

# Heathrow Airport Structure of Aeronautical Charges Proposals

## A Consultation Document

Date : 2nd August 2010

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# Contents

	<b>Page</b>
Executive Summary	5
1. Introduction and Consultation Programme	7
2. Overall Balance between Passenger, Landing and Parking Charges	13
3. Passenger Charges	17
A. Structure of the Departing Passenger Charge	18
B. Transfer Passenger Charge	20
C. Transit Passenger Charge	22
D. Minimum Departure Charge	23
4. Landing Charges	27
A. Basis for Calculating Landing Charges	27
B. Noise and Emissions Charging	28
5. Aircraft Parking Charges	33
6. Air Navigation Services (ANS) Charge	35
7. Summary of Proposals and Indicative Tariff Analysis	37
8. Implementation Timescale	39
9. Next Steps	41
<b>Annexes</b>	
A. Circulation List for Consultation Document	43
B. Notes from Initial Engagement Sessions	45
C. Overall Balance of Passenger, Landing and Parking Analysis	57
D. Destination Based Departing Charge Analysis	59
E. Transfer Passenger Cost Analysis	61
F. Minimum Charge Analysis	63
G. Heathrow Noise Targets	65
H. Detailed Current and Proposed Tariffs	69
J. Summary of Consultation Questions	73



## Executive Summary

Heathrow Airport Limited (HAL) is reviewing the structure of its aeronautical charges, and is consulting airlines on its proposals. While the level of charges is reviewed periodically by the CAA, the structure of charges has not been fundamentally reviewed for a number of years.

One of the key drivers for this review has been our desire to ensure that the structure of airport charges supports Heathrow's vision to become Europe's hub of choice, and reinforces Heathrow's position as the UK's gateway to the world. We have also responded to requests from Heathrow airlines for the airport to undertake a thorough review of the structure of charges.

To help us inform the development of our consultation proposals we held a number of informal engagement sessions with the airline community in the first half of 2010. These sessions were open to all carriers and airline representative bodies, and we discussed collaboratively the objectives for a new structure of charges, possible options for changes and the implications of those options.

In this document we set out our proposals for a new structure for aeronautical charges which is designed to;

- 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.

We have developed our proposals with regard to our legal and regulatory obligations and the impact of the potential changes. To support this understanding, we have carried out financial modelling to assess the impacts of changes in the structure on overall passenger demand and on individual airlines and airline groups.

The CAA's regulatory settlement for the current five-year period to 31st March 2013 imposes a cap on the airport charges revenue that the airport can earn from each passenger, and the proposals set out in this document will be implemented within the existing price cap. However, over the long run we

believe the proposals will benefit both the airport and its users by driving additional growth in passenger volumes at Heathrow.

Major reforms to airport charges are generally implemented gradually to minimise the impacts on affected airlines. However, given the balanced nature of the proposals, we believe it would be appropriate to adopt the complete package of changes in setting charges for the forthcoming year.

We are seeking formal responses to the proposals from the airline community by 30<sup>th</sup> September 2010. We intend to announce our final decision, taking account of the comments received during the consultation period on 29<sup>th</sup> October 2010, for implementation from 1<sup>st</sup> April 2011.

If you would like to meet with us to discuss our proposals, please contact us using the details provided in the consultation document.

# Chapter 1

## Introduction and Consultation Programme

### Purpose

- 1.1. Heathrow Airport Limited (HAL) is reviewing the structure of Heathrow's airport charges. The purpose of this document is to set out HAL's proposals for the new structure and invite Heathrow airlines to provide their views on the proposals.
- 1.2. We are keen to understand airline views on our proposed changes so that these can be taken into account when making our decision about the future structure of airport charges. We intend to begin introducing elements of the new structure of charges from April 2011, within the overall Q5 (see 1.5 below) price cap set by the CAA.
- 1.3. We intend to announce our decision on the new structure in October 2010, in advance of the annual consultation on the level of charges for 2011/12.

### Economic Regulation

- 1.4. Under the Airports Act 1986 the CAA is required to set the maximum amount that may be levied by HAL during five-year periods, known as quinquennia.
- 1.5. For the current quinquennium (known as Q5) which runs from 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2013, HAL is permitted by the CAA to increase the level of airport charges at Heathrow each year by RPI plus 7.5 percent from an initial base of £12.80 per passenger (where RPI is the 'Retail Price Index' measure of inflation). HAL then sets the level of charges at Heathrow to comply with this price cap.
- 1.6. The CAA's policy is that it will not, as a matter of course, step into the regulation of the structure of airport charges. It is generally for the relevant airport operator to decide how airport charges should be structured within the maximum amount specified by the CAA.

### Heathrow's current structure of airport charges

- 1.7. Heathrow's charges for 2010/11 are comprised of four main elements:
  - Departing Passenger Charges – representing 71% of total regulated airport charges.

- Landing Charges – representing 19% of total regulated airport charges.
  - Aircraft Parking Charges – representing 10% of total regulated airport charges.
  - Air Navigation Services (ANS) Charges – which are essentially a cost pass through and therefore not included in the balance of charges sections of this document.
- 1.8. This consultation document proposes a package of changes to the current structure of these four elements of airport charges and the overall balance between them. The outcome of this review will determine the structure to be used in setting charges for 2011/12 and the remainder of Q5.
- 1.9. The review has deliberately not considered the overall level of charges; this will continue to be discussed at the Annual Charges Consultation (ACC). Any change to the structure as a result of this review will be implemented to comply with the maximum allowable yield permitted by the CAA's price cap formula for Q5.

### **Context for the Structural Review of Charges**

- 1.10. Heathrow Airport is the United Kingdom's only international hub airport and a vital piece of national infrastructure. We believe Heathrow's position as a hub airport results from the way it supports a strong network model of short-haul and long-haul traffic. The airport's airline customers consolidate traffic at Heathrow to enable them to serve more destinations, at higher frequency with bigger aircraft, which in turn benefits London and the UK.
- 1.11. Heathrow competes for customers with other hubs across Europe. We want to continue to work with airlines to strengthen Heathrow's position as a hub airport, and we will seek to support airline and alliance growth at Heathrow.
- 1.12. The shared vision of HAL and airlines is to make Heathrow the 'hub of choice'. We believe the simplest way to attract more passengers is to improve the passenger experience. Over the long term this means investing in the infrastructure and airport capacity. We believe that the relationship between vision, strategy and the physical planning of the airport is of paramount importance.
- 1.13. During 2009 we consulted with the airline community and agreed a common vision statement for a future Heathrow:

*"A world-class airport – to be Europe's hub of choice by making every journey better"*



- 1.14. The importance of Heathrow to the economy of UK and air passengers is such that its hub status must be maintained and improved to a level where it is rated by its customers as 'the hub of choice' amongst its European competitors. Heathrow should be a world class facility and should be striving to continuously improve, making every journey better for its customers. Heathrow will become 'Europe's hub of choice' by delivering an excellent passenger experience, partly driven by improving and delivering flexible infrastructure and an expanded capacity that allows the hub to grow as airlines grow.
- 1.15. Through consultation we have agreed a number of strategic statements with the airline community which help to describe the vision for a future Heathrow. These are statements of 'strategic intent' and they set out, for each area of our strategy framework, how the vision statement might be achieved. Our strategic intents for a future Heathrow are to:
- Deliver an airport experience that is the preferred choice for passengers
  - Deliver a hub airport supported by the airline community
  - Run an operation that is reliable, resilient and efficient
  - Deliver an airport outcome that is successful in financial terms
  - Enable a positive employee experience that is focused on increased productivity and efficiency
  - Design and deliver quality, predictable, value for money infrastructure
  - Deliver an airport which is sustainable
  - Be responsive to the needs of stakeholders

### **Objectives for the Structural Review**

- 1.16. We believe that the structure of airport charges has the potential to play an important role in supporting the achievement of this vision, and it is therefore timely to review the structure of airport charges.
- 1.17. Heathrow airlines have also requested that the airport conducts a review of the structure of charges, and as part of the annual consultations for setting charges for 2009/10 and 2010/11 HAL committed undertaking such a review.
- 1.18. In line with the strategy and vision outlined above, our objectives for the new charging structure are:
- to support Heathrow's hub status
  - to encourage the efficient use of scarce airport resources;
  - to simplify the charging structure;

- to promote environmentally responsible behaviours; and
- to comply with legal and regulatory obligations.

1.19. Our proposals in this document have been developed so that they support the achievement of these objectives, in a way that we consider to be in the general interest of airport users.

## **Programme of Consultation**

1.20. We recognise that effective consultation with airlines on potential changes to the structure of airport charges is important to ensure the proposals are understood by airlines and that its decisions are properly informed by airline views.

1.21. Following the annual charges consultation for charges in 2010/11, we initiated a programme of informal engagement with airlines to understand their views on the current structure of charges and to assist in identifying the issues that should be taken into account in developing proposals for a new structure of charges. Annex B provides HAL's notes of these engagement sessions.

1.22. Table 1.1 shows how the initial engagement between January and June 2010 fits into the overall consultation process through to the end of October 2010, when we intend to announce its decision on the new structure of charges to apply from April 2011.

1.23. The publication of this document on 30<sup>th</sup> July 2010 is the start of our formal consultation on the airport's proposals to change the structure of charges at Heathrow. The formal consultation will run for a period of two months, and close at the end of September 2010.

1.24. We will be hosting a conference call on 3rd August 2010 to launch the consultation, cover any initial questions, and to confirm the process for responding to the consultation. The dial-in details for this conference call are:

Date:	Tuesday 3 August 2010	
Time:	11.00 (BST)	
Conference ID:	90057455	
Dial-in Numbers:	UK Free Call	0800 073 8942
	UK Standard International	+44 (0) 1452 542 566
	USA Free Call	1866 776 2899

**Table 1.1 Consultation Programme**

	<b>Date</b>	<b>Milestone</b>
INFORMAL ENGAGEMENT	19 Jan 2010	First airline engagement session
	11 Mar 2010	Second airline engagement session
	30 Jun 2010	Third airline engagement session
FORMAL CONSULTATION	30 Jul 2010	Consultation document issued
	03 Aug 2010	Consultation launch conference call
	02 Sep 2010	Formal consultation meeting
	30 Sep 2010	Deadline for written responses from airlines
	29 Oct 2010	HAL announces new structure of charges
	Nov-Dec 2010	Annual Charges Consultation for 2011/12
	01 Apr 2011	New structure of charges implemented

1.25. We will also hold a formal consultation meeting in September 2010 to give airlines an opportunity to ask questions provide initial views on the proposals. The meeting will be open to all airlines and representative bodies.

Date: Thursday 2 September 2010  
Time: 14:00 (BST)  
Location: The Compass Centre  
Nelson Road,  
Hounslow,  
Middlesex,  
TW6 2GW  
UK

1.26. If you would like to attend the September meeting please inform Simon Talbot using the contact details provided below.

1.27. We are also available to meet with airlines or any interested party who wishes to discuss the proposals during the formal consultation period.

1.28. To arrange a meeting or if you would like any further information on this consultation, please contact Simon Talbot (airlinerelations@baa.com, telephone number UK 020 8757 5570).

## How to Respond

- 1.29. We invite interested parties to submit written responses to the proposals sets out in the consultation document by 30th September 2010. The document sets out a number of questions (summarised in Annex J) to help interested parties structure their responses, although HAL would welcome views on any aspects of the proposals.
- 1.30. Responses should be sent by e-mail to Simon Talbot (airlinerelations@baa.com) by 30 September 2010.
- 1.31. Alternatively, comments may be posted to:  
  
Simon Talbot  
Airline Business Development  
The Compass Centre,  
Nelson Road,  
Hounslow,  
Middlesex,  
TW6 2GW  
UK
- 1.32. We will acknowledge all responses. Any material that is regarded as confidential should be clearly marked and included in a separate annex.

## Chapter 2

### Overall Balance between Passenger, Landing and Parking Charges

#### Current Structure

- 2.1. In 2010/11 the overall proportions of income recovered from the different categories of airport charges are as follows:
- Departing Passenger Charge 71%
  - Landing Charges 19%
  - Parking Charges 10%
- 2.2. The ANS charge is excluded from this analysis as it is a fixed cost to HAL and therefore charged to airlines on a cost recovery basis.

#### Objective

- 2.3. We believe that the proportions of revenue generated by each element of airport charges should broadly align with Heathrow's cost structure, in terms of the value of assets in each category.
- 2.4. We consider that this will increase the economic efficiency of airport charges by ensuring that the relative balance between the charges for each categories relates to their cost of provision..

#### Options considered

- 2.5. We have considered the following options:
- No change from the existing charging structure;
  - Changing the relative proportions of revenue generated by the departing passenger charge, landing charges and parking charges to align with an analysis of the airport's cost base.
- 2.6. To inform the assessment of the options, we have analysed the value of assets used in supporting different activities summarised in Annex C. This analysis sub-divided Heathrow's asset base into three categories
- Passenger processing: assets used in connection with the processing of passengers, including Terminals, Landside assets and baggage;

- Landing: assets used in connection with the landing, take-off and manoeuvring of aircraft, including runways, taxiways and the control tower; and
- Parking: assets used in connection with the parking of aircraft, such as parking stands.

2.7. This analysis shows that the Heathrow's asset base sub-divides as follows:

- |                        |     |
|------------------------|-----|
| • Passenger processing | 79% |
| • Landing              | 18% |
| • Parking              | 3%  |

2.8. Based solely on the cost analysis, there would appear to be a case for increasing the share of revenue generated by the departing passenger charge, and decreasing the share of revenue from parking charges.

2.9. However, we believe that there are a number of other considerations that should be taken into account in determining the overall balance of charges between the different categories:

- Environmental performance: Heathrow's landing charges incorporate measures to encourage improved environmental performance, and reducing the share of revenue generated by landing charges would weaken the incentives created by these measures.
- Stand utilisation: Aircraft stands at Heathrow are a scarce resource and it is important to encourage their efficient utilisation. Reducing the share of revenue generated by parking charges to align with relative asset values would weaken Heathrow's ability to incentivise efficient utilisation.

## **Proposal**

2.10. We are proposing to rebalance the overall proportions of income recovered from the different categories of airport charges as follows:

- |                              |     |
|------------------------------|-----|
| • Departing Passenger Charge | 75% |
| • Landing Charges            | 21% |
| • Parking Charges            | 4%  |

- 2.11. As outlined above, we believe it is important to maintain strong incentives for airlines to improve their environmental performance and utilisation of scarce aircraft stands. We therefore propose an increase in the landing proportion from 19% to 21%.
- 2.12. Our view is that it would be counter to the most effective use of the airport to reduce the parking element from 10% to 3% (as suggested by the cost analysis). We therefore propose that the parking charge is reduced by a smaller amount from 10% to 4%.
- 2.13. The increase in the landing element to 21% and the decrease in the parking element to 4% means that the passenger charge would become 75%, an increase of 4%.
- 2.14. Subject to consultation, we intend to apply this revenue split in the charges structure for 2011/12 which would result in the Departing Passenger Charge raising 75% of airport charges revenue, and the different elements of Heathrow's landing and parking charges generating 21% and 4% of airport charges respectively.

### **Questions**

1. *Do you have any comments on this proposed option for restructuring the balance of charges between the different categories? In particular:*

- *Do you have any comments on the proposal to align the proportions of revenue generated by each element of airport charges with Heathrow's cost structure?*
- *Do you have any comments on the methodology for analysing Heathrow's cost base into the different asset categories outlined above?*
- *Do you have any comments on the proposal to modulate the landing and parking elements of airport charges on the basis of incentivising improved environmental performance and efficient asset utilisation?*
- *Do you have any comments on the proposal to rebalance the overall proportions of income recovered from the different categories as specified above in paragraph 2.10?*





## Chapter 3

### Passenger Charges

#### Introduction

- 3.1. This chapter sets out a package of proposals for changes to the design of passenger charges at Heathrow. These proposals cover:
  - the structure of the Departing Passenger Charge (DPC)
  - discounted charges for transfer passengers
  - the introduction of a charge for transit passengers
  - the level of the minimum departure charge
- 3.2. At the end of the chapter is a summary of the proposals and an indicative view of the overall impact on passenger charges at Heathrow which compares the 2010/11 tariffs under the current structure with those that would have applied if the package of proposals had been in place, hypothetically speaking, during 2010/11.
- 3.3. Finally, the chapter concludes with a series of questions for consultees to consider when providing their responses to the proposals.

#### Current Structure

- 3.4. The Departing Passenger Charge is currently levied on the basis of terminal departing passengers.
- 3.5. The DPC differentiates between passengers according to their destination:
  - United Kingdom and Northern Ireland ('Domestic');
  - Republic of Ireland; and
  - Other destinations (usually termed 'International')
- 3.6. There is a remote stand rebate which applies to any passenger arriving or departing from stands which have been designated remote.
- 3.7. 'Transfer' or 'Connecting' passengers, those that arrive via plane and depart from Heathrow within 24 hours on a different aircraft, and are covered by a single ticket, are charged at the same rate as O&D (Origin and Destination) passengers.

- 3.8. 'Transit' passengers, those that arrive and depart at Heathrow on the same aircraft, currently attract no charge.
- 3.9. There is a minimum departure charge levied on all flights of £220, where the total departing passenger charges fall below this level.

## A. STRUCTURE OF THE DEPARTING PASSENGER CHARGE

### Objective

- 3.10. We consider that the structure of the Departing Passenger Charge should reflect the costs associated with handling different types of passengers.
- 3.11. The current structure of the DPC differentiates on the basis of the destination, so that passengers travelling to domestic destinations and destinations in the Republic of Ireland pay lower departing passenger charges to those flying to other destinations.
- 3.12. As a result of changes in airport processes, we have considered as part of this review whether the current basis for categorising passengers (Domestic, Republic of Ireland and Other) continues to represent the most appropriate basis in the future. We have also considered what the appropriate scale of differential would be between passenger types, with reference to the costs of handling different passenger types.

### Options considered

- 3.13. We have considered the following options for differentiating the DPC according to passenger destination:
- **No change from existing structure:** this would maintain the current basis for differentiating the DPC according to destination, i.e. Domestic, Republic of Ireland and Other.
  - **Domestic / International:** this would involve a change to the current basis for differentiating the DPC according to destination so that there would only be two categories 'Domestic' and 'International'.
  - **European<sup>1</sup> / Other:** this would involve a change to the current basis for differentiating the DPC according to destination so that there would only be two categories 'European' and 'Other'.

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<sup>1</sup> 'European' destinations would be defined as:

Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and Switzerland

- **Common charge:** this would remove any differentiation between passengers according to their destination, and result in all passengers paying the same DPC

## Proposal

- 3.14. Our view is that it is appropriate to differentiate between 'European' and 'Other' passengers in the structure of the DPC. We consider that this structure best represents the differences in costs associated with handling different passenger types at Heathrow.
- 3.15. As such we are proposing to change the basis on which the DPC differentiates between passengers according to their destination, so that in future the DPC will be differentiated between passengers flying to 'European' destinations and those flying to 'Other' destinations.
- 3.16. In developing our proposal we have carried out an assessment of the differences in costs associated with 'European' and 'Other' passengers. This analysis has been used to identify the appropriate scale of differential between the DPC for each category. The supporting analysis is summarised in Annex D.
- 3.17. Based on our analysis of costs, the appropriate differential in the DPC between passengers flying to 'European' and 'Other' destinations is 40%, i.e. passengers flying to 'Other' destinations would pay charges 40% above the level charged to passengers flying to 'European' destinations.
- 3.18. We believe that the proposed new approach to destination charges is consistent with the principles of the EU Airport Charges Directive which will become effective on 15 March 2011.
- 3.19. Table 3.1 shows the current and proposed structures.

**Table 3.1 Current and Proposed Destination Based Charge Structure**

Current Structure		Proposed Structure	
Destination	Charge Ratio	Destination	Charge Ratio
Domestic	1.0	European	1.0
Rep of Ireland	1.3	Other	1.4
International	1.7		

- 3.20. In summary, reclassifying passengers departing to destinations in the UK or the Republic of Ireland as 'European' passengers will lead to an increase in their DPC compared with the 2010/11 structure.

- 3.21. Those passengers previously categorised as 'International' but flying to destinations re-categorised as 'European' would experience a small reduction in their DPC, compared with the 2010/11 structure.
- 3.22. Passengers flying to destinations outside the EU would be reclassified as 'Other' and their DPC would increase, compared with the 2010/11 structure.
- 3.23. The proposal to change the structure of the DPC is part of a wider package of changes being proposed in this consultation document. As such, the impact of individual elements of the proposals to change passenger charges should be viewed in combination with the other proposed changes outlined in this chapter.
- 3.24. Table 3.2 at the end of this chapter provides an illustrative comparison of the actual passenger charges at Heathrow in 2010/11 with the charges that would have applied if, hypothetically, the package of proposals had been in place during 2010/11. This comparison is for indicative purposes only; the actual level of charges in future years will depend on the future level of the price cap at Heathrow.
- 3.25. For completeness, we are not proposing to change the structure of the remote stand rebate.

## **B. TRANSFER PASSENGER CHARGE**

### **Objective**

- 3.26. Transfer passengers are those that arrive via plane and depart from Heathrow within 24 hours on a different aircraft, and are covered by a single ticket. Currently there is no differentiation in the charges paid by transfer passengers and locally originating (O&D) passengers.
- 3.27. We consider that the DPC for transfer passengers should reflect the costs associated with handling transfer passengers relative to other passenger types.
- 3.28. We consider that there would be benefit in introducing measures to incentivise incremental growth in transfer passengers at Heathrow and improve overall aircraft load factors. Not only would this support the achievement of our shared vision to make Heathrow Europe's hub of choice, it would also increase the number of passengers using Heathrow.

## **Options considered**

- 3.29. As stated above, one of our objectives is to ensure charges for transfer passengers reflect the costs associated with handling transfer passengers relative to other passenger types.
- 3.30. The scale of the difference in costs would be set at a level to reflect the differences in costs associated with handling transfer passengers relative to other passenger types.
- 3.31. To inform this assessment we have carried out an analysis of the differences in costs associated with handling different passenger types. This analysis has been used to identify the appropriate scale of discount that could be introduced for transfer passengers. The analysis identified:
- the value of assets used exclusively by originating passengers;
  - the value of asset used exclusively by transfer passengers;
  - and the value of assets that are used by both originating and transfer passengers.
- 3.32. The analysis showed that the costs associated with a transfer passengers are approximately 25% lower than those for originating passengers. The supporting cost based analysis is shown in Annex E.
- 3.33. HAL has considered the following options for introducing a discount for transfer passengers:
- No change from the existing charging structure;
  - Introduction of a discount for short haul transfer passengers; and
  - Introduction of a discount for all transfer passengers.

## **Proposal**

- 3.34. Based on the analysis referred to above, we are proposing to introduce a 25% discount to the DPC for all transfer passengers.
- 3.35. We consider that the discount will be most effective and most practical to implement if it applies to all transfer passengers at Heathrow, not just to short haul transfer passengers.
- 3.36. As a result of our proposal to introduce a discount for transfer passengers, we are proposing to increase the level of the DPC for

originating passengers so that Heathrow can achieve the average yield per passenger permitted by the CAA's Q5 settlement.

- 3.37. As outlined above, the proposal to introduce a discount for transfer passengers is part of a package of changes being proposed in this consultation document. Table 3.2 at the end of this chapter provides an illustrative comparison of the actual passenger charges at Heathrow in 2010/11 with the charges that would have applied if, hypothetically, the package of proposals had been in place during 2010/11.

## **C. TRANSIT PASSENGER CHARGE**

### **Objective**

- 3.38. Transit passengers are those that arrive and depart at Heathrow on the same aircraft. Currently there is no departing passenger charge for transit passengers.
- 3.39. Due to recent changes to security procedures all transit passengers are now required to leave the aircraft and go through a similar screening process to transfer passengers. Consequently, the costs associated with handling transit passengers have increased significantly.
- 3.40. As a general principle, we will seek to recover costs in a fair and reasonable way which reflects the costs associated with handling different types of passenger.
- 3.41. We believe that transit passengers should make an appropriate contribution to the costs of facilities and infrastructure provided for their use.

### **Options considered**

- 3.42. HAL has considered the following options:
- No change from the existing charging structure;
  - Charging for transit passengers at the same rate as originating passengers; and
  - Charging for transit passengers at the same rate as transfer passengers

### **Proposal**

- 3.43. We are proposing to introduce a departing passenger charge for transit passengers at the same rate charged to transfer passengers. This is on the basis that both transit passengers use broadly the same

facilities and infrastructure as transfer passengers. It is therefore appropriate to charge both types of passengers at the same rate.

- 3.44. In itself, the introduction of a new charge for transit passengers will generate incremental revenue, and reduce by a relatively small amount the level of the DPC for all other passengers. However, the proposal to introduce a new charge for transit passengers is part of a package of changes being proposed in this consultation document.
- 3.45. Table 3.2 at the end of this chapter provides an illustrative comparison of the actual passenger charges at Heathrow in 2010/11 with the charges that would have applied if, hypothetically, the package of proposals had been in place during 2010/11.

## **D. MINIMUM DEPARTURE CHARGE**

### **Objective**

- 3.46. There is currently a minimum departure charge levied on all flights of £220. This means that if the number of passengers on board a departing aircraft is lower than a certain minimum level, the aircraft operator is charged still charged a minimum aggregate DPC of £220 irrespective of how many passengers there are on board.
- 3.47. We believe that it is important for each departing aircraft to contribute a minimum amount to covering the airport's fixed costs. As such we have considered whether the current level of the minimum charge is sufficient to cover the level of these costs. Consistent with this, we also believe that the minimum departure charge should provide appropriate incentives for airlines to increase the number of passengers on each aircraft, and thereby lead to a more effective use of Heathrow's scarce runway capacity.

### **Options considered**

- 3.48. HAL has considered the following options:
- No change from the existing charging structure;
  - Increasing the minimum charge to £500;
  - Increasing the minimum charge to £1000; and
  - Increasing the minimum charge to £2000.
- 3.49. We have carried out an analysis of the fixed costs associated with providing an airport facilities and infrastructure. The resulting analysis

is contained in Annex F, and shows that the fixed cost per departing aircraft movement is around £1300.

## **Proposal**

- 3.50. We propose to raise the minimum departure charge to £1000 per departing aircraft. The level of £1000 is somewhat below the level indicated above, however it reflects some moderation of this charge in the general interest of airport users, and is equivalent to approximately 50 originating passengers departing to a 'European' destination.
- 3.51. We believe that a minimum departure charge at this level will provide an incentive to airlines to increase their average passenger loads on flights to and from Heathrow, and make more effective use of Heathrow's scarce runway capacity.
- 3.52. On its own, this proposal will have the effect of reducing by a relatively small amount the level of the DPC paid by most passengers because additional revenue will be generated by the higher minimum charge. For flights with relatively few passengers, including cargo and General Aviation, the departure charge will increase.
- 3.53. The proposal to introduce a new level of minimum charge is part of a package of changes being proposed in this consultation document. Table 3.2 at the end of this chapter provides an illustrative comparison of the actual passenger charges at Heathrow in 2010/11 with the charges that would have applied if, hypothetically, the package of proposals had been in place during 2010/11.

## **Summary of Proposals**

- 3.54. In summary, we are proposing to introduce the following changes to passenger charges:
- differentiation in the DPC to distinguish between passengers flying to 'European' and 'Other' destinations, 'European' passengers will pay a DPC 40% lower than 'Other' passengers.
  - a 25% discount on the DPC for transfer passengers
  - the introduction of a new charge for transit passengers at the level as the passenger charge for transfer passengers
  - an increase in the minimum departure charges to £1000
- 3.55. Table 3.2 provides an illustrative comparison of the actual passenger charges at Heathrow in 2010/11 with the charges that would have applied if, hypothetically, the package of proposals had been in place



during 2010/11. The table also takes into account the effect of the proposed change in the overall balance of charges set out in Paragraph 2.10. This comparison is for indicative purposes only; the actual level of charges that will apply in future years will depend on the future level of the regulated price cap at Heathrow.

**Table 3.2 - Indicative Impact of Proposed Changes on 2010/11 Tariffs,**

Current 2010/11 Tariff		Impact of Proposal on 2010/11 Tariff	
<b>Passenger Charges £</b>			
Departing OD Passenger Charge			
Domestic	13.43	European	20.25
Republic of Ireland	17.38	Other	28.45
International (Excluding Rol)	22.97		
Departing Transfer Passenger Charge			
Domestic	13.43	European	15.19
Republic of Ireland	17.38	Other	21.34
International (Excluding Rol)	22.97		
Departing Transit Passenger Charge			
All	0	European	15.19
		Other	21.34
Minimum Charge			
All	220	All	1000
Remote Stand Rebate			
All	-3.79	All	-3.79

### **Questions**

2. Do you have any comments on the proposals for restructuring the Departing Passenger Charge? In particular:

- Do you support the proposal to distinguish between 'European' and 'Other' passengers in the structure of the departing passenger charge. If not please explain what alternative structure should be adopted, and provide supporting analysis where possible.
- Do you support the proposal to use 40% as the differential in the departing passenger charge? If not please explain what alternative differential should be adopted, and provide supporting analysis where possible.

3. Do you have any comments on the proposal to introduce a discount in the DPC for transfer passengers? In particular:

- *Do you have any comments on the proposal to offer the discount to all transfer passengers?*
- *Do you have any comments on the proposed level of the discount?*

*4. Do you have any comments on this proposed option for the introduction of a transit passenger charge? In particular:*

- *Do you have any comments on the proposal to introduce the charge at the same level as the charge for transfer passengers?*

*5. Do you have any comments on this proposal to increase the level of the minimum departure charge to £1000?*

## **Chapter 4**

### **Landing Charges**

#### **Introduction**

- 4.1. This chapter sets out proposals for changes to the design of landing charges at Heathrow. These proposals cover:
- The basis of the landing charge;
  - Noise classifications and charges; and
  - Emissions charging.
- 4.2. At the end of the chapter is a summary of the proposals and an indicative view of the overall impact on landing charges at Heathrow which compares the 2010/11 tariffs under the current structure with those that would have applied if, hypothetically, the package of proposals had been in place during 2010/11.
- 4.3. The chapter concludes with a series of questions for consultees to consider when providing their responses to the proposals.

#### **Current Charging Structure**

- 4.4. The current fee for landing at Heathrow for aircraft in excess of 16 metric tonnes is calculated on a movement basis.
- 4.5. The charge is differentiated by the noise certification of the aircraft, with those certified in the quieter chapters paying less. Approximately 86% of current landings are in the quietest noise category, Chapter 4.
- 4.6. There is a separate emissions charge. This is calculated per Kg of NO<sub>x</sub> emitted in each landing and take off cycle.

#### **A. BASIS FOR CALCULATING LANDING CHARGES**

##### **Objective**

- 4.7. Runway slots at Heathrow are a scarce resource, with over 99% of runway slots utilised. We believe it is important to encourage airlines to use runway slots efficiently so that they make the most effective use of scarce capacity.

- 4.8. Landing charges should, therefore, be designed to provide appropriate incentives to airlines to increase aircraft size and passenger load factors.

### **Options considered**

- 4.9. HAL has considered the following options:

- No change from the existing charging structure;
- Part weight and part movement based landing charge; and
- Weight based landing charge

### **Proposal**

- 4.10. In line with our objective to maintain incentives on airlines to make efficient use of scarce runway capacity, we propose to continue with the current approach of basing landing charges on aircraft movements.
- 4.11. We consider that basing landing charges, in whole or in part, on the weight of aircraft would weaken incentives for airlines to make the most efficient use of runway capacity.
- 4.12. Although we do not propose to change the basis on which landing charges are calculated, other changes within proposed structure would affect the level of the landing tariffs. These impacts are summarised in Table 4.2 at the end of this chapter.

## **B. NOISE AND EMISSIONS CHARGING**

### **Objective**

- 4.13. We believe there is a need to improve the noise and emissions performance of the aircraft fleet at Heathrow.
- 4.14. In order to maintain Heathrow's status as one of the world's premier airports and meet future noise and emission standards we need to continue our record of encouraging early adoption of new aircraft technology.
- 4.15. Setting targets for the composition of the future fleet mix at Heathrow is central to the future sustainability of the airport, and we believe the structure of airport charges has a role to play in helping to achieve these targets (see Annex G for further details).

## Options Considered

- 4.16. We have considered the following options:
- No change from the existing charging structure;
  - Continued separate noise and emissions charges, but with increased differentiation in the noise chapters; and
  - Combined noise and emissions charge.

## Proposal

- 4.17. We propose that the noise and emissions charges remain separate, but that the current balance between the charges is altered so that the emissions-related element of landing charges is increased from 15% to 20%, meaning the noise-related element is reduced from 85% to 80%. This builds on our existing commitment to increase the emissions charge at double the underlying rate of the overall increase.
- 4.18. We propose that the Chapter 4 noise category is split into three new noise categories, Chapter 4 High, Chapter 4 Base and Chapter 4 Minus. This will result in an increased differentiation of charges between the aircraft types at the airport, and play an important role in helping Heathrow achieve an improved level noise performance. Chapter 3 Base and Chapter 3 Minus will be combined into a single category, Chapter 3 Base. The changes are illustrated in Table 4.1 below.

**Table 4.1 Proposed Noise Chapter Reclassification**

Existing Noise Chapter	Proposed	Cumulative EPNdB reduction from ICAO Chapter 3 of at least	Charge impact in Isolation
Chapter 3 High	Chapter 3 High	0	Increases
Chapter 3 Base	Chapter 3 Base	5	Increases
Chapter 3 Minus			Increases
Chapter 4	Chapter 4 High	10	Increases
	Chapter 4 Base	15	Increases
	Chapter 4 Minus	20	Decreases

- 4.19. Heathrow's environmental performance is monitored against the size of its noise contour and the impact on the neighbouring areas. The aircraft fleet mix is the single most important factor in determining the size of this contour. To enable future growth the Project for the Sustainable Development of Heathrow (PSDH) indicated that in order to comply with a contour area limit the fleet mix for a 605,000 movement

Heathrow would need to include around 65% of the aircraft certified to at least Chapter 4 Minus. Our proposal to differentiate within Chapter 4 is consistent with these targets. The level of charge differentiation is commensurate with the drive towards attracting the quietest possible aircraft fleet to Heathrow.

- 4.20. We propose that emissions charges should continue to be charged on the basis of a fixed monetary amount per kilo of NOx emitted in the LTO cycle.
- 4.21. The option to move to a combined noise and emissions matrix remains an aspiration and work will continue on the most appropriate way of achieving this in the future.

### **Summary of Proposals**

- 4.22. In summary, we are proposing the following in relation to the structure of landing charges:
- continue with the current approach of basing landing charges on aircraft movements;
  - noise and emissions charges should remain separate, and that the current balance between noise and emissions charges is maintained;
  - new quieter noise category, Chapter 4 High, Base and Minus, should be introduced; and
  - emissions charges should continue to be charged on the current basis.
- 4.23. Table 4.2 provides an illustrative comparison of the actual landing charges at Heathrow in 2010/11 with the charges that would have applied if, hypothetically, the package of proposals had been in place during 2010/11. The table also takes into account the effect of the proposed change in the overall balance of charges set out in Paragraph 2.10. This comparison is for indicative purposes only; the actual level of landing charges that will apply in future years will depend on the future level of the regulated price cap at Heathrow.

**Table 4.2 - Indicative Impact of Proposed Changes on 2010/11 Tariffs**

<b>Landing Charge £</b>			
Noise Charge £ per landing			
Chapter 2	2328	Chapter 2	3923
Chapter 3 High	1164	Chapter 3 High	3923
Chapter 3 Base	776		
Chapter 3 Minus	698	Chapter 3 Base	1308
Chapter 4 Equivalent	660	Chapter 4 High	785
		Chapter 4 Base	654
		Chapter 4 Minus	392
Emissions Charge £ per Kg NOx			
CAEP/4 - CAEP/6	2.73	CAEP/4 - CAEP/6	6.97

**Questions**

6. Do you have any comments on the proposal to maintain the current approach of charging for landing on the basis of aircraft movements?

7. Do you have any comments on this proposed option for the noise and emissions elements of the landing charge? In particular:

- Do you have any comments on the proposal to maintain separate noise and emissions charges
- Do you have any comments on the proposal to differentiate the Chapter 4 category into Chapter 4 High, Base and Minus?
- Do you have any comments on the proposal to maintain the current approach to charging for NOx emissions?





## **Chapter 5**

### **Aircraft Parking Charges**

#### **Introduction**

- 5.1 This chapter sets out proposals for a change to the design of aircraft parking charges at Heathrow.
- 5.2 At the end of this chapter we provide a summary of the proposals and an indicative view of the overall impact on landing charges at Heathrow which compares the 2010/11 tariffs under the current structure with those that would have applied if, hypothetically, the package of proposals had been in place during 2010/11.
- 5.3 Finally, the chapter concludes with a question for consultees to consider when providing their responses to the proposals.

#### **Current Charging Structure**

- 5.4 The parking charge is levied on all aircraft utilising HAL aircraft parking areas at Heathrow, whether these stands are pier served or remote.
- 5.5 The current parking charge is based on the Maximum Total Weight Authorised of each aircraft and the total number of quarter hours or part thereof that it has been parked.
- 5.6 A peak charge, three times the base rate, is applied during the 0700 and 1229 period from 1 April to 31 October each year.
- 5.7 These standard parking charges are limited to a maximum of 24 hours. After this a special charge equivalent to eight times the standard parking charge is applied.
- 5.8 Parking is free between 2200 and 0559.

#### **PARKING CHARGES STRUCTURE**

##### **Objective**

- 5.9 For a variety of reasons, we believe there is a need to reduce the amount of aircraft towing on the airfield. Towing of aircraft is both costly for airline operators and increases emissions of CO<sub>2</sub> and NO<sub>x</sub>. Aircraft towing also reduces the resilience of the airfield by utilising taxiway capacity and in some cases adds extra runway crossings.

5.10 We believe there is potential to use the structure of parking charges to incentivise airlines to reduce the amount of aircraft towing.

### **Options considered**

5.11 HAL has considered the following options:

- No change to the current structure;
- Introduction of a limited period of free parking; and
- Introduction of free parking at all times.

### **Proposal**

5.12 We propose that a period of four hours free parking should be introduced per aircraft visit. This is considered an appropriate amount of time to allow for the turnaround of the majority of short haul and long haul aircraft.

5.13 Limiting the free period to four hours encourages airlines to minimise aircraft parking time where possible. This protects stand capacity in an extremely constrained environment and makes more efficient use of this scarce resource.

5.14 Following this free period, it is proposed that parking charges will apply. These charges would be calculated per quarter hour of parking and be charged irrespective of aircraft weight.

5.15 We propose that the current peak charge applied from 0700 and 1229 from 1 April to 31 October each year should be removed. We propose that the maximum of 24 hours parking restriction should remain unchanged, as should the special charge applicable if this limit is exceeded. The special charge for failure to move an aircraft within a specified time, on the order of the Chief Operations Officer, remains unchanged.

5.16 By itself, this proposal will reduce the parking charges for airlines with average parking durations of less than four hours; and increase the parking charge for airlines with average parking durations of more than four hours.

### **Questions**

*8. Do you have any comments on this proposed option for the restructuring of the parking charge?*

## Chapter 6

### Air Navigation Services (ANS) Charge

#### Introduction

- 6.1 This chapter sets out proposals for a change to the structure of ANS charges at Heathrow, and asks airlines for views on the proposals.

#### Current Charging Structure

- 6.1 The provider of ANS at Heathrow is NATS (National Air Transport Services). NATS charges HAL directly for the cost of delivering this service to the airlines. HAL then seeks to recover this cost from the airlines.
- 6.2 The current ANS charge is payable structured partly per landing (33%) and partly per metric tonne (67%).
- 6.3 The ANS charge is a fixed cost to HAL and is not included in the analysis of the overall balance of charges presented in this consultation document.

#### Objective

- 6.4 Since the ANS charge received by HAL from NATS is effectively a fixed annual charge these charges need to be passed through to airlines via a fair and reasonable charging mechanism which supports the objective of developing Heathrow as a hub airport.
- 6.5 In considering the structure of ANS charges, we have had regard to ICAO Policy on Charges for Air Navigation Services which provides for aircraft weight to be taken into account when setting ANS charges so that the relative productive capacities of different aircraft types can be accounted for in the charge<sup>2</sup>.

#### Options considered

- 6.6 We have considered the following cost recovery options:
- Part Weight and Part Movement;

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<sup>2</sup> ICAO's Policies on Charges for Airports and Air Navigation Services - Eighth Edition 2009, page 18.

- 100% Movement; and
- 100% Weight.

## **Proposal**

- 6.7 Passing through a fixed cost from NATS to airlines on a usage basis presents a number of options with counterbalancing merits.
- 6.8 We would welcome views on our proposal that the ANS charge structure is changed to a 100% weight based charge. We consider that this option is the most consistent way to deliver the hub airport objective.
- 6.9 Taken in isolation of other changes within this consultation document, this proposal has the following effects on airline charges compared to the existing structure:
- The ANS charges for airlines predominantly using short haul type aircraft will be reduced.
  - The ANS charges for airlines predominantly using long haul type aircraft will increase.
- 6.10 The resultant change in ANS tariff is summarised in Chapter 7, along with the other elements of our proposals.

## **Questions**

*9. Do you have any comments on this proposed option for the restructuring of the ANS charge?*

## Chapter 7

### Summary of Proposal & Indicative tariff analysis

7.1 Table 7.1 summarises the key proposals described in the previous chapters.

**Table 7.1 Summary of Proposals**

Charge	Current Structure	Proposed Structure
Passenger charge by destination	Domestic Republic of Ireland International	European Other
Transfer passenger charge	Not differentiated from O&D charge	25% transfer passenger discount
Transit passenger charge	No charge	Charged as per transfer passengers
Minimum departure charge	£220	£1000
Basis of landing charge	Movement	Movement (no change)
Noise charge	Undifferentiated Chapter 4	Differentiated Chapter 4
Emissions charge	Per kg of NOx	Per kg of NOx (no change)
Parking charge	Fully chargeable based on time multiplied by weight.	First four hours free parking then chargeable based on time
Overall balance	Passenger 71% Landing 19% Parking 10%	Passenger 75% Landing 21% Parking 4%
ANS charge	33% Movement 67% Weight	100% Weight

- 7.2 Table 7.2 provides an illustrative comparison of the actual tariffs at Heathrow in 2010/11 with the tariffs that would have applied if, hypothetically, the package of proposals had been in place during 2010/11. . The table also takes into account the effect of the proposed change in the overall balance of charges set out in Paragraph 2.10.
- 7.3 Please note that this comparison is for indicative purposes only; the actual level of charges in future years will depend on the future level of the price cap at Heathrow.

**Table 7.2 Indicative impact of proposals on 2010/11 tariff**

Current 2010/11 Tariff		Impact of Proposal on 2010/11 Tariff	
<b>Passenger Charges £</b>			
Departing OD Passenger Charge			
Domestic	13.43	European	20.25
Republic of Ireland	17.38	Other	28.45
International (Excluding Rol)	22.97		
Departing Transfer Passenger Charge			
Domestic	13.43	European	15.19
Republic of Ireland	17.38	Other	21.34
International (Excluding Rol)	22.97		
Departing Transit Passenger Charge			
All	0	European	15.19
		Other	21.34
Minimum Charge			
All	220	All	1000
Remote Stand Rebate			
All	-3.79	All	-3.79
<b>Landing Charge £</b>			
Noise Charge £ per landing			
Chapter 2	2328	Chapter 2	3923
Chapter 3 High	1164	Chapter 3 High	3923
Chapter 3 Base	776	Chapter 3 Base	1308
Chapter 3 Minus	698	Chapter 4 High	785
Chapter 4 Equivalent	660	Chapter 4 Base	654
		Chapter 4 Minus	392
Emissions Charge £ per Kg NOx			
CAEP/4 - CAEP/6	2.73	CAEP/4 - CAEP/6	6.97
<b>Parking Charge £</b>			
Charging period per 15 mins	7.08	Free charging period of 4 hours	
Weight per tonne	0.113	Chargeable period per 15 mins	33.13
<b>ANS Charge</b>			
Per ATM Charge	71.43	Per ATM Charge	0
Per Metric Tonne	0.97	Per Metric Tonne	1.44

## Chapter 8

### Implementation Timescale

- 8.1 In addition to the structural proposals in this document we are keen to understand views on the period over which the changes could be introduced.
- 8.2 HAL has considered the following options:
- Structural changes implemented gradually over 5 years;
  - Structural changes implemented gradually over 2 years coinciding with the end of the current 5 year regulatory period (Q5); and
  - Structural changes implemented in full for 2011/12.
- 8.3 We propose that with the exception of the minimum departure charge and transit passenger charge, the structural proposals in this consultation document should be adopted in full in setting 2011/12 tariffs that will be effective from 1 April 2011.
- 8.4 Although it is common practice to introduce major changes to the structure or level of airport charges on a gradual basis, the balanced and integrated nature of this package of changes means that there is an imperative for implementing the proposals in a single step.
- 8.5 HAL proposes a different implementation timescale for the minimum departure charge and transit passenger charge. These charges are relative small in proportion and do not materially affect the overall balance of charges and so may be introduced over a longer period. HAL proposes to introduce changes to these charges over 2 years.

#### **Questions**

*10. Do you have any comments on this proposed implementation timescale of the charge proposals?*





## Chapter 9

### Next Steps

- 9.1 The timetable for consultation is as described in Chapter 3; in summary:
- There is a Consultation Launch Conference Call on 3 August 2010 at 11:00, see paragraph 1.24 for dial in details;
  - There is a formal consultation meeting on 2 September 2010 at 14:00 at Heathrow, see paragraph 1.25 for details;
  - The deadline for written responses to this consultation is 30 September 2010. HAL will reply to all submissions;
  - A final decision on the new structure of charges will be released on 29 October 2010 and implemented from 1 April 2011.
- 9.2 If you would like any further information on this consultation, please contact Simon Talbot (airlinerelations@baa.com, telephone number UK 020 8757 5570).



## Annex A

### Circulation list for Consultation Document

Aer Lingus  
Air Canada  
Air France, S.A.  
Air India  
Air Mauritius Ltd.  
Air New Zealand Ltd.  
Air Seychelles Ltd.  
Alitalia  
All Nippon Airways  
American Airlines, Inc.  
Austrian Airlines  
Board of Airline Representatives UK  
British Airways plc  
British Business and General Aviation Association  
British Midland Airways  
Brussels Airlines  
Cathay Pacific Airways Ltd.  
Continental Airlines, Inc.  
Croatia Airlines  
Cyprus Turkish Airlines Ltd.  
Czech Airlines j.s.c.  
Delta Air Lines, Inc.  
Department for Regional Development in Northern Ireland  
Department for Transport  
Deutsche Lufthansa AG  
DHL International GmbH  
Egyptair  
El Al Israel Airlines Ltd.  
Emirates Airline  
Etihad Airways  
Finnair  
Heathrow Airport Consultative Committee  
Independent Aviation Group Ltd.  
Interflight (Air Charter) Ltd.  
International Air Carrier Association  
International Air Transport Association  
Japan Airlines  
Jat Airways  
Jet Airways (India) Ltd.  
Kingfisher Airlines Ltd.  
KLM Royal Dutch Airlines  
Kuwait Airways  
London Heathrow Airline Operators Committee (AOC)  
Malaysian Airline System  
Martinair  
Middle East Airlines – Air Liban  
North West Development Agency  
Olympic Air  
Oman Air  
One North East  
Qantas Airways Ltd.  
Qatar Airways  
Royal Brunei Airlines  
SAS Scandinavian Airlines  
Saudi Arabian Airlines  
Scottish Government  
Signature Flight Support  
Singapore Airlines  
South African Airways  
Sri Lankan Airlines Ltd.  
Swiss International Air Lines AG  
Syrian Air  
TAP Portugal  
TAROM Romanian Air Transport  
Titan Airways Ltd.  
Turkish Airlines A.O.  
UK Civil Aviation Authority  
United Airlines, Inc.  
US Airways, Inc.  
Virgin Atlantic Airlines Ltd.



## **Annex B**

### **Comments & Questions from Initial Engagement Session 19/01/2010**

#### **Attendees**

Adrian Tighe – BA  
Tony Helliwell & Richard Porter – bmi  
Alan Young – Virgin  
Manuel Meier & Jan Mauz – Swiss  
Jens Justesen – SAS  
Christian Forgues – Air France  
Hans de Bruin – KLM  
Jim Hunter - AOC  
Laurie O'Toole – IATA  
John Holland-Kaye, Keith Greenfield, Simon Talbot, Manish Madhas - BAA

#### **Landing**

- There is a benefit to taking a 'green' stance.
- More stringent noise differentiation could be introduced.
- The balance of charges needs to be right so as not to incentivise a bigger dirtier aircraft where a smaller cleaner one could be utilised.
- Need to clarify the environmental approach and message towards R3.
- To support hub development there is a need to make short haul flying competitive and therefore to have competitive pricing. Incorporating the use of weight as a proxy for ability to pay should be considered.

#### **Navigation**

- In pure cost-related terms the NATS charge would be movement based.

#### **Passenger**

- It is easier to reflect the passenger charge directly in airline pricing.
- Does a higher passenger charge reduce the likelihood of bigger aircraft?
- Differentiation in charging by destination, Domestic / International etc requires some further analysis.
- In CDG no differential between domestic and Schengen area as it has been eliminated under challenge.
- To develop a hub you need a balance of long haul and short haul, a transfer passenger discount could support this. It would need to be linked with and change in the level of differentiation between Domestic, ROI or International destinations.
- It would be useful to benchmark other hubs to see whether the discount preceded the growth in transfer passengers or was introduced as a response to it.
- Transit charging should be considered particularly from a cost-related angle. However must be mindful of changes to the process and the economic viability of those routes.

- The minimum charge appears very low but how often is this levied?
- Could an environmental aspect be added to the passenger charge?

### **Parking**

- There are a number of anomalies that could be simplified including on/off stand times.
- If there is a premium for waiting on stand then off stand parking capacity must be available.
- AMS / MAD have long free parking periods and therefore they make up a very small proportion of the overall charge.
- Would initial 30/60 minutes free parking make sense as this is the minimum turnaround time?
- Are remote stand movements and parking adequately rebated in the current per passenger model.

### **Other**

- Cargo: Some need to understand what the correct economic model for cargo is given their use of scarce runway slots.
- Cargo: Should at least pay its own way.

### **Behavioural Change**

- Not immediately clear how to link behaviours (aircraft choice, stand utilisation etc) to pricing and vice versa.
- Behaviours are driven by many factors such as fleet availability, airfield capacity, the strength of the market, therefore how much impact would pricing have?
- Changes to Landing and Parking charges may impact more on airline behaviour than Passenger charges which are easier to pass through.

### **General Comments**

- Need to balance all objectives rather than focus on one individually.
- The impact of Infrastructure development and its relation to overall airline costs and affordability.
- Simplicity in charging is desirable but transparency of constituent parts still needed.
- Pricing needs to be related to the development masterplan.

### **Next Steps**

- Circulate the presentation and notes from the meeting.
- Arrange a further engagement meeting for mid-March to which BAA would bring an initial view of potential charging structure options.
- BAA to produce and consult on a formal proposal in Q2 2010.
- Decision on structural change expected in Q3 2010 for incorporation into early setting of the Passenger Service Charge and Annual Charging Consultation for 2011/12 level of charges.

## **Comments & Questions from 2nd Engagement Session 11/03/2010**

### **Attendees**

Adrian Tighe & Tony Buss – BA  
Richard Porter – bmi  
Georgina Kwaszenko – Virgin  
Aoivean Brennan – Aer Lingus  
Manuel Meier – Swiss  
Jens Justesen – SAS  
Hans de Bruin – KLM  
Gabriele Stoll – Lufthansa  
Yvonne Tay – Cathay Pacific  
Jim Hunter, Ben Williams - AOC  
Laurie O'Toole – IATA  
John Holland-Kaye, Keith Greenfield, Simon Talbot, Manish Madhas - BAA

### **Introduction - Review of First Session**

JH-K presented a brief review of the Heathrow Airport objectives discussed at the initial engagement session along with the potential structural changes that could support these.

#### Comments

- Move to navigation charge fully on movement basis not supported by all airlines.
- Movement basis would be the purest form of cost pass through, as this is how the costs are incurred in the contract.
- The relationship between the growth of the hub and the environmental impact of this could be clarified.
- General acknowledgement from the airlines that they were pleased with the level of engagement and the process BAA are following in this review.

### **Hub development: The importance of transfer passengers**

A presentation was given showing the way that transfer passengers supported most routes from Heathrow and how the level of transfers had developed over time. A comparison of transfer passenger levels and discounts across the major European hubs was also tabled. A discussion followed around the potential introduction of a transfer discount at Heathrow.

#### Comments

- How effective is price at influencing noise and emissions?
- Strong Euro helped transfers at Heathrow in 2009.
- Suggestion that transfer discount stimulates demand in Schiphol.
- Frankfurt conducted surveys before settling on the discount percentage.
- Lower charge for transfers reflects the cost of processing this type of passenger.

- Transfer discount is generally passed directly to passenger through the PSC.
- Transfer discount has potential to increase passengers at Heathrow from other airport hubs, and will make Heathrow more competitive.
- Transfers filled the drop in O&D passengers in 2009 at Heathrow.
- Transfer discount is one of the elements to influence demand, other elements should be considered i.e. overall product, terminal, transfer rates, other charges at airport (non regulated) etc.
- Transfers are defined as passengers transferring (arriving and departing) within 24 hours and ticketed with connections.
- Strong suggestions that transfer rebates will not work, it should be based on an up front discount.
- The balance of transfer charges should go to departing passenger element of airport charges.
- The absolute level of transfer discount is important, rather than simply the percentage.

### **Environmental Conditions for Heathrow expansion**

A summary was given of how the challenging nature of the environmental conditions surrounding the third runway would require radical solutions to meet the targets, particularly low-NOX, quieter aircraft are critical. It was also demonstrated that further differentiation could be introduced within noise and emissions categories.

#### **Comments**

- There is a trade off between noise and emissions, how could this be clarified?
- Existing noise chapters do not necessarily drive behaviour, would need further chapter differentials.
- Noise and emissions would need to be balanced with potential increase in transfer passengers.
- What is more important to Heathrow, Noise or Nox?
- Which aircraft / engines fit in the further differentiated levels of noise / emissions presented?

### **Parking**

A number of questions around parking charges around current issues and behaviours and the impact of free parking periods, or removing the charge altogether.

#### **Comments**

- Other airports have free parking periods and charges thereafter
- The minimum turnaround time is around 45 mins
- Existing infrastructure may not allow faster turnarounds
- Consideration of differential pricing for south of runway
- Need to resolve dwell time on stands



- Mechanism to ensure stands are vacated when needed is more important than dwell times
- Towing on and off stands is generally not related to charging, but it is for some airlines

### **Transit Passengers**

Currently no charge is levied on transit passengers, although they now incur similar costs to other passengers.

#### Comments

- Transit passengers should share the cost of using the airport facilities.
- Definition of a transit passenger should be looked at after recent security process requirement changes.

### **Minimum Charge**

The question was asked - Could the minimum charge be increased to influence behaviours?

#### Comments

- Around 80% load factor was considered to be a reasonable benchmark for a minimum load level
- Minimum departing passenger charge of c£1000 was deemed as being reasonable

### **Other comments – Overall structure**

- Movement based charge is harming short haul carriers
- Airlines need to compete on cost per passenger basis
- The airport should share the risk of passengers
- Passengers should bear more costs for using the airport
- Consideration of landing and parking charges remunerating fixed costs and departing passenger charge remunerating variable costs

### **Actions**

- Circulate presentation from the meeting.
- Circulate notes from the meeting.
- Ensure CAA is copied into all correspondence to airlines.
- Investigated what is the impact of increased APD on demand?
- Investigate whether there are any studies showing the relationship between fuel efficiency and noise?
- How could chapter 4 differentials be measured?

#### Next Steps

- BAA to produce a formal proposal for consultation
- Decision on any structural changes to be fed into the 2011/12 annual charges consultation

## Comments and Questions from 3rd Engagement Session 30/06/2010

### Attendees

Paul Godfrey	BA
Tony Buss	BA
Adrian Tighe	BA
Tony Helliwell	bmi
Richard Senior	bmi
Georgina Kwaszenko	Virgin
Ken Millar	Aer Lingus
Bill Devlin	Air Canada
Geoff Scripture	Continental
Yvonne Tay	Cathay Pacific
Simos Bakas	Olympic
Sandra Bloodworth	Royal Brunei
Christian Hisserich	Swiss
Hans de Bruijn	KLM
James MacKay	CAA
John Holland-Kaye	BAA
Keith Greenfield	BAA
Jonathan Pepper	BAA
Manish Madhas	BAA
Simon Talbot	BAA

### Introduction - Objectives of the meeting

BAA welcomed everyone and provided a summary of the two previous engagement sessions and the objective of the 3rd engagement session. The objective of the meeting was for BAA to present a range of options for each component of the charges that have been developed with the views from the airline community from the two engagement sessions. Views were sought on these options for BAA to take into consideration before presenting a proposal for consultation. BAA reiterated that this meeting is about the structure of charges rather than the level of airport charges.

### Timetable

The outline of the proposed timetable was shared. The timetable was to be discussed in more detail at the end of the meeting.

### Objectives of the structure of aeronautical charges review and constraints

BAA provided a summary of the objectives of the structural review and the constraints the workstream has to work within.

### Parking charge

BAA presented three options for the parking charge 1) no change to parking 2) free initial period then chargeable but enforced through conditions of use and 3) no charge for parking but enforced through conditions of use with penalty. The pros and cons of each were presented and airline views were sought.

#### BAA comments

- Want to drive a change in behaviour and minimise any unnecessary towing, thus reducing the cost for airlines and having stands available when required.
- Minimise any unnecessary congestion on taxiways.
- Would like to simplify this charge.

#### Airline comments

- Continental - Preference for free initial parking period then charging through higher levels of penalties.
- Continental - Are the parking charges reflective of the costs of providing this service.
- Continental - If BAA decide there should be no parking charge, where would the balance be recovered ?
  - Response: Need to be recovered through the other elements of charges.
- Air Canada - What is the parking element in the overall airport charges collected by LHR ?
  - Response: Landing charge represents about 20% of the total airport charges collected by LHR.
- bmi - Consideration should be given to the time of free parking periods between different busy periods.
- Aer Lingus - Are the airline cost of towing taken into consideration into BAA modelling.
- KLM - Would welcome any structure that is simple.

#### Noise/NOx

BAA presented three options for environmental charges (noise/NOx) 1) no change 2) separate noise and NOx measures, aircraft type based and 3) combined noise/NOx matrix aircraft type based. The pros and cons of each were presented and airline views were sought.

#### BAA comments

- Need to encourage improved environmental performance particularly for noise and need to address NOx.
- The proposals are presented as principles that can be adopted but no numbers were associated with the proposals at this stage.

#### Airline comments

- KLM - Encourage environmental measures
- BA - This will have capital impacts on airlines and will take time to change fleet to meet environmental measures.
- Continental - Can we have this charge on a per passenger/seat basis because of larger aircraft emitting more NOx.
- Virgin - What is the price for the different bandings ?
  - Response: Further work underway to understand pricing bands.
- bmi - BAA need to tell the airline community what the balance is between noise and NOx

- BA - How will the matrix for aircraft in the relevant banding change over time.

### **Landing charge: Weight/movement**

BAA presented three options for charging for landing based on weight and/or movement 1) 100% movement based charge with differentiation by environmental impact 2) Part weight and part movement with multiplier based on environmental impact and 3) 100% weight with multiplier based on environmental impact. The pros and cons of each were presented and airline views were sought.

#### BAA comments

- Want to encourage efficient use of the runways and promote environmentally responsible behaviours.

#### Airline comments

- Aer Lingus - Can we bring down the cost/price cap
- BA - Need to understand the modelling impact.
- bmi - LHR is unique in that charging is based on movement and not in line with the airport charges directive.

### **Balance of charges**

BAA presented three options for the overall percentage of the three elements of airport charges (landing, parking and departing passenger charge) 1) no change 2) increase landing and parking charges and 3) increase passenger element. The pros and cons of each were presented and airline views were sought.

#### BAA comments

- Objective is to use this to mitigate the impact of change on individual airlines and meet the overall objectives of the airport.

#### Airline comments

- Continental - Wanted to know what other airports do.
- Aer Lingus - Concerned about moving away from cost relatedness.
- bmi - Current structure is not aligned to cost.
- BA - Driving behaviours may not necessarily align to cost relatedness.
- Continental - How do the changes impact LHR business model.
- Olympic airlines - Some of the airport objectives are contrary to each other. For example, hub status with higher passenger charge may lead to passengers not choosing LHR.
- Aer Lingus - The passenger risk should be shared between airlines and airport.
- KLM - Would encourage higher passenger charges like Frankfurt airport.
- bmi - Common view that higher passenger charges are encouraged and it would be easier to pass these costs onto the passenger.
- Continental - Should look at what other airport competitors are doing in their charging structure.

- bmi - Passengers would look at the breakdown of ticket price, particularly for the airport charges element.
- BA - Passengers would probably look at the total ticket price to fly from LHR, not the detail.
- Virgin - If LHR wants to be a hub airport it needs to look at its cost base.
- BA - It is important to look at the increase of passenger element and what is the tipping point for passengers.
- Royal Brunei - Need to consider at some point airlines cannot continue to pass costs to passengers considering the increase in airline passenger duty (APD).
- Aer Lingus - The airport must look at the cost base for its pricing.

### **Differentiation by destination**

BAA presented four options for differentiation of destination for the departing passenger charge 1) no change 2) UK and International charge 3) Short haul and long haul charge (or EU and non EU) and 4) single uniform charge. The pros and cons of each were presented and airline views were sought.

#### **BAA comments**

- Objective for departing passenger charge to reinforce Heathrow's hub status.
- BAA reviewing the airport charges directive and its implications.
- The departing passenger charge needs to be reviewed in light of the airport charges directive.

#### **Airline comments**

- Aer Lingus - Domestic passengers use less square footage and have less dwell times therefore differential does exist between domestic and other.
- BA - LHR conducted a structural review in 2004 and justified the domestic differential based on square footage.
- BA - Is the domestic departing passenger compatible with the airport charges directive and do we need to change the differential immediately or can we review this for a longer period to ensure the correct conclusion is reached.
- CAA - The airport charges directive will be implemented in March 2011 and DfT will launch a consultation with users in September and explain how this will be transposed into UK law. The CAA do not believe the airport charges directive will have much impact on the regulated airports in the UK.
- BA - Should the structure encourage more high value passengers who generate high income.
- Aer Lingus - Not all airlines have high value passengers.
- bmi - What is the value of a transfer passenger ?
- KLM - Support the EU/Non EU differential.

### **Discounts for transfers**

BAA presented three options for discounts to transfer passengers 1) no change 2) short haul transfer discount and 3) discount on all transfers. The pros and cons of each were presented and airline views were sought.

#### BAA comments

- The objective of the transfer discount is to support the hub.

#### Airline comments

- Aer Lingus - Airlines will have different levels of transfer passengers or no transfer passengers.
- Continental - Would be useful to know what impact the transfer discount has on the level of passenger numbers.
- bmi - Passenger numbers have been high due to the weakness of sterling, but when this reverses the transfer discount will support transfer passenger numbers. In addition, there would be major practical revenue allocation issues with only short haul transfer discount.
- bmi - LHR has to compete and transfer discount will support this.
- BA - We should be careful with the level of discount and would need to be not too great.
- Virgin - Airlines may struggle to bring transfer passengers to LHR because of the lack of transfer facilities, and consideration is required on the impact this will have on existing infrastructure.

#### **Minimum charge**

BAA presented three options for the level of minimum departure charge 1) no change 2) £1,000 charge and 3) £2,000 charge. The pros and cons of each were presented and airline views were sought.

#### BAA comments

- The current level of minimum departure charges is too low and should be increased to reflect flights with low passenger numbers contribute fairly to airport costs.

#### Airline comments

- KLM - Airport has scarce resources and LHR should not support general aviation.
- bmi - The current level of minimum departure charges is too low.
- bmi - Need to be careful about the level this is set so that it does not have material impact on smaller aircraft. the smaller aircraft are feeding the hub.

#### **Navigation charge**

BAA presented three options for the navigation charge 1) no change 2) movement based and 3) weight based. The pros and cons of each were presented and airline views were sought.

#### BAA comments

- Need to review the EC regulation on air navigation services.

#### Airline comments

- Virgin - How was the cap and collar agreement determined.
- bmi - Need to understand NATS regulation to charging.

### **Transit Passenger charge**

BAA presented three options for charging for transit 1) no charge 2) charge transit at the same level as origin and destination passengers and 3) charge transit at the transfer level (if transfer discount is introduced). The pros and cons of each were presented and airline views were sought.

#### **BAA comments**

- Transit passengers do not pay any departure passenger charge but the airport incurs costs for processing this type of passenger.
- There are currently in the region of 200,000 transit passengers per annum.

#### **Airline comments**

- Airlines should pay for their usage of airport facilities/services.

### **Next steps**

BAA proposed a timetable for the consultation where the airport will issue its proposal by the end of July, airline views were sought. There was general agreement with the timetable. However, it was stated that consideration is required of the DfT consultation on the airport charges directive.

- BAA to produce a formal proposal for consultation.
- BAA to circulate detail timetable and arrange dates for consultation meetings.
- Decision on any structural changes to be fed into the 2011/12 annual charges consultation





## Annex C

### Overall Balance of Passenger, Landing and Parking Analysis

HAL has carried out a cost based analysis of the Heathrow Regulated Asset Base (RAB).

#### Methodology

- The analysis was undertaken on the Average RAB 2009/10. This is the midpoint of the opening and closing RABs taken from Table 15-6 of the 2008 CAA Decision (Page 189).
- Detailed asset allocation was taken from the Heathrow fixed asset register as at December 2009.
- Rail assets are excluded from this analysis.
- Assets were allocated by their primary usage either by passengers, for take off and landing or aircraft parking.
- The assets allocated to the passenger proportion included the terminal buildings, the landside facilities, and the baggage systems. The assets allocated to the landing proportion were primarily the runways and taxiways and the control tower. The assets allocated to the parking proportion were primarily the aircraft stands. A share of the land was allocated to each element.
- The difference between the asset register analysis and the Average RAB is allocated pro rata to the asset analysis.

#### Calculation

**Table C1 Analysis of Average 2009/10 RAB by passenger, parking and landing**

<b>Facility</b>	<b>Passenger Asset Total £m</b>	<b>Landing Asset Total £m</b>	<b>Parking Asset Total £m</b>	<b>Total £m</b>
Terminals	4,377			
Runways & taxiways		273		
Stands			180	
Control Tower		72		
Landside Facilities	784			
Land & landscaping	122	1,049	49	

<b>Facility</b>	<b>Passenger Asset Total £m</b>	<b>Landing Asset Total £m</b>	<b>Parking Asset Total £m</b>	<b>Total £m</b>
Services	274	14		
Baggage	446			
Detailed Asset Allocation	6,003	1,409	229	7,641
Other	1,048	246	40	1,334
<b>Total</b>	<b>7050</b>	<b>1655</b>	<b>268</b>	<b>8974</b>
<b>Relative Balance</b>	<b>78.6%</b>	<b>18.4%</b>	<b>3.0%</b>	<b>100%</b>

## Results

The results of the analysis are detailed in Table F1 and show that the relative asset allocations of the three charging elements are passenger 79%, landing 18% and parking 3%.

## Appendix D

### Destination Based Departing Charge Analysis

HAL has carried out a cost based analysis of the Heathrow Regulated Asset Base (RAB) to determine the relative value of assets utilised by passengers flying to and from EU and non-EU destinations.

#### Methodology

- The analysis was undertaken on the Average RAB 2009/10. This is the midpoint of the opening and closing RABs taken from Table 15-6 of the 2008 CAA Decision (Page 189).
- Terminal, Landing and Parking assets are taken from the Heathrow fixed asset register as at December 2009.
- Rail assets are excluded from this analysis, as are assets paid for by separate charges such as check in desks and departures baggage sort. Parking and Landing assets are also excluded.
- Due to the fact that EU and non EU passengers use the same facilities in current terminals it is not possible to allocate current assets to one or other passenger group. Space allocation is therefore drawn from the working papers for the 2005 Heathrow departing passenger charge consultation.
- The objective of this analysis was to assess the space requirements of different groups of passengers, such as those departing to and arriving from EU and non-EU destinations, who have different needs and processing requirements. This analysis considers the asset cost implications of the differing passenger characteristics such as space required, dwell times, maximum flight size and the impact through the different phases of the passenger journey
- The methodology for this analysis is based on theoretical new build terminals for either EU only or Non EU only of capacities 10mppa and 15mppa respectively. Resultant space allocations are then adjusted to give a space requirement per 1mppa.
- RAB Terminal assets are allocated pro rata to the theoretical space requirement for EU and for non EU destined passengers. Other RAB passenger assets are allocated equally to all passengers regardless of destination.
- The sum of RAB assets for EU compared with non EU provides a ratio as to the relative cost of passenger destinations.

## Calculation

**Table D1 Analysis of Average 2009/10 RAB by EU & non EU passengers**

Space allocations	All EU	Outside EU	Total	Space requirement
Terminal capacity - mppa	10	15		
Areas required	sq m	sq m		
Immigration	890	3,434		Non EU require 2.6 x EU per pax
Connections	217	447		Non EU require 1.4 x EU per pax
Reclaim	2,370	6,265		Non EU require 1.8 x EU per pax
Customs	500	700		Non EU require 0.9 x EU per pax
Arrivals concourse	731	1,927		Non EU require 1.8 x EU per pax
Check in	948	3,060		Non EU require 2.2 x EU per pax
Departures concourse	1,587	4,363		Non EU require 1.8 x EU per pax
Central security search	291	510		Non EU require 1.2 x EU per pax
International departures lounge	1,609	4,532		Non EU require 1.9 x EU per pax
Gaterooms	8,200	18,715		Non EU require 1.5 x EU per pax
Total area	17,343	43,953		
Area per 1mppa	1,734	2,930	4,665	
Relative	1.00	1.69		
	£m	£m	£m	
Allocation of terminal assets	1,627	2,750	4,377	
Allocation of other passenger assets	1,373	1,373	2,745	
	3,000	4,122	7,122	
Cost relativity	1.00	1.37		

## Results

The analysis concluded that the overall ratio of asset cost based ratio of EU and non-EU passengers was 1:1.37.

## **Annex E**

### **Transfer Passenger Cost Analysis**

BAA has carried out a cost based analysis of the Heathrow Regulated Asset Base (RAB) to determine the relative value of assets utilised by Origin and Destination (O&D) passengers and transfer passengers.

#### **Methodology**

- The analysis was undertaken on the Average RAB 2009/10. This is the midpoint of the opening and closing RABs taken from Table 15-6 of the 2008 CAA Decision (Page 189).
- Detailed asset allocation was taken from the Heathrow fixed asset register as at December 2009.
- Rail assets are excluded from this analysis.
- Terminal facilities are allocated based on detailed measurement of each terminal's floor area.
- Assets that are exclusively used by either O&D or transfer passengers are allocated entirely to those passengers.
- Assets that are used by all passengers are allocated equally to all passengers
- The difference between the asset register analysis and the Average RAB totalling £1,053m is allocated pro rata to the asset analysis.

## Calculation

**Table E1 Analysis of Average 2009/10 RAB by Transfer & O&D passengers**

	Transfer only £m	O&D only £m	All pax £m	Total £m
Land & landscaping			1,220	1,220
Services - Electric, Gas, Water etc			289	289
Airfield				
Runways & taxiways			273	273
Stands			180	180
Control tower			72	72
Landside facilities				
MSCP		285		285
Roads & surface parking		399	100	499
Terminal facilities				
21% Landside		919		919
77.5% Airside			3,392	3,392
1.5% Transfer specific facilities	66			66
Baggage systems				
Inter terminal	128			128
In terminal			317	317
Other				
Vehicles			6	6
IT equipment			265	265
Misc equipment			9	9
Allocation of AICC/RAB differences	194	1,603	6,124	7,920
Total - Average RAB 2009/10 excl Rail	220	1,816	6,938	8,974
	Transfer	O&D	Total	
2009/10 passengers per CAA decision - million	25.4	47.1	72.5	72.5
RAB excl Rail per passenger - £	8.66	38.54	95.69	
Total RAB excl Rail per passenger - £	104.35	134.23		
<b>Cost relativity</b>	<b>77.7%</b>	<b>100.0%</b>		

## Results

The analysis concluded that a transfer passenger uses 77.7% of the asset cost base of an O&D passenger.

## Annex F

### Minimum Charge Analysis

HAL has carried out an analysis to determine the minimum return required per take off to contribute to the airport's cost of capital of the asset base, after taking into account landing and parking revenue.

#### Methodology

- The analysis was undertaken on the 2009/10 asset base cost of capital taken from Table 15-6 of the 2008 CAA Decision (Page 189).
- Landing and Parking revenue was calculated using the proposed structure of charges in this consultation document
- The number of take offs used was the maximum allowed at Heathrow under the current movements cap.

#### Calculation

Asset base - Cost of capital - £'000	621,000
Less landing revenue - £'000	257,940
Less parking revenue - £'000	51,917
Return required from departing pax element - £'000	311,143
No of departing movements	240,000
Minimum charge per departing movement - £	1,296

#### Results

The result of the analysis shows that the minimum charge per movement is £1,296.





## Annex G

### Heathrow Noise Targets

The need to improve the noise and emissions performance of the aircraft fleet at Heathrow is critical to our future success and growth. Heathrow has traditionally enjoyed the benefits of new technology sooner than many of the world's airports. This is partly driven by its status as a leading global hub and partly by the stringent noise constraints placed on its operations.

In order to continue to enjoy this status as one of the world's premier airports and meet future noise and emission standards we will need to maintain our record of early adoption of new aircraft technology. In setting targets for the composition of the future fleet mix at Heathrow requires consideration of two key factors:

- the availability and uptake of new technology and
- regulatory expectation.

Predicting the development and uptake of new technology is inherently difficult especially given the complexity of the economic and environmental interdependencies. In establishing future fleet mix assumptions for the purposes of assessing potential implications for landing charges at Heathrow we have used a number of data sources. This includes existing fleet details, future forecasts from the CAA Environmental Research Consultancy Department Report 0705 (used in the Project for the Sustainable Development of Heathrow) and 4 forecast scenarios from our recently commissioned external consultancy report from SH&E. This work provided a range of future potential outcomes for selected years up to 2030. This work has been used to estimate the broad mix of aircraft by noise certification values.

The most recent regulatory development in airport noise management is the Environmental Noise Directive (END) which requires noise maps and noise action plans to be developed for all airports over 50,000 movements. Airports are required to take steps to mitigate and where possible reduce their noise impacts. The plans are subject to public consultation as well as approval and adoption by Government. Within the Heathrow current noise action plan (2010-2015) there are two specific targets relating to aircraft fleet mix. By 2015 we aim to have no marginally compliant aircraft (Chapter 3 high) and at least 97% of the fleet Chapter 4 or equivalent. The action planning process requires that plans are updated and consulted on at least every 5 years and it is not unreasonable to assume that a target of 100% Chapter 4 aircraft by 2020 would be part of a second 5 year plan.

In 2010, the ACI Aircraft Noise Rating Index was amended (from the 2002 original) by ACI's Governing Board (see table 1). The Index is designed to achieve the following objectives:

- Encourage global consistency in the implementation of effective airport noise management programs;

- Enable airports to communicate effectively with communities and governments about noise issues;
- Provide an effective tool that is compatible with the ICAO system of noise certification standards; and
- Provide a consistent reference point to encourage manufacturers to develop and market the quietest possible aircraft and encourage airlines to upgrade their fleets as rapidly as possible.

**Table 1: The Modified ACI Noise Rating Index (2010)**

Criteria to be met concurrently	Categories (and Former Categories)							
	R1	R2	R3	R4	R5	R6	R7	R8
	(E)	(D)	(C)	(B)	(A)			
Cumulative EPNdB reduction from ICAO Chapter 3 standard of at least:	Less than 0	0 or more	5 or more	10 or more	15 or more	20 or more	25 or more	30 or more
Individual EPNdB reduction from ICAO Chapter 3 Standard at each noise measurement point of at least:	Not applicable	0	1	2	3	4	5	6

In order to quantify and categorise the fleet for differential landing fee purposes we initially reviewed the existing fleet using the ACI Noise Index. However this did not map directly to the Chapter designation of an individual aircraft as the second element (in red text in Table 1) is based on the separate certification values at the 3 measuring points (Flyover, Lateral and Approach). This means that some types may be Chapter 4 equivalent but are not more than 2EPNdB lower at all points as Chapter 4 requires this at 2 sites only. In theory therefore a Chapter 4 aircraft could range from R2 to R8. Since our initial aim is to move the fleet towards full Chapter 4 (or equivalent) it would be simpler to administer if the charging categories were based on the first element only at least until the fleet is fully Chapter 4 compliant.

Consequently the charging categories are based on a combination of the cumulative noise reduction from ICAO Chapter 3 standards and the ACI noise index categories. A further refinement of the data would be possible by applying the second element of the ACI noise index shown in Table 1. Table 2 below details the interim solution to be used until the fleet is close to or at 100% Chapter 4 (or equivalent).

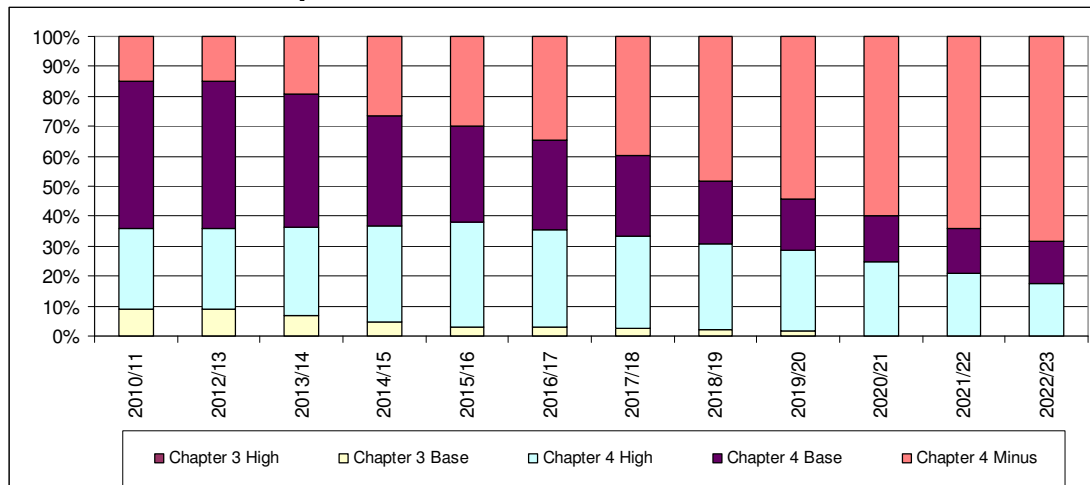
**Table 2: Hybrid Landing Charge Categories**

Criteria to be met concurrently	ACI Categories and broad Chapter equivalent							
	R1	R2	R3	R4	R5	R6	R7	R8
	Chapter 3 High (includes non Chapter 3)		Chapter 3 Base	Chapter 4 High	Chapter 4 Base	Chapter 4 Low		
Chapter 4 certification or equivalent	NO	NO	NO	YES	YES	YES	YES	YES
Cumulative EPNdB reduction from ICAO Chapter 3 standard of at least:	Less than 0	0 or more	5 or more	10 or more	15 or more	20 or more	25 or more	30 or more

Central to the successful and accurate application of the charging regime is the provision of noise certification data. Hence there is a requirement within the Conditions of Use for operators to submit these details as part of their annual All Up Weight Returns (AUWR). Where no data has been provided the default charge will be Chapter 3 High.

Graph G1 below sets out an estimate of the fleet mix in consecutive years up to 2022/23. It is important to note that the figures used are for indicative purposes in order to demonstrate the potential pathway towards the specific target years and estimated distributions. In reality it is likely that the transition towards a quieter fleet mix will be stepped as new technology becomes available and airlines implement replacement plans.

**Graph G1. Estimated Fleet mix to 2022/23**





## **Annex H**

### **Detailed Current and Proposed Tariffs**

BAA Heathrow: Final Price for 2010/11

	Traffic Volume Units	Traffic Volume	Proposed Charge	Forecast Revenue
<b>Landing Charge</b>				
<b>Noise Charge</b>				
<i>Peak</i>				
Chapter 2	[Landings]	0	£2,328.00	£0
Chapter 3 High	[Landings]	159	£1,164.00	£185,076
Chapter 3 Base	[Landings]	3,968	£776.00	£3,079,168
Chapter 3 Minus	[Landings]	16,945	£698.40	£11,834,388
Chapter 4 Equivalent	[Landings]	210,725	£659.60	£138,994,210
<b>Total</b>	[Landings]	<b>231,797</b>		<b>£154,092,842</b>
<i>Super Night Peak</i>				
Chapter 2	[Landings]	0	£5,820.00	£0
Chapter 3 High	[Landings]	0	£2,910.00	£0
Chapter 3 Base	[Landings]	0	£1,940.00	£0
Chapter 3 Minus	[Landings]	5	£1,746.00	£8,730
Chapter 4 Equivalent	[Landings]	69	£1,649.00	£113,781
<b>Total</b>	[Landings]	<b>74</b>		<b>£122,511</b>
<b>Emissions Charge</b>				
CAEP/4 - CAEP/6	[kg]	5,982,272	£2.73	£16,331,602
<b>Total</b>	[kg]	<b>5,982,272</b>		<b>£16,331,602</b>
<b>Revenue exc ANS Charges</b>				<b>£170,546,955</b>
<b>ANS Charge</b>				
Per ATM Charge	[Landings]	231,871	£71.43	£16,562,546
Per Metric Tonne		35,198,018	£0.97	£34,142,077
<b>Total</b>				<b>£50,704,623</b>
<b>Total Landing Revenue</b>	<b>(a)</b>			<b>£221,251,578</b>
<i>check</i>				
<b>Departing Passenger Charge</b>				
<b>Departing OD Passenger Charge</b>				
Total Domestic	[Dep Pax]	2,519,159	£13.43	£33,832,305
Total International (Excl Irish)	[Dep Pax]	30,286,354	£22.97	£695,677,551
Total Irish	[Dep Pax]	1,038,824	£17.38	£18,054,761
<b>Total</b>	[Dep Pax]	<b>33,844,337</b>		<b>£747,564,618</b>
<b>Remote Stand Rebate</b>				
Remote Stand Rebate	[Dep Pax + Arr Pax]	8,022,000	-£3.79	-£30,403,380
<b>Total Departing Passenger Charge Revenue*</b>	<b>(b)</b>	<b>33,844,337</b>		<b>£717,161,237</b>
<i>check</i>				
<b>Parking Charge</b>				
<b>Existing Structure</b>				
Charging period	[Units of 15 minutes]	3,205,311	£7.08	£22,693,602
Tonnage		664,727,360	£0.113	£75,114,192
<b>Total Parking Charge</b>	<b>(c)</b>			<b>£97,807,793</b>
<b>Terminal Pax Flights: Total Revenue</b>				<b>£1,036,220,607</b>
<b>Non-Terminal Pax Flights (GA, Troops etc)</b>				
<b>Non-Terminal Pax Flights</b>				
Landing Revenue	(d)			£1,583,996
Departing Passenger Revenue	(e)			£521,823
Parking Revenue	(f)			£279,256
<b>Total Non-Terminal Pax Flights Revenue</b>				<b>£2,385,075</b>
<b>Total Regulated Revenue (Pax Only Flights)</b>				
<b>Total Regulated Revenue</b>				
Landing Revenue	(a) + (d)			£222,835,574
Departing Passenger Revenue	(b) + (e)			£717,683,060
Parking Revenue	(c) + (f)			£98,087,049
<b>Total Regulated Revenue</b>				<b>£1,038,605,682</b>
<b>Total Passengers</b>				<b>67,952,043</b>
<b>Total Regulated Yield</b>				<b>£15.284</b>
<i>check</i>				
<b>Category percentage</b>				
Landing				21%
Passenger				69%
Parking				9%
<b>Total</b>				<b>100%</b>
*Excludes transit passengers				
<b>Category percentage (excluding ANS)</b>				
Landing				17%
Passenger				73%
Parking				10%
<b>Total</b>				<b>100%</b>

**BAA Heathrow: 2010/11 Proposal for airport charges structure**

	Traffic Volume Units	Traffic Volume	Proposed Charge	Forecast Revenue
<b>Landing Charge</b>				
<b>Noise Charge</b>				
Peak				
Chapter 2	[Landings]	0	£3,923.25	£0
Chapter 3 High	[Landings]	159	£3,923.25	£623,797
Chapter 3 Base	[Landings]	20,913	£1,307.75	£27,348,976
Chapter 4 High	[Landings]	62,083	£784.65	£48,713,426
Chapter 4 Base	[Landings]	114,163	£653.88	£74,648,902
Chapter 4 Minus	[Landings]	34,479	£392.33	£13,527,146
<b>Total</b>	[Landings]	<b>231,797</b>		<b>£164,862,247</b>
Super Night Peak				
Chapter 2	[Landings]	0	£9,808.13	£0
Chapter 3 High	[Landings]	0	£9,808.13	£0
Chapter 3 Base	[Landings]	5	£3,269.38	£16,347
Chapter 4 High	[Landings]	0	£1,961.63	£0
Chapter 4 Base	[Landings]	69	£1,634.70	£112,794
Chapter 4 Minus	[Landings]	0	£980.83	£0
<b>Total</b>	[Landings]	<b>74</b>		<b>£129,141</b>
<b>Emissions Charge</b>				
CAEP/4 - CAEP/6	[kg]	5,982,272	£6.97	£41,696,436
<b>Total</b>	[kg]	<b>5,982,272</b>		<b>£41,696,436</b>
<b>Revenue exc ANS Charges</b>				<b>£206,687,824</b>
<b>ANS Charge</b>				
Per ATM Charge	[Landings]	231,871		£0
Per Metric Tonne		35,198,018	£1.44	£50,685,146
<b>Total</b>				<b>£50,685,146</b>
<b>Total Landing Revenue</b>	<b>(a)</b>			<b>£257,372,970</b>
<b>check</b>				
<b>Departing Passenger Charge</b>				
<b>Departing OD Passenger Charge</b>				
Europe	[Dep Pax]	9,682,118	£20.25	£196,062,890
Other	[Dep Pax]	12,205,899	£28.45	£347,257,827
<b>Total</b>	[Dep Pax]	<b>21,888,017</b>		<b>£543,320,717</b>
<b>Departing Transfer Passenger Charge</b>				
Europe	[Dep Pax]	5,415,166	£15.19	£82,256,372
Other	[Dep Pax]	6,541,154	£21.34	£139,588,226
<b>Total</b>	[Dep Pax]	<b>11,956,320</b>		<b>£221,844,598</b>
<b>Departing Transit Passenger Charge</b>				
Europe	[Dep Pax]	2,518	£15.19	£38,248
Other	[Dep Pax]	123,375	£21.34	£2,632,823
<b>Total</b>	[Dep Pax]	<b>125,893</b>		<b>£2,671,071</b>
<b>Remote Stand Rebate</b>				
Remote Stand Rebate	[Dep Pax + Arr Pax]	8,022,000	-£3.79	-£30,403,380
<b>Total Departing Passenger Charge Revenue*</b>	<b>(b)</b>	<b>33,970,230</b>		<b>£737,433,005</b>
<b>check</b>				
<b>Parking Charge</b>				
<b>Existing Structure</b>				
Total Period	[Units of 15 minutes]	3,205,311		
Free charging period	[Units of 15 minutes]	1,955,240		
Chargeable period	[Units of 15 minutes]	1,250,071	£33.13	£41,414,852
<b>Total Parking Charge</b>	<b>(c)</b>			<b>£41,414,852</b>
<b>Terminal Pax Flights: Total Revenue</b>				<b>£1,036,220,827</b>
<b>Non-Terminal Pax Flights (GA, Troops etc)</b>				
<b>Non-Terminal Pax Flights</b>				
Landing Revenue	(d)			£596,269
Departing Passenger Revenue	(e)			£1,693,403
Parking Revenue	(f)			£95,403
<b>Total Non-Terminal Pax Flights Revenue</b>				<b>£2,385,075</b>
<b>Total Regulated Revenue (Pax Only Flights)</b>				
<b>Total Regulated Revenue</b>				
Landing Revenue	(a) + (d)			£257,969,239
Departing Passenger Revenue	(b) + (e)			£739,126,408
Parking Revenue	(c) + (f)			£41,510,255
<b>Total Regulated Revenue</b>				<b>£1,038,605,902</b>
<b>Total Passengers</b>				<b>67,952,043</b>
<b>Total Regulated Yield</b>				<b>£15.284</b>
<b>check</b>				
<b>Category percentage</b>				
Landing				25%
Passenger				71%
Parking				4%
<b>Total</b>				<b>100%</b>
*Includes transit passengers				
<b>Category percentage (excluding ANS)</b>				
Landing				21%
Passenger				75%
Parking				4%
<b>Total</b>				<b>100%</b>





## **Annex J Summary of Questions**

*1. Do you have any comments on this proposed option for the restructuring of the balance of charges between the different categories? In particular:*

- Do you have any comments on the proposal to align the proportions of revenue generated by each element of airport charges with Heathrow's cost structure?*
- Do you have any comments on the methodology for analysing Heathrow's cost base into the different asset categories outlined above?*
- Do you have any comments on the proposal to modulate the landing and parking elements of airport charges on the basis of incentivising improved environmental performance and efficient asset utilisation?*
- Do you have any comment on the proposal to rebalance the overall proportions of income recovered from the different categories as specified above in paragraph 2.10?*

*2. Do you have any comments on the proposals for restructuring the Departing Passenger Charge? In particular:*

- Do you support the proposal to distinguish between 'European' and 'Other' passengers in the structure of the departing passenger charge. If not please explain what alternative structure should be adopted, and provide supporting analysis where possible*
- Do you support the proposal to use 40% as the differential in the departing passenger charge? If not please explain what alternative differential should be adopted, and provide supporting analysis where possible.*

*3. Do you have any comments on the proposal to introduce a discount in the DPC for transfer passengers? In particular:*

- Do you have any comments on the proposal to offer the discount to all transfer passengers?*
- Do you have any comments on the proposed level of the discount?*

4. Do you have any comments on this proposed option for the introduction of a transit passenger charge? In particular:

- Do you have any comments on the proposal to introduce the charge at the same level as the charge for transfer passengers?

5. Do you have any comments on this proposal to increase the level of the minimum departure charge to £1000?

6. Do you have any comments on the proposal to maintain the current approach of charging for landing on the basis of aircraft movements?

7. Do you have any comments on this proposed option for the noise and emissions elements of the landing charge? In particular:

- Do you have any comments on the proposal to maintain separate noise and emissions charges
- Do you have any comments on the proposal to differentiate the Chapter 4 category into Chapter 4 High, Base and Minus?
- Do you have any comments on the proposal to maintain the current approach to charging for NOx emissions?

8. Do you have any comments on this proposed option for the restructuring of the parking charge?

9. Do you have any comments on this proposed option for the restructuring of the ANS charge?

10. Do you have any comments on this proposed implementation timescale of the charge proposals?