

Heathrow Airport Limited

2008-09 Pricing to Table 6-3 Variance Analysis

Year ended 31 March 2009

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 2009.

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 2008 to 31st March 2009. The pricing exercise was undertaken using constructive engagement through the Non-Regulated Charges Group and the General Notice was issued on 19th March 2008.

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 2008/09 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%	2.40%	2.12%	2.75%		
Index						1.030	1.034	1.059	1.082	1.111		
£m	Breakdown Table 6.3 in 07/08p					Breakdown Table 6.3 in Outturn					Pricing	Variance to Table 6-3
Baggage, Check-in & CUSS	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13	2008-09	
Income	89.081	86.720	87.721	87.361	89.472	91.727	89.703	92.916	94.497	99.441	97.970	6.243
Direct Cost	82.3	79.1	79.4	78.3	79.8	84.703	81.852	84.092	84.728	88.669	96.946	(12.243)
Annuity	0	0	0	0	0	-	-	-	-	-	0.000	0.000
Allocated Costs	6.8	7.6	8.3	9.0	9.7	7.024	7.851	8.824	9.769	10.772	7.024	0.000
Total costs	89.081	86.720	87.721	87.361	89.472	91.727	89.703	92.916	94.497	99.441	103.970	(12.243)
											(6.000)	
Staff Car Parking	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
Income	19.510	19.570	19.550	19.530	19.500	20.089	20.243	20.708	21.125	21.673	22.289	2.200
Direct Costs	7.853	7.871	7.857	7.843	7.826	8.086	8.142	8.323	8.484	8.698	9.625	(1.539)
Annuity	7.453	7.480	7.476	7.472	7.464	7.674	7.737	7.918	8.082	8.295	8.428	(0.754)
Allocated Costs	4.204	4.219	4.217	4.215	4.210	4.329	4.364	4.467	4.559	4.679	4.236	0.093
Total costs	19.510	19.570	19.550	19.530	19.500	20.089	20.243	20.708	21.125	21.673	22.289	(2.200)
											(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	0.826	0.844	0.867	0.636	(0.167)
Direct Costs	0.378	0.378	0.378	0.378	0.378	0.390	0.391	0.401	0.409	0.421	0.108	0.282
Annuity	0.041	0.041	0.041	0.041	0.041	0.042	0.042	0.043	0.044	0.045	0.053	(0.011)
Allocated Costs	0.361	0.361	0.361	0.361	0.361	0.371	0.373	0.382	0.390	0.401	0.476	(0.104)
Total costs	0.780	0.780	0.780	0.780	0.780	0.803	0.807	0.826	0.844	0.867	0.636	0.167
											0.000	
Electricity	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
Income	29.490	28.750	28.420	27.920	28.970	30.366	29.739	30.106	30.200	32.198	21.216	(9.150)
Direct Costs	22.212	21.478	21.375	20.957	21.754	22.868	22.217	22.641	22.663	24.178	12.702	10.166
Annuity	4.771	4.764	4.618	4.565	4.727	4.913	4.928	4.891	4.938	5.254	6.413	(1.500)
Allocated Costs	2.510	2.507	2.430	2.402	2.487	2.585	2.593	2.574	2.598	2.764	2.101	0.484
Total costs	29.493	28.749	28.422	27.925	28.968	30.366	29.737	30.106	30.200	32.196	21.216	9.150
											0.000	
Fixed Electrical Ground Power	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
Income	7.180	7.160	7.120	7.090	7.060	7.393	7.406	7.542	7.669	7.847	7.070	(0.324)
Direct Costs	3.094	3.085	3.055	3.042	3.038	3.186	3.191	3.236	3.290	3.376	2.257	0.929
Annuity	2.078	2.072	2.089	2.079	2.054	2.140	2.143	2.213	2.249	2.283	2.631	(0.491)
Allocated Costs	2.008	2.003	1.977	1.969	1.968	2.067	2.072	2.094	2.130	2.188	2.181	(0.114)
Total costs	7.180	7.160	7.120	7.090	7.060	7.393	7.406	7.542	7.669	7.847	7.070	0.324
											0.000	
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	0.985	0.984	0.989		
Direct Costs	0.702	0.681	0.666	0.652	0.638	0.723	0.704	0.706	0.705	0.709		
Annuity	0.565	0.548	0.536	0.525	0.513	0.582	0.567	0.568	0.568	0.571		
Allocated Costs	0.299	0.290	0.284	0.278	0.272	0.308	0.300	0.301	0.300	0.302		
Total costs	1.567	1.519	1.487	1.455	1.423	1.613	1.571	1.575	1.574	1.581		
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	0.983	1.006	1.034	1.022	0.044
Direct Costs	0.598	0.597	0.600	0.605	0.610	0.616	0.617	0.635	0.658	0.678	0.606	0.010
Annuity	0.163	0.156	0.152	0.149	0.146	0.167	0.161	0.161	0.161	0.162	0.163	0.005
Allocated Costs	0.189	0.181	0.176	0.173	0.170	0.195	0.187	0.187	0.187	0.189	0.254	(0.059)
Total costs	0.950	0.934	0.928	0.927	0.926	0.978	0.966	0.983	1.006	1.029	1.022	(0.044)
											0.000	
Security ID	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
Income	2.730	2.750	2.780	2.800	2.730	2.811	2.845	2.945	3.029	3.034	2.825	0.014
Direct Costs	1.327	1.337	1.351	1.361	1.327	1.366	1.383	1.431	1.472	1.475	1.436	(0.070)
Annuity	0.079	0.080	0.081	0.081	0.079	0.081	0.082	0.085	0.088	0.088	0.058	0.024
Allocated Costs	1.324	1.334	1.348	1.358	1.324	1.363	1.379	1.428	1.469	1.472	1.331	0.032
Total costs	2.730	2.750	2.780	2.800	2.730	2.811	2.845	2.945	3.029	3.034	2.825	(0.014)
											(0.000)	
Bus and Coach	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
Income	1.390	1.390	1.390	1.390	1.390	1.431	1.438	1.472	1.504	1.545		
Direct Costs	0.109	0.109	0.109	0.109	0.109	0.113	0.113	0.116	0.118	0.121		
Annuity	0.783	0.783	0.783	0.783	0.783	0.806	0.810	0.830	0.847	0.870		
Allocated Costs	2.523	2.523	2.523	2.523	2.523	2.598	2.610	2.672	2.729	2.804		
Total costs	3.415	3.415	3.415	3.415	3.415	3.517	3.533	3.617	3.694	3.796		

Priced using AOC rents group and recovered as an occupancy charge

Priced using AOC rents group and recovered as an occupancy charge

Baggage, Check-In & CUSS

2008-09

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>97,970</u>	<u>91,727</u>	<u>6,243</u>	Pricing adjusted to reflect cost increases	<u>6,243</u>
				Additional scope - ITO operation (5T)	(1,000)
				Additional scope- ABF baggage facility.	(800)
				Under estimated T5 O&M costs, now based on actuals and reflecting extended scope.	(7,900)
				Additional scope- Opex costs associated with B139	(400)
				Additional scope- CUSS now included in check in cost base.	(1,200)
				CUSS costs	(300)
				Miscellaneous	(643)
Direct Expenditure	<u>96,946</u>	<u>84,703</u>	<u>(12,243)</u>		<u>(12,243)</u>
Allocated costs	<u>7,024</u>	<u>7,024</u>	<u>0</u>		
Net (under) / over recovery at 31 March 2009	<u><u>(6,000)</u></u>	<u><u>0</u></u>	<u><u>(6,000)</u></u>	Under-recovery pre-agreed through the Non-Regulated Charges Group	

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

Staff Car Parking**2008-09****3rd Party Element only**

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>22,289</u>	<u>20,089</u>	<u>2,200</u>	Pricing adjusted to reflect cost increases	
				Savings in coaching, fuel, rent and rates	322
				Airline relocations impact - additional bussing schedules	(1,860)
Direct Expenditure	<u>9,625</u>	<u>8,086</u>	<u>(1,539)</u>		<u>(1,539)</u>
Allocated costs and Annuity	<u>12,664</u>	<u>12,003</u>	<u>(660)</u>	RPI movement and T5 impact	
Net (under) / over recovery at 31 March 2009	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>		

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

**Airside Licences
2008/09**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance
Total Revenue	<u>636</u>	<u>803</u>	<u>(167)</u>	Pricing adjusted to reflect cost decreases
Direct Expenditure	<u>108</u>	<u>390</u>	<u>282</u>	Staff savings
Allocated costs and Annuity	<u>529</u>	<u>413</u>	<u>(115)</u>	RPI movement and T5 impact
Net (under) / over recovery at 31 March 2009	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

Electricity 2008/09					
3rd Party Element only					
	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>21,216</u>	<u>30,366</u>	<u>(9,150)</u>	Pricing adjusted to reflect cost decreases Decrease in 3rd party share from 40.8% per Table 6-3 to 33% per Pricing	(3,345) (5,805) <u>(9,150)</u>
Direct Expenditure	<u>12,702</u>	<u>22,868</u>	<u>10,166</u>	Reduced consumption and costs Decrease in 3rd party share from 40.8% per Table 6-3 to 33% per Pricing	5,795 4,372 <u>10,166</u>
Allocated costs and Annuity	<u>8,514</u>	<u>7,498</u>	<u>(1,016)</u>	RPI movement and T5 impact	
Net (under) / over recovery at 31 March 2009	<u><u>0</u></u>	<u><u>(0)</u></u>	<u><u>0</u></u>		

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

**Fixed Electrical Ground Power (FEGP)
2008/09**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>7,070</u>	<u>7,393</u>	<u>(324)</u>	Pricing adjusted to reflect cost decreases	
				Lower electricity costs	756
				Reduced maintenance costs	173
Direct Expenditure	<u>2,257</u>	<u>3,186</u>	<u>929</u>		<u>929</u>
Allocated costs and Annuity	<u>4,812</u>	<u>4,207</u>	<u>(605)</u>	RPI movement and T5 impact	
Net (under) / over recovery at 31 March 2009	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>		

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

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

**Water & Sewerage
2008/09**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>1,022</u>	<u>978</u>	<u>44</u>	Pricing adjusted to reflect cost increases	102
				Decrease in 3rd party share from 17% per Table 6-3 to 16% per Pricing	<u>(58)</u>
					<u>44</u>
Direct Expenditure	<u>606</u>	<u>616</u>	<u>10</u>	Increase in costs mainly T5 related	(26)
				Decrease in 3rd party share from 17% per Table 6-3 to 16% per Pricing	<u>36</u>
					<u>10</u>
Allocated costs and Annuity	<u>416</u>	<u>362</u>	<u>(54)</u>	RPI movement and T5 impact	
Net (under) / over recovery at 31 March 2009	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>(0)</u></u>		

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

**Security Documentation
2008/09**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance
Total Revenue	<u>2,825</u>	<u>2,811</u>	<u>14</u>	Pricing adjusted to reflect cost increases
Direct Expenditure	<u>1,436</u>	<u>1,366</u>	<u>(70)</u>	Small increases in maintenance and general expenses
Allocated costs and Annuity	1,389	1,445	56	RPI movement and T5 impact
Net (under) / over recovery at 31 March 2009	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>(0)</u></u>	

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

