Heathrow Airport Limited

2012-13 Pricing to Table 6-3 Variance Analysis

Year ended 31 March 2013

Introduction

This report provides users with explanations of variances between figures utilised when setting prices to those included within the CAA forecast for activities identified as 'Specified Activities' within Table 6-3 of the 'Economic Regulation of Heathrow and Gatwick Airports 2008-2013', CAA decision dated 11th March 2008 for the year ending 31st March 2013.

The CAA forecast for Specified Activities lists the revenue that is forecast to be generated by Heathrow Airport (ie. third party revenue) for the fifth quinquennium (Q5). This forecast is based on certain assumptions and any derivation from this forecast is required to be explained and justified to users and the CAA.

The specified activities are:

- Baggage, Check-in desks and Common Use Self Service Machines (CUSS)
- Other Desk Licences
- Staff Car Parking
- Airside Licences
- Electricity
- Fixed Electrical Ground Power (FEGP)
- Heating and Ventilation
- Water and Sewerage
- Security Documentation
- Bus and Coach Services

The variance analysis has been made against third party elements of the prices set for the period 1st April 2012 to 31st March 2013. The pricing exercise was undertaken using constructive engagement through the Non-Regulated Charges Group and the General Notice was issued on 9th December 2011.

The analysis shows variances for those specified activities where certain cost assumptions are used to set prices. For example all specified activities are forecast on cost assumptions for the relevant year, with the exception of other desk licences, heating and ventilation and bus and coach services. These three specified activities have different approaches to price setting:

- Other desk licences charges are levied as an occupancy charge.
- Heating and ventilation is priced using the AOC rents group and charges are levied as an occupancy charge.
- Bus and coach pricing is derived using commercial contracts based on usage.

This paper includes Table 6-3 for Q5 and an update showing this table uplifted to nominal prices using RPI for 2012/13 from The Office for National Statistics (ONS), and Oxford Economic Forecast (OEF) for future years. The RPI uplift is applied to provide a consistent comparison between CAA forecast and actuals in nominal prices (ie. current year prices). These variances are explained on the following sheets.

As charges for Passengers with Reduced Mobility (PRMs) were not included in the Q5 Settlement they have not been analysed in this report.

RPI						2.97%	0.46%	4.96%	5.10%	3.40%		
Index						1.030	1.034	1.086	1.141	1.180	Pricing	Variance to Table 6-3
		S I. d	T-1-1- C 0	i- 07/00-						1.100	201	2/13
£m Baggage, Check-in & CUSS Income	08/09 89.081	3reakdown 09/10 86.720	10/11 87.721	11/12 87.361	12/13 89.472	08/09 91.727	09/10 89.703	Table 6.3 10/11 95.242	11/12 99.686	12/13 105.566	121.024	15.458
Direct Cost	82.3	79.1	79.4	78.3	79.8	84.703	81.852	86.196	89.381	94.131	116.530	22.400
Annuity Allocated Costs	0 6.8	0 7.6	0 8.3	0 9.0	0 9.7	- 7.024	- 7.851	- 9.045	10.305	- 11.435	0.000 8.215	0.000 (3.221)
Bfwd from prior year Total costs	89.081	86.720	87.721	87.361	89.472	91.727	89.703	95.242	99.686	105.566	(3.721) 121.024	(3.721) 15.458
Total costs	89.081	00.720	07.721	07.301	09.472	91.727	09.703	95.242	99.000	105.500		13.436
											0.000	
Staff Car Parking Income	08/09 19.510	09/10 19.570	10/11 19.550	11/12 19.530	12/13 19.500	08/09 20.089	09/10 20.243	10/11 21.226	11/12 22.285	12/13 23.008	19.389	(3.619)
Direct Costs Annuity	7.853 7.453	7.871 7.480	7.857 7.476	7.843 7.472	7.826 7.464	8.086 7.674	8.142 7.737	8.531 8.117	8.950 8.526	9.234 8.806	10.271 6.360	1.037 (2.447)
Allocated Costs	4.204	4.219	4.217	4.215	4.210	4.329	4.364	4.579	4.809	4.968	4.968	0.000
Bfwd from prior year Total costs	19.510	19.570	19.550	19.530	19.500	20.089	20.243	21.226	22.285	23.008	(2.209) 19.389	(2.209) (3.619)
						•					0.000	
Airside Licences	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
Income	0.780	0.780	0.780	0.780	0.780	0.803	0.807	0.847	0.890	0.920	1.649	0.729
Direct Costs Annuity	0.378 0.041	0.378 0.041	0.378 0.041	0.378 0.041	0.378 0.041	0.390 0.042	0.391 0.042	0.411 0.044	0.432 0.047	0.447 0.048	0.811 0.048	0.364 (0.001)
Allocated Costs Bfwd from prior year	0.361	0.361	0.361	0.361	0.361	0.371	0.373	0.392	0.412	0.426	0.426 0.365	0.000 0.365
Total costs	0.780	0.780	0.780	0.780	0.780	0.803	0.807	0.847	0.890	0.920	1.649	0.729
											(0.000)	
Electricity Income	08/09 29.490	09/10 28.750	10/11 28.420	11/12 27.920	12/13 28.970	08/09 30.366	09/10 29.739	10/11 30.859	11/12 31.859	12/13 34.181	25.638	(8.543)
Direct Costs	22.212	21.478	21.375	20.957	21.754	22.871	22.217	23.208	23.908	25.667	15.217	(10.451)
Annuity Allocated Costs	4.771 2.510	4.764 2.507	4.618 2.430	4.565 2.402	4.727 2.487	4.913 2.585	4.928 2.593	5.014 2.638	5.209 2.741	5.577 2.935	5.577 2.935	0.000
Bfwd from prior year											1.909	1.909
Total costs	29.493	28.749	28.422	27.925	28.968	30.369	29.737	30.859	31.858	34.179	25.638	(8.541)
											(0.000)	
Fixed Electrical Ground Power Income	08/09 7.180	09/10 7.160	10/11 7.120	11/12 7.090	12/13 7.060	08/09 7.393	09/10 7.406	10/11 7.730	11/12 8.090	12/13 8.330	9.884	1.554
Direct Costs Annuity	3.094 2.078	3.085 2.072	3.055 2.089	3.042 2.079	3.038 2.054	3.186 2.140	3.191 2.143	3.317 2.268	3.471 2.372	3.584 2.423	4.214 2.423	0.629 0.000
Allocated Costs	2.008	2.003	1.977	1.969	1.968	2.067	2.143	2.146	2.247	2.322	2.322	0.000
Bfwd from prior year Total costs	7.180	7.160	7.120	7.090	7.060	7.393	7.406	7.730	8.090	8.330	1.847 10.807	1.847 2.477
											(0.922)	
Heating and Ventilation	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
Income	0.980	0.950	0.930	0.910	0.890	1.009	0.983	1.010	1.038	1.050	Priced using A group and reco	
Direct Costs Annuity	0.702 0.565	0.681 0.548	0.666 0.536	0.652 0.525	0.638 0.513	0.723 0.582	0.704 0.567	0.724 0.582	0.744 0.599	0.752 0.606	as an occupan	cy charge
Allocated Costs Total costs	0.299	0.290	0.284	0.278	0.272	0.308	0.300	0.308	0.317	0.321		
Total costs	1.567	1.519	1.487	1.455	1.423	1.613	1.571	1.614	1.660	1.679		
Water & Sewerage	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
Income	0.950	0.930	0.930	0.930	0.930	0.978	0.962	1.008	1.061	1.097	1.499	0.402
Direct Costs Annuity	0.598 0.163	0.597 0.156	0.600 0.152	0.605 0.149	0.610 0.146	0.616 0.167	0.617 0.161	0.651 0.165	0.694 0.170	0.719 0.172	0.732 0.172	0.013 0.000
Allocated Costs Bfwd from prior year	0.189	0.181	0.176	0.173	0.170	0.195	0.187	0.192	0.198	0.201	0.201 0.657	0.000 0.657
Total costs	0.950	0.934	0.928	0.927	0.926	0.978	0.966	1.008	1.062	1.092	1.762	0.669
											(0.263)	
Security ID Income	08/09 2.730	09/10 2.750	10/11 2.780	11/12 2.800	12/13 2.730	08/09 2.811	09/10 2.845	10/11 3.018	11/12 3.195	12/13 3.221	2.121	(1.100)
Direct Costs	1.327	1.337	1.351	1.361	1.327	1.366	1.383		1.553	1.565		(0.219)
Annuity	0.079	0.080	0.081	0.081	0.079	0.081	0.082	1.467 0.088	0.093	0.093	1.346 0.093	(0.000)
Allocated Costs Bfwd from prior year	1.324	1.334	1.348	1.358	1.324	1.363	1.379	1.464	1.550	1.562	1.563 (1.309)	0.000 (1.309)
Total costs	2.730	2.750	2.780	2.800	2.730	2.811	2.845	3.018	3.195	3.221	1.692	(1.529)
											0.429	
Bus and Coach Income	08/09 1.390	09/10 1.390	10/11 1.390	11/12 1.390	12/13 1.390	08/09 1.431	09/10 1.438	10/11 1.509	11/12 1.586	12/13 1.640	Priced using A	OC rents
Direct Costs	0.109	0.109	0.109	0.109	0.109	0.113	0.113	0.119	0.125	0.129	group and reco	
		0.783	0.783	0.783								-
Annuity Allocated Costs	0.783 2.523	2.523	2.523	2.523	0.783 2.523	0.806 2.598	0.810 2.610	0.850 2.739	0.894 2.879	0.924 2.977		

Baggage, Check-In & CUSS 2012-13					
3rd Party Element only	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	121,024	105,566	15,458	Pricing adjusted to reflect cost increases	15,458
Direct Expenditure	116,530	94,131	(22,400)	Additional scope - ITO operation (5T, assumed T1-T3-T5 Tunnel and therefore reduce Additional scope - T1 - T4 Tunnel operating at fuller capacity than previously assume Additional scope - T1 OOG assumed closed Additional scope - T1 prolongation Additional scope - Terminal 4 Ancilliary Baggage Facility Additional scope - T4 following transfer of responsibilities from BA Additional scope - T4IB Additional scope - T4 OOG Under estimated T5 O&M costs, now based on actuals and reflecting extended scop Additional scope- Building 560/Baggage Recovery Facility PT5TBS O&M costs, now based on actuals Check-in & CUSS - check-in under estimated and CUSS fully recovered Olympics Check in Costs	(7,500) (400) (100) (100) (800) (1,600) (1,500) (100) (4,000) (900) (1,200) (3,300) (900) (22,400)
Allocated costs	8,215	11,435	3,221	Agreed with NRCG to exclude stepped increase in allocated costs within Table 6.3	
Prior year under / (over) recovery	(3,721)		3,721	Forecasted prior year over-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2013	0	0	(0)		
Note: Due to the predominantly fixed nature of the total	l costs, usage vo	olume reduction	ns will lead to ar	n increase in the price per unit.	

Staff Car Parking					
2012-13					
3rd Party Element only	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	€'000
Total Revenue	19,389	23,008	(3,619)	Pricing adjusted to reflect cost increases and prior year over-recovery Decrease in 3rd party share from 81% per Table 6-3 to 74% per Pricing	(1,631) (1,988) (3,619)
				Additional staffing, maintenance costs, general expenses and indirect charges Coaching & Fuel - additional schedules and increased fuel costs. Rent & Rates, including revised Pionair lease Passenger Transport Levy Decrease in 3rd party share from 81% per Table 6-3 to 74% per Pricing	(243) (1,130) (102) (28) 798
Direct Expenditure	10,271	9,234	(1,037)	Gainshare on Rent Negotiation	(333) (1,037)
Allocated costs and Annuity	11,327	13,774	2,447	Release of spaces in multi-storey car parks therefore reduction in annuity charge.	
Prior year under / (over) recovery	(2,209)	0	2,209	Forecasted prior year over-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2013	0	0	0		

Airside Licences 2012-13					
3rd Party Element only	Pricing £'000	Table 6-3 £000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	1,649	920	729	Pricing adjusted to reflect cost increases and prior year under-recovery	729
Direct Expenditure	811	447	(364)	Increase in safety work costs - agreed with Airport User Committee	(364)
Allocated costs and Annuity	474	474	0		
Prior year under / (over) recovery	365	0	(365)	Forecasted prior year under-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2013	0	0	0		

At the time of publication the 2012-13 pricing for Airside Licences was still under consultation, therefore the above numbers are indicative only and subject to final approval.

Electricity 2012-13					
3rd Party Element only	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	25,638	34,180	(8,542)	Pricing adjusted to reflect cost decreases Decrease in 3rd party share from 40.4% per Table 6-3 to 31.6% per Pricing	(1,097) (7,445) (8,542)
Direct Expenditure	15,217	25,668	10,452	Reduced consumption and costs Decrease in 3rd party share from 40.4% per Table 6-3 to 31.6% per Pricing	4,860 5,591 10,452
Allocated costs and Annuity	8,512	8,512	0		
Prior year under / (over) recovery	1,909		(1,909)	Forecasted prior year under-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2013	(0)	(0)	0		

Fixed Electrical Ground Power (FEGP) 2012-13					
3rd Party Element only	Pricing £'000		Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	9,884	8,330	1,554	Pricing adjusted to reflect cost increases and PY under recovery	1,554
				Higher electricity usage Reduced maintenance costs Disruption rebate Rounding	(1,169) 371 168
Direct Expenditure	4,214	3,584	(629)	- Touriding	(629)
Allocated costs and Annuity	4,746	4,746	0		
Prior year under / (over) recovery	1,847	0	(1,847)	Forecasted prior year under-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2013	(922)	0	(922)	Agreeement with NRCG to spread under recovery over a two year period	

Income is charged per qtr hour periods, whereas Electricity costs represents the actual cost of the electricity supplied.

Water & Sewerage 2012-13					
3rd Party Element only	Pricing £000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	1,499	1,094	405	Pricing adjusted to reflect cost decreases Increase in 3rd party share from 15.3% per Table 6-3 to 22% per Pricing	(74) 479 40 5
Direct Expenditure	732	721	(11)	Deccrease in costs Increase in 3rd party share from 15.3% per Table 6-3 to 22% per Pricing	305 (316) (11)
Allocated costs and Annuity	373	373	(0)		
Prior year under / (over) recovery	657		(657)	Forecasted prior year under-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2012	(263)	(0)	(263)	Agreeement with NRCG to spread under recovery over a two year period	

Security Documentation					
2012-13					
3rd Party Element only	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	2,121	3,221	(1,100)	Pricing adjusted to reflect prior year over-recovery	(1,100)
				Staff savings Property Purchase of cards, card holders, lanyards etc HAL Gain Share	416 75 (176) (96)
Direct Expenditure	1,346	1,565	219		219
Allocated costs and Annuity	1,656	1,656	0		
Prior year under / (over) recovery	(1,309)	0	1,309	Forecasted prior year under-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2013	429	0	429	Agreeement with NRCG to spread over recovery over a two year period	
Note: Due to the predominantly fixed nature of the tot	al costs. usage	volume redu	ctions will lead	I to an increase in the price per unit.	