been defined in the CAA's notice on the Q6 price cap licence condition. In Q6, triggers will be attached to projects at Gateway 3 of the projects process, as projects transition from Development to Core. This means trigger projects will be developed during the Gateway Process with airlines, where triggers for individual projects will be developed, and then formally attached to applicable key projects at Gateway 3.
- 5.3 As at 10th January 2014 details of the trigger projects are being defined with the airline community and the CAA. Therefore in setting airport charges for 2014 there is no assumption for triggers.
- 5.4 However, any triggers that are attached to projects that have milestone dates for 2014, which are finalised after the 10th January 2014, will be accounted for when setting 2016 airport charges, which will adjust for any trigger payments that may arise for projects that have milestone dates in 2014 (i.e. April 2014 to December 2014).

Chapter 6 – Forecast Revenue for 2014

	1st April 2014 to 30th June 2014			1st July 2014 to 31st December 2014			2014	
	(g)			(i)			(g+i)	
	Traffic Volume Units	Actual	Forecast Revenue	Traffic Volume	Proposed Charge	Forecast Revenue	Traffic Volume	Forecast Revenue
Landing Charge								
Noise Charge								
Peak								
Chapter 2 [Landings]	0	£7,817.88	£0	0	£9,108.60	£0	0	£0
Chapter 3 High [Landings]	0	£7,817.88	£0	0	£9,108.60	£0	0	£0
Chapter 3 Base [Landings]	1,383	£2,605.96	£3,604,043	2,176	£3,036.20	£6,606,771	3,559	£10,210,814
Chapter 4 High [Landings]	14,764	£1,563.58	£23,084,695	27,530	£1,821.72	£50,151,952	42,294	£73,236,647
Chapter 4 Base [Landings]	17,654	£1,302.98	£23,002,809	35,278	£1,518.10	£53,555,532	52,932	£76,558,341
Chapter 4 Minus [Landings]	25,506	£781.79	£19,940,336	52,695	£910.86	£47,997,768	78,201	£67,938,104
Total [Landings]	59,307		£69,631,883	117,679		£158,312,023	176,986	£227,943,906
check								
Super Night Peak								
Chapter 2 [Landings]	0	£19,544.70	£0	0	£22,771.50	£0	0	£0
Chapter 3 High [Landings]	0	£19,544.70	£0	0	£22,771.50	£0	0	£0
Chapter 3 Base [Landings]	0	£6,514.90	£0	0	£7,590.50	£0	0	£0
Chapter 4 High [Landings]	0	£3,908.95	£0	0	£4,554.30	£0	0	£0
Chapter 4 Base [Landings]	0	£3,257.45	£0	0	£3,795.25	£0	0	£0
Chapter 4 Minus [Landings]	0	£1,954.48	£0	0	£2,277.15	£0	0	£0
Total [Landings]	0		£0	0		£0	0	£0
check								
Emissions Charge								
Total kg Nox rating [kg]	1,541,982	£7.76	£11,965,780	3,059,654	£9.13	£27,934,641	4,601,636	£39,900,421
Average kg Nox per landing [kg]	26.0		£11,965,780	26.0		£27,934,641	26.0	£39,900,421
Revenue exc ANS Charges			£81,597,663			£186,246,664		£267,844,327
ANS Charge								
Per ATM Charge [Landings]	59,307	£78.58	£4,660,344	117,679	£82.43	£9,700,280	176,986	£14,360,624
Per Metric Tonne	9,103,625	£1.06	£9,649,843	18,063,727	£1.11	£20,050,737	27,167,352	£29,700,580
Total			£14,310,187			£29,751,017		£44,061,204
Average Weight (Tonnes)	153.5			153.5			153.5	
Total Landing Revenue (a)			£95,907,850			£215,997,681		£311,905,531
check								
Departing Passenger Charge								
Departing OD Passenger Charge								
Europe [Dep Pax]	3,096,765	£28.30	£87,638,450	6,393,566	£31.15	£199,159,581	9,490,331	£286,798,031
Other [Dep Pax]	3,476,204	£39.75	£138,179,109	7,402,046	£43.75	£323,839,513	10,878,250	£462,018,622
Total [Dep Pax]	6,572,969		£225,817,559	13,795,612		£522,999,094	20,368,581	£748,816,653
Departing Transfer Passenger Charge								
Europe [Dep Pax]	1,043,036	£21.23	£22,143,654	2,151,071	£23.36	£50,249,019	3,194,107	£72,392,673
Other [Dep Pax]	1,377,871	£29.82	£41,088,113	3,225,129	£32.81	£105,816,482	4,603,000	£146,904,595
Total [Dep Pax]	2,420,907		£63,231,767	5,376,200		£156,065,501	7,797,107	£219,297,268
Departing Transit Passenger Charge								
Europe [Dep Pax]	0	£21.23	£0	0	£23.36	£0	0	£0
Other [Dep Pax]	4,089	£29.82	£121,934	11,645	£32.81	£382,072	15,734	£504,006
Total [Dep Pax]	4,089		£121,934	11,645		£382,072	15,734	£504,006
Remote Stand Rebate								
Remote Stand Rebate [Dep Pax + Arr Pax]	1,434,000	£-5.15	£-7,385,100	2,772,000	£-5.15	£-14,275,800	4,206,000	£-21,660,900
Total Departing Passenger Charge Revenue (b)	8,997,965		£281,786,160	19,183,457		£665,170,867	28,181,422	£946,957,027
Parking Charge								
Narrow bodied Chargeable Period [Units of 15 minutes]	179,638	22.68	4,074,190	370,258	24.71	9,149,075	549,896	£13,223,265
Wide bodied Chargeable Period [Units of 15 minutes]	212,293	54.45	11,559,354	443,938	59.30	26,325,523	656,231	£37,884,877
Total Parking Charge (c)			£15,633,544			£35,474,598		£51,108,142
Terminal Pax Flights: Total Revenue			£393,327,554			£916,643,146		£1,309,970,700
Non-Terminal Pax Flights (GA, Troops etc)								
Non-Terminal Pax Flights								
Landing Revenue (d)			£157,818			£182,282		£340,100
Departing Passenger Revenue (e)			£84,947			£153,719		£238,666
Parking Revenue (f)			£20,366			£20,604		£40,970
Total Non-Terminal Pax Flights Revenue			£263,131			£356,605		£619,736
Total Regulated Revenue (Pax Only Flights)								
Total Regulated Revenue								
Landing Revenue (a) + (d)			£96,065,668			£216,179,963		£312,245,631
Departing Passenger Revenue (b) + (e)			£281,871,107			£665,324,586		£947,195,693
Parking Revenue (c) + (f)			£15,653,910			£35,495,202		£51,149,112
Total Regulated Revenue			£393,590,685			£916,999,751		£1,310,590,436
Total Passengers			18,562,935			38,038,312		56,601,247
Total Regulated Yield								23.155

Chapter 7 – Proposed Airport Charges Tariffs effective 1 July 2014

	Final 2013/14 £ GBP	Proposed 2014 £ GBP
Charges on Landing		
Peak		
Chapter 2	7,817.88	9,108.60
Chapter 3 high	7,817.88	9,108.60
Chapter 3 base	2,605.96	3,036.20
Chapter 4 high	1,563.58	1,821.72
Chapter 4 base	1,302.98	1,518.10
Chapter 4 minus	781.79	910.86
Super Night Peak		
Chapter 2	19,544.70	22,771.50
Chapter 3 high	19,544.70	22,771.50
Chapter 3 base	6,514.90	7,590.50
Chapter 4 high	3,908.95	4,554.30
Chapter 4 base	3,257.45	3,795.25
Chapter 4 minus	1,954.48	2,277.15
Emissions charge (per kg)	7.76	9.13
ANS charge		
per ATM	78.58	82.43
Per Metric tonne	1.06	1.11
Charge on departing passengers		
Europe - Destination	28.30	31.15
Other - Destination	39.75	43.75
Europe - Transfer	21.23	23.36
Other - Transfer	29.82	32.81
Europe - Transit	21.23	23.36
Other - Transit	29.82	32.81
Remote Stand Rebate (all passengers)	-5.15	-5.15
Minimum charge	1,263.00	1,406.00
Charges on aircraft parking		
Narrow bodied	22.68	24.71
Wide bodied	54.45	59.30

Chapter 8 - Financial and Traffic Information

Traffic statistics and charging parameters

- 8.1 The actual traffic statistics for the five years to 2012/13 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.

Regulatory accounting information

- 8.2 Heathrow is a privately owned company and a summary of its regulatory accounts are presented for the 12 month period to 31 March 2013. These accounts compare the airport's financial performance for the year ended 31 March 2013 on a comparable basis with the forecasts used by the CAA in determining the airport charges price cap for the 5 year period to 31 March 2013¹².
- 8.3 The regulatory 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.
- 8.4 The full regulatory accounts and annual reports are available from www.heathrowairport.com.

¹² CAA extended Q5 from March 2013 to March 2014.

Passenger only flights - actual and forecast

	Actual					Forecast
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Arriving Passengers	33,055,283	33,167,916	33,282,772	35,092,421	35,305,114	36,479,760
Departing passengers						
Origin and destination						
Europe	14,688,784	14,661,948	14,743,673	11,716,309	11,661,207	10,972,015
Other	18,185,232	18,302,809	18,084,452	14,213,133	13,699,869	15,125,165
Transfer passengers						
Europe	Transfer passengers not separately identified			3,856,432	4,028,131	3,807,483
Other				5,172,212	5,579,652	5,859,400
Transit passengers						
Europe	1,859	2,834	1,623	646	1,462	714
Other	160,859	119,384	96,303	47,738	47,004	39,082
Departing passengers	33,036,734	33,086,975	32,926,051	35,006,470	35,017,325	35,803,859
Total terminal passengers	66,092,017	66,254,891	66,208,823	70,098,891	70,322,439	72,283,618
PATMs	467,130	453,780	453,938	473,761	464,686	469,139

Heathrow Airport 2012/13 Regulatory Performance £m (nominal)				
	Actual	Forecast	Var	Var %
Terminal passengers (000's)	70,322	78,200	-7,878.0	-10.1%
Revenue				
Net revenue from airport charges	1,295.9	1,558.8	-262.9	-16.9%
Other traffic charges	15.3	8.9	6.4	71.9%
Retail	437.5	437.4	0.1	0.0%
Property	138.6	140.3	-1.7	-1.2%
Rail	116.7	116.7	0.0	0.0%
Non regulated charges & other	221.4	205.4	16.0	7.8%
Other revenue	929.5	908.7	20.8	2.3%
Total revenue	2,225.4	2,467.5	-242.1	-9.8%
Expenditure				
Staff costs	328.4	267.4	-61.0	-22.8%
Maintenance & equipment costs	126.9	124.1	-2.8	-2.3%
Rent and rates	128.6	119.4	-9.2	-7.7%
Utility costs	86.8	122.5	35.7	29.1%
Police costs	28.3	39.8	11.5	28.9%
Rail costs	59.1	67.6	8.5	12.6%
Other costs	142.4	145.0	2.6	1.8%
Intragroup costs	127.1	114.4	-12.7	-11.1%
Operating costs	1,027.7	1,000.2	-27.5	-2.7%
Depreciation	572.6	572.6	0.0	0.0%
Total expenditure	1,600.3	1,572.8	-27.5	-1.7%
Regulatory operating profit (before exceptional operating costs)	625.1	894.7	-269.6	-30.1%
Exceptional operating costs	62.0	0.0	-62.0	
Regulatory operating profit	563.1	894.7	-331.6	-37.1%
Capital expenditure	1,209.6	680.4	529.2	77.8%
Opening RAB	12,705.3	13,996.3	-1,291.0	-9.2%
Closing RAB	13,727.9	14,523.4	-795.5	-5.5%
Weighted average RAB	13,216.6	14,259.9	-1,043.3	-7.3%
Return on weighted average RAB (before exceptional operating costs)	4.7%	6.3%	-1.5%	-24.6%
Return on weighted average RAB (after exceptional operating costs)	4.3%	6.3%	-2.0%	-32.1%

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