

# Heathrow Airport

## Airport Charges Structural Review

### Decision Document

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## 1. Executive summary

Heathrow Airport Limited (“Heathrow”) has now completed the review of the structure of its airport charges, and has consulted the airlines on its proposals. While the level of charges is reviewed periodically by the Civil Aviation Authority (“CAA”), the structure of charges was last reviewed in 2010. This paper sets out the decision on the future structure of airport charges at Heathrow.

One of the key drivers for this review has been our desire to ensure that the structure of airport charges supports Heathrow's shared vision with our airline customers “as being the UK's direct connection to the world and Europe's hub of choice by making every journey better”. We also responded to requests from our airline customers 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 late 2014 and early 2015. These sessions were open to all airlines and airline representative bodies, and we discussed collaboratively the objectives for a new structure of charges, possible options for changes and some of the implications of those options.

This decision document sets out our new structure for airport charges which is designed to:

- support passenger growth;
- improve environmental performance;
- promote efficient use of the airport; and
- support the hub.

The key features of the decision include the introduction of a £10 passenger discount to UK routes and a £5 passenger discount to European routes, compared to the existing European passenger charge. This will be supported through an increased emphasis on environmental charges and the introduction of a quieter noise chapter.

We have taken our decision with full regard to our legal and regulatory obligations and the impact of the potential changes. To support this understanding, we have carried out extensive modelling to assess the impacts of the changes.

The CAA's regulatory settlement for the current regulatory period imposes a cap on the airport charges revenue that the airport can earn from each passenger, and the decision set out in this document will be implemented within the existing price cap. However, over the long run, we believe the changes will benefit both the airport and its users by supporting passenger growth, and incentivising airlines to use their best in class aircraft at Heathrow.

Finally, having taken account of the comments received during the consultation period, the original date proposed for implementation of 1 January 2016 has been deferred for a year, with the new structure to be effective from 1 January 2017. This allows airport users more time to make adjustments to their Heathrow aircraft fleet mix so that it is better aligned with the new environmental charges structure. This change will ultimately benefit all airport users and the wider community through the operation of aircraft with improved environmental performance.

Heathrow received a large number of confidential stakeholder responses to the consultation and as such we will respond to all stakeholder responses on a bilateral basis noting that a non-confidential summary of the key stakeholder themes has been set out in this decision.

## 2. Legal Background

The Airport Charges Regulations 2011 ('the Regulations') at regulation 14 provide that the basis for setting airport charges must not discriminate between airport users. This requirement does not prevent an airport operator from varying airport charges for reasons relating to the public and general interest, including for reasons relating to the environment, where the criteria used for varying the charges are relevant, objective and transparent. An airport operator may set airport charges that differentiate between airport users provided that the reason for the differentiation is relevant, objective and transparent.

The CAA have previously found that airport charges set for the purpose of making more efficient use of constrained facilities will be objectively justified if the charges are likely to promote the efficient, economic and profitable use of the airport and those charges do not harm competition either between airports or between airlines<sup>1</sup>.

As an economically licenced airport operator under the Civil Aviation Act 2012 ('the Act') with a charging price cap and single till revenue model, Heathrow cannot increase its average revenue per passenger from airport charges, although it can increase its total revenue from airport charges by increasing its passenger numbers. This decision only deals with structural changes to Heathrow's airport charges.

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<sup>1</sup> *Investigation of the structure of airport charges levied by Gatwick Airport – CAA decision (17 January 2013)*

### 3. Consultation programme

We recognise that effective consultation with airlines and other stakeholders on potential changes to the structure of airport charges is important to ensure the proposals are understood and that decisions are properly informed by stakeholder views. The table below shows how this consultation has been undertaken.

The publication of this document on 5 August 2015 is the end of our formal consultation on the airport's proposals to change the structure of charges at Heathrow. A separate consultation on the level of airport charges applicable from 1 January 2016 will commence in August 2015.

The consultation programme was as follows:

	<b>Date</b>	<b>Milestone</b>
INFORMAL ENGAGEMENT	27 November 2014	First airline engagement session
	12 January 2015	Environmental information session
	20 January 2015	Second airline engagement session
FORMAL CONSULTATION	02 April 2015	Consultation document issued
	30 April 2015	1 <sup>st</sup> Consultation Meeting
	14 May 2015	Consultation responses deadline
	4 June 2015	2 <sup>nd</sup> Consultation meeting
	9 July 2015	Revised Consultation Proposal issued
	27 July 2015	Revised consultation responses deadline
IMPLEMENTATION	5 August 2015	Heathrow announces new structure of charges
	August-Oct 2015	Annual Charges Consultation for 2016
	01 January 2016	New 2016 level of charges implemented
	August-Oct 2016	Annual Charges Consultation for 2017 (using new structure)
	01 January 2017	New Charges Structure implemented

A separate consultation document will be published in August 2015 as part of the Annual Charges Consultation and this will deal with the level of airport charges applicable from 1 January 2016 as derived through the CAA's price cap formula.

## 4. Departing passenger charges

### 4.1 European and non European passenger charges

The 2015 departing passenger charges are currently set at £29.59 for passengers departing to European destinations and £41.54 to non European destinations.

Heathrow has decided to introduce a departing passenger charge discount of £5.00 for European destination passengers. This decision has been taken to address an imbalance in the load factors of flights to European destinations when compared with flights to non European destinations. The key driver for the decision is to increase load factors for European destinations thereby making more efficient use of a scarce resource, namely Heathrow slots. It may be noted from the following table that over the past 6 years there has been an imbalance between European and non European load factors of 8.05% on average:

#### 4.1.1 Heathrow Aircraft Load Factors

Year	EU	Non-EU	Δ
2009	69.60%	77.00%	7.40%
2010	70.70%	79.00%	8.30%
2011	71.10%	78.90%	7.80%
2012	70.70%	80.10%	9.40%
2013	71.70%	80.60%	8.90%
2014	73.20%	79.70%	6.50%
<b>Av</b>	71.16%	79.21%	8.05%

The most recent ICAO average load factor figure for 2014 was 79.8%<sup>2</sup>, which suggests that European load factors at Heathrow are lower than average while non European load factors are very close to the global ICAO average. It is reasonable to expect that a European destination total ticket price is more open to influence by small fluctuations to Heathrow’s passenger charges when compared with non European destinations where Heathrow’s charges represent a significantly lower percentage in the total ticket price. The average ticket price is set out in the table below and shows that the influence of a reduction in departing passenger charges for European destinations would be significantly more than the same reduction in non European charges:

#### Average weighted fare prices in USD<sup>3</sup>      £5 Discount as percentage price

EU: \$202 (£136) <sup>4</sup>	3.7%
Non European: \$860 (£580)	0.9%

The 3.7% average fare discount for EU destinations can be expected to more significantly influence ticket prices for passengers travelling to those destinations whereas a 0.9% discount is likely to have a negligible impact on the ticket price for passengers travelling to non European destinations.

<sup>2</sup> [http://www.icao.int/sustainability/Documents/MonthlyMonitor-2015/MonthlyMonitor\\_Jan2015.pdf](http://www.icao.int/sustainability/Documents/MonthlyMonitor-2015/MonthlyMonitor_Jan2015.pdf)

<sup>3</sup> IATA Airport IS (date range 01/01/2014 – 31/12/2014)

<sup>4</sup> Converted using NYSE exchange rate as at 31 March 2015

In order to address the load factor imbalance for EU destinations, the airport has decided to introduce a £5.00 reduction in the EU departing passenger charge.

The £5.00 per passenger reduction is justified on the basis that it is directly relevant to the load factor imbalance in that it is reasonable to expect an increase in aircraft load factors for European destinations if the departing passenger charge is reduced. The expected increase in load factors for European destinations will have a positive effect on the environment as more passengers are expected to travel on the same number of aircraft (i.e. more passengers for the same environmental impact) and thereby making more efficient use of a scarce resource namely Heathrow slots.

The Regulations authorise airport operators to set airport charges that differentiate between airport users provided that the reason for the differentiation is relevant, objective and transparent. In this case there are relevant and objective reasons to support the reduction in departing passenger charge for European destinations as the reduction is directly relevant to the imbalance the airport is seeking to address and it is reasonable to expect the reduction to positively influence aircraft load factors for European destinations. Further Heathrow views the load factor discount to be in the public interest as it seeks to promote the efficient use of existing airport infrastructure.

The load factor discount may be summarised (at 2015 prices) as:

<b>Charge</b>	<b>2015 Charge</b>	<b>With EU load factor discount</b>
EU Departing Passenger	£29.59	£24.59
EU Transfer Passenger	£22.19	£18.44

**4.1.2 UK Connectivity**

The National Connectivity Task Force (NCTF) recently conducted a review of the ability for all UK regions, nations and crown dependencies to connect not only to London but through London to growth markets across the globe. One of the key barriers to this connectivity identified by the NCTF is “affordable pricing” for regional aviation services which are more readily influenced by the economics of airport charges than other services. Heathrow is committed to maintaining the viability of existing regional connections and encouraging new connections so that all Heathrow airlines can benefit from the hub feeder traffic these services provide. Support for these services will also improve Heathrow’s competitive position relative to other European hub airports which the NCTF have identified as providing alternative points of connection for regional passengers.

UK connectivity has declined from Heathrow in recent years, falling from 18 routes served in 1990 to just seven today. In its recent report on improving domestic air links, the NCTF identified the need to make routes to regional airports more attractive to airlines to support them whilst Heathrow remains constrained. There are significant numbers of UK originating passengers that hub at airports outside of the UK who may choose to hub at Heathrow if departing passenger charges were more competitive; this is evidenced in the following table:

Hub Airport	No of UK PAX <sup>5</sup>	LHR UK Transfers
AMS	765,000	
DXB	518,000	
FRA	255,000	
CDG	186,000	
<b>Total</b>	<b>1,700,000</b>	<b>945,000</b>

The data above shows that there is an existing market of 1.7M UK passengers that could use Heathrow to connect to their destination.

With this in mind, Heathrow has decided to introduce a departing passenger charge discount of £5.00 to the existing European destination charge applied to passengers departing to UK regions (including nations and crown dependencies). Therefore, departing passengers to UK regions will receive a total £10.00 discount (this is based on a £5.00 EU departing passenger aircraft load factor incentive discount and £5.00 UK connectivity discount).

This discount has been developed to address the issue of affordability for regional connectivity which was identified by the NCTF and is in the public interest as it will support regional passenger linkages to Heathrow and the onward connections supplied by all airport users. The discount at the same time seeks to make Heathrow a more competitive point of connection for regional passengers against other European and international hubs with direct UK regional links.

The connectivity discount may be summarised (at 2015 prices) as:

	<b>2015 Charge</b>	<b>With EU load factor discount</b>	<b>With UK Connectivity discount</b>
EU Departing Passenger	£29.59	£24.59	£19.59
EU Transfer/Transit Passenger	£22.19	£18.44	£14.69

When these changes take effect in 2017, the non European departing passenger charge will not increase beyond the 2016 level, but this will be kept under review for subsequent years for the remainder of the regulatory period. In any event, increases in the overall airport charges (permitted under the price cap and generally driven by increases in RPI) will be recovered through environmental charges.

<sup>5</sup> IATA Airport IS (date range 01/01/2014 – 31/12/2014) based on passengers connecting from Aberdeen, Belfast, Edinburgh, Glasgow, Leeds, Bradford, Manchester and Newcastle through the Hub airports.



## 4.2 Transfer and Transit passenger charges

There is currently a 25% discount applied to departing passenger charges for passengers transferring or transiting through the airport. This discount was introduced to encourage such passengers at Heathrow supporting the hub status. The key to any hub is to have a good mix of transfer and origin and destination passengers to feed the entire network.

The following table provides a summary of qualifying passengers since the introduction of the transfer/transit discount:

	<b>Total passengers</b>	<b>Transfer passengers</b>	<b>Transfer passengers %</b>	<b>Period</b>
<b>2011/12</b>	70,116,375	18,324,065	26.1%	April to March
<b>2012/13</b>	70,337,628	19,479,007	27.7%	April to March
<b>2013/14</b>	72,457,910	19,558,091	27.0%	April to March
<b>2014<sup>6</sup></b>	57,371,174	15,650,440	27.3%	April to December

It is clear that the trend is positive in terms of marginal increases in the overall number of transfer passengers since the introduction of the transfer discount. Heathrow will therefore maintain the existing discount to continue support of the hub and transfer passenger connections through Heathrow.

## 4.3 Minimum Departure Charge

There is currently a minimum departure charge levied on all flights of £1,406.00. This means that if the number of passengers on board a departing aircraft equates to a total departing passenger charge lower than £1,406.00, the aircraft operator is charged the minimum departing passenger charge of £1,406.00. This is irrespective of how many passengers there are on board.

In order to further encourage higher load factors and to incentivise better use of scarce resources, Heathrow proposed that the current minimum passenger departure charge be restructured so that the calculation of the minimum charge is based on 70 passengers. This would be based on the typical mix of flights at Heathrow, which is made up of 70% origin and destination passengers and 30% transfer passengers (i.e. 49 of the 70 passengers be charged at the applicable origin and destination departing passenger charge rate and that the remaining 21 passengers to be charged the applicable transfer departing passenger charge). This proposal was intended to provide a greater incentive to fill seats.

As part of the consultation a number stakeholders raised concerns on the selection of a 70 passenger base for calculation of the proposed minimum charges as this was seen as favouring operators of larger aircraft given that as a percentage, the load factors would be lower. Therefore in response to this concern we have decided to retain the existing minimum departure charge structure, which continues to encourage higher load factors and incentivises use of scarce resources and is based on the estimated minimum cost of aircraft operating at Heathrow regardless of size.

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<sup>6</sup> 9 month Regulatory Period to the end of 31 December 2014.

#### 4.4 Remote Stand Rebate

There is a remote stand rebate (currently set at £5.15 per passenger) which applies to any passenger arriving or departing from stands which have been designated remote. The Heathrow Airport Conditions of Use at Schedule 5 provides:

*“The remote stand rebate applies per Passenger for scheduled flights arriving or departing from a stand which has been designated as remote by us. Such rebate will not apply to the extent that it reduces the charges on departing Passengers to below the level of the relevant minimum charge on departure.”*

The origin of the rebate was recognition that passengers using remote stands do not receive the same level of service as those using contact stands. The rebate also acts as a compensatory factor for the cost incurred by airlines to coach passengers from remote stands to the terminal. Until recently the rebate amount was increased in accordance with the airports’ regulated charging formula. Through recent tendering activity for similar coaching services, it has become clear that the current level of rebate exceeds the per passenger cost for such services and as such an adjustment is required to ensure that the rebate does not over compensate.

The most recent airport coaching tender on the provision of coaching provided a market rate of approximately £4 per passenger and on that basis Heathrow has decided to reduce the rebate to that level.

The new remote stand rebate may be summarised as:

**2015 Charge**  
£5.15

**New Charge**  
£4.00

During the consultation a number of stakeholders suggested that the new lower rebate level would not adequately compensate for remote stand operation. Heathrow requested that evidence be submitted to support this position. In reviewing the final stakeholder submissions there was no evidence provided that demonstrated that the new rebate level would not adequately compensate remote stand operation and as such Heathrow has decided to implement its original proposal unchanged.

## 5. Air Navigation Services (ANS) charge

### 5.1 NATS Charge

The current ANS charge is applied on the basis of two components (i) a fixed movement charge of £80.53 and (ii) an aircraft weight based charge of £1.08 per metric tonne which generally means that smaller aircraft currently pay less per movement than larger aircraft. This charging structure does not rationally apportion the charge as the same level of general ANS service is required for each aircraft arrival and departure regardless of aircraft size and weight.

Heathrow has decided to roll the ANS charges into the environmental charges thus eliminating the ANS charge completely as a separately levied charge. This will encourage the use of the most environmentally efficient aircraft at Heathrow while at the same time simplifying the overall charging structure by removing a separate weight related charge.

The new ANS charge (at 2015 prices) may be summarised as:

<b>2015 Charge</b>	<b>New Charge</b>
£80.53 per movement plus £1.08 per metric tonne	£0 included in environmental charges

Through the consultation a number of stakeholders raised the question of transparency in relation to the proposal to combine the ANS charge with the environmental charges. It was noted that the present ANS charging structure did not have any relation to the actual cost of providing ANS at Heathrow but instead was a historical construct which was originally set when ANS charges were charged directly to airport users by the ANS provider.

Heathrow took over as contracting counterparty with ANS providers and is wholly responsible for the payment of ANS fees. Heathrow is only permitted to recover costs approved by the CAA as part of its pricing regulation and cost transparency is provided through that mechanism. On that basis Heathrow has decided to roll the ANS charge in to the existing environmental charges as proposed in the consultation.

## 6. Environmental charges

There is currently a fixed charge applied to all aircraft landings at the airport which is made up of noise and emissions based elements referred to as “environmental charges”. These environmental charges have been set to encourage the use of most environmentally efficient and least polluting aircraft at Heathrow which in turn provides a public benefit in minimising the impact of the airport and the aircraft using it on our neighbours and London more generally.

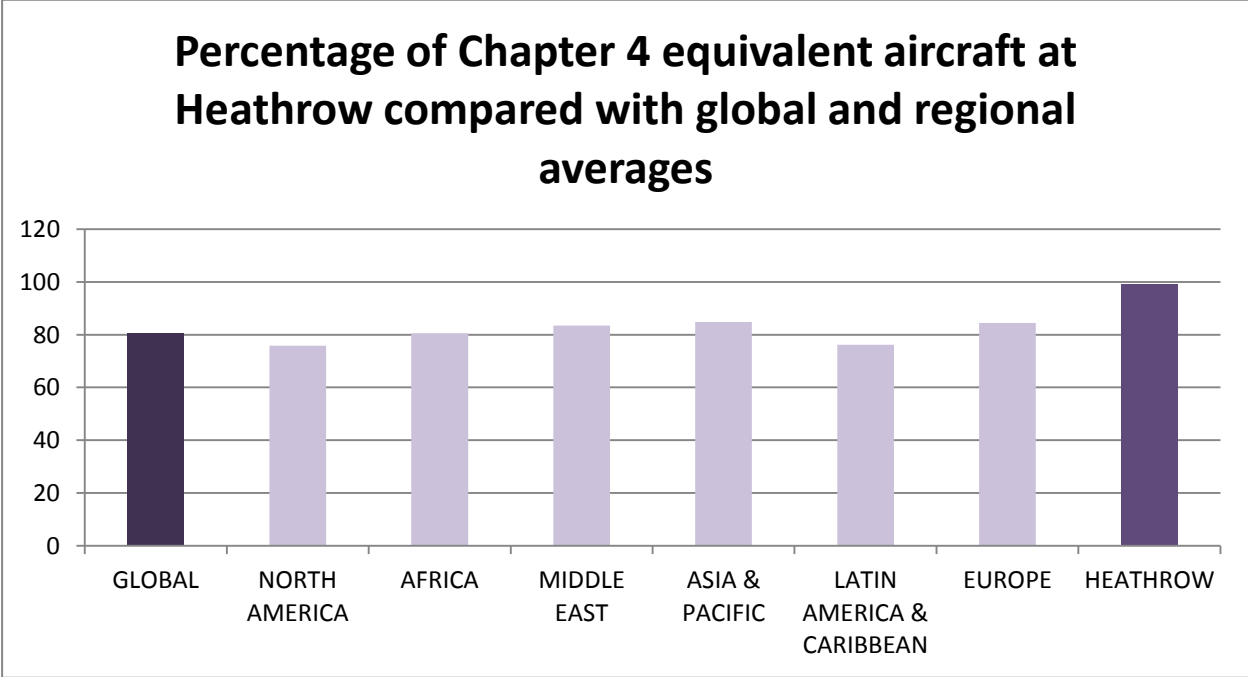
Heathrow is specifically authorised under the Regulations to apply environmental charges where those charges seek to reduce the environmental impact of the airport. Heathrow’s current environmental charges are levied on the basis of the environmental impact of the aircraft being operated with 85% of the environmental charge (excluding ANS charges) allocated to noise emissions and 15% allocated to NOx emissions.

Heathrow has decided to increase the overall weighting of the environmental charges and rebalance the overall charges to ensure it is revenue neutral. For example the changes in the departing passenger charges will result in a shortfall in the airport charges, which we will recover through the environmental charges. This change would mean the landing charge will increase from 21% of total airport charges to 28%.

With the decision to introduce departing passenger charge discounts it has been decided that the environmental charges will always act as the balancing factor to ensure Heathrow recovers the regulated price cap. This means the environmental charge proportion of total airport charges can deviate year to year.

Further, Heathrow has decided to place a greater emphasis on NOx emissions (moving from 15% to 20% of the total environmental charges) in order to encourage the use of the best in class aircraft in terms of environmental performance.

This decision seeks to keep Heathrow ahead in terms of fleet environmental performance which has moved ahead of the global average (in terms of noise category) since the introduction of environmental charges:



These changes to Heathrow's environmental charges are clearly relevant to airport and aircraft environmental impact, and objective as environmental charges levied in proportion to the level environmental emissions each aircraft produces, but do not preclude the operation of aircraft currently operating at Heathrow which have the greatest environmental impact. Heathrow's decision (including the ANS charging changes outlined above) will result in an increase in fixed environmental charges for aircraft with high environmental impact and a decrease in environmental charges for those with the lowest environmental impact.

## 6.1 Noise Chapter 14

As part of the improved suite of environmental charges, Heathrow has decided to adopt Chapter 14 of Annex 16 to the Chicago Convention as its lowest charge category for noise to encourage further reductions in aircraft noise emissions. This means that aircraft types with at least 7 EPNdB (Effective Perceived Noise in Decibels) quieter emissions than the current Chapter 4 standard will be charged the least noise charges. The new qualification criteria for noise charges are set out in the table below:

Qualification criteria for noise charges						
Criteria to be met concurrently	Chapter 3	Chapter 4 High	Chapter 4 Base	Chapter 14 High	Chapter 14 Base	Chapter 14 Low
Chapter 14 certification or equivalent	NO	NO	NO	YES	YES	YES
Cumulative EPNdB reduction from ICAO Chapter 3 standard of at least :	Less than 10	less than 15	Less than 17	Less than 20	Less than 23	23 or more

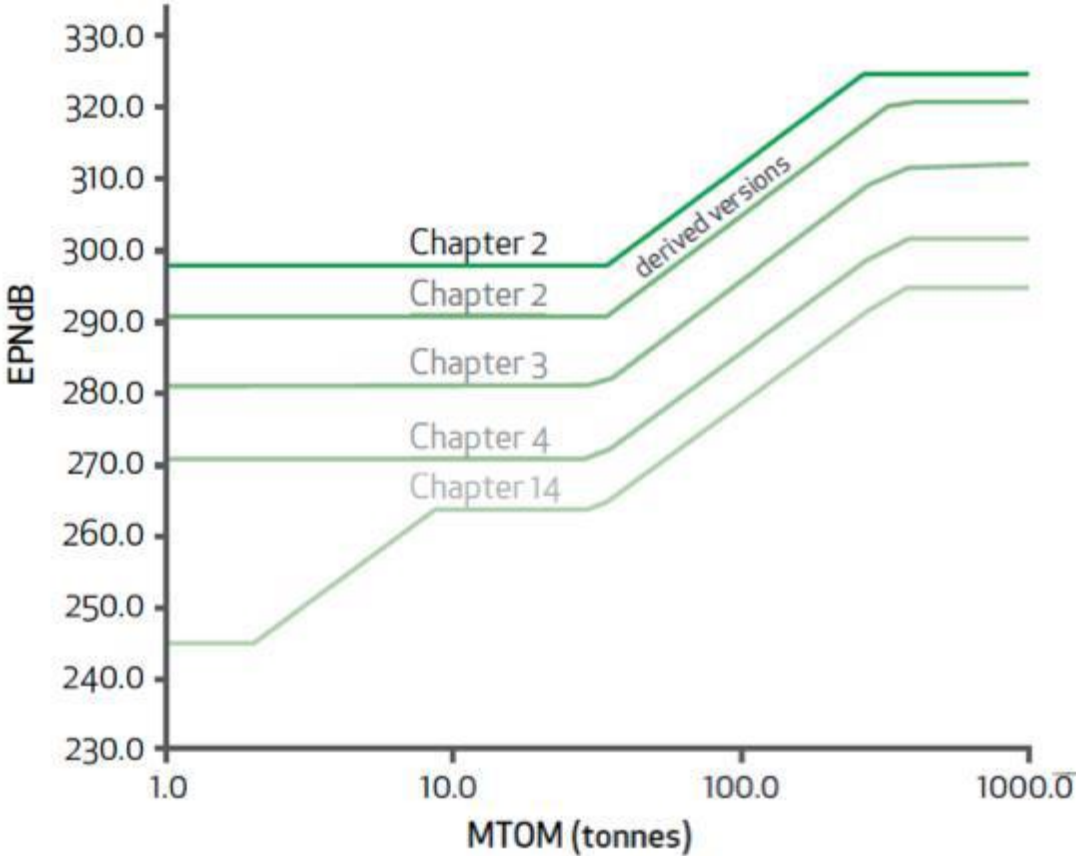
This may be compared to the current qualification criteria:

Qualification criteria for noise categories								
Criteria to be met concurrently	Chapter 3 (includes Chapter 3)	Chapter 3 High non	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

The impact of these changes may be summarised (at 2015 prices) as:

Current 2015 Charge	£	New Charge	£
Chapter 2	8802.15	Chapter 3	9011.94
Chapter 3 High	8802.15	Chapter 4 High	2252.99
Chapter 3 Base	2934.05	Chapter 4 Base	2027.69
Chapter 4 High	1745.05	Chapter 14 High	1577.09
Chapter 4 Base	1430.35	Chapter 14 Base	1126.49
Chapter 4 Low	836.20	Chapter 14 Low	675.90

The prime purpose of noise certification is to ensure that the latest available noise reduction technology is incorporated into aircraft design demonstrated by procedures which are relevant to day to day operations, to ensure that noise reduction offered by technology is reflected in reductions around airports (Source: The seventh meeting of the Committee on Aviation Environment Protection (CAEP/7), 2007). The table below shows the derived noise emissions for each air ICAO Chapter classification and Maximum Take-off Mass (tonnes):



The new Chapter 14 category will now not be adopted at Heathrow until 2017. It should be noted that there is no requirement to have the actual certification as equivalence will only be required. It is also noted that over 50% of the movements at Heathrow are operated by aircraft with Chapter 14 equivalence.

### 6.2 NOx Emissions Charge

Heathrow has decided to adjust the balance of environmental charges to place more emphasis on air quality and encourage the use of aircraft with best in class NOx emissions performance. The rebalance will move the NOx charge from 15% of the total environmental charge to 20% of the total environmental charge. The current NOx emissions charge is set at £8.57 per kg of NOx which is calculated on the Aircraft’s Ascertained NOx Emission.

The change will encourage airport users to use aircraft with lower NOx emissions at Heathrow and reduce the overall amount of NOx emitted from the airport improving air quality for areas immediately surrounding the airport and contribute to improving London’s overall air quality.

The Aircraft’s Ascertained NOx Emission is the product of the Engine NOx Emission as set out in the Emission Database and based on the number of engines on the aircraft. The Emission

Database is the database maintained by Heathrow of Engine NOx Emission of aircraft operating at the airport which is based on aircraft emission information supplied by airlines.

To shift the environmental charge balance for NOx to 20% (of the total environmental charge) while having account of the increase in the overall balance of environmental charges when compared to departing passenger and parking charges produces a new NOx emission charge of £16.51 per kg of NOx.

The new NOx charge (at 2015 prices) may be summarised as:

<b>2015 Charge</b>	<b>New Charge (at 2015 prices)</b>
£8.57 per kg of NOx	£16.51 per kg of NOx



## 7. Aircraft parking charges

Aircraft parking charges were last consulted upon in March 2011 and as result of that process a period of free parking was introduced to encourage more efficient use of stands. The following conditions were set through the Heathrow Conditions of Use (Schedule 5) to provide free parking (reflects 2015 prices):

3.1 *The following charges for parking aircraft at the Airport:*

3.1.1 *Wide Bodied Aircraft*

3.1.1.1 *There is no charge for the first 90 minutes*

3.1.1.2 *Charge per 15 minutes or part thereof after the free period is: £51.26*

3.1.2 *Narrow Bodied Aircraft*

3.1.2.1 *There is no charge for the first 30 minutes*

3.1.2.2 *Charge per 15 minutes or part thereof after the free period is: £21.36*

*These charges will apply whilst the aircraft is parked on areas designated as Airport parking areas, whether the aircraft is secured to the ground or to a structure on the Airport or is left on the ground unsecured.*

3.2 *Parking is free between the hours of 2200 and 0559 UTC (GMT) from 1 April to 31 March.*

...

3.4 *Parking charges will be applied from Chocks On to Chocks Off.*

3.5 *In this paragraph 3 (Parking Charges):*

3.5.1 *Wide Bodied Aircraft shall include aircraft with the following classifications 332, 333, 343, 346, 358, 359, 351, 388, 744, 763, 764, 772, 74Y, 76B, 77A, 77W, 788, 789; and*

3.5.2 *Narrow Bodied Aircraft shall include aircraft with the following classifications 100, 318, 319, 320, 321, 733, 738, 73G, AT5, AT7, CR7, E90, E95, ER3, ER4, F70, M81, 75W, 752.*

Heathrow believes that the free parking periods promote fast aircraft turnarounds and encourages the most efficient use of stands. Heathrow has decided not to make any changes to current parking charging structure.

## 8. Overall balance of environmental, passenger and parking charges

In setting airport charges there is a balance between the different types of charges which is currently set as 75% departing passenger charge, 21% environmental charge and 4% parking charge. Based on the decision, the balance will move to 68% departing passenger charge, 28% environmental charge and 4% parking charge (unchanged).

This rebalance reflects an increased emphasis on environmental performance and best in class aircraft fleet operations while at the same time addressing load factor and connectivity imbalance issues the support of which are in the public interest. The table below provides a summary of the changes in the balance of charges and illustrates income neutrality:

	2015 current	Ratio excl ANS (current)	Ratio incl ANS (like for like)	2015 proposed	Ratio incl ANS in Landing
Noise	288,786,297			382,103,163	
NOx emissions	50,962,288			95,525,790	
Total Landing (excl ANS)	339,748,585	21%	24%	477,628,953	28%
Passenger	1,213,387,802	75%	72%	1,131,226,469	68%
Parking	64,714,016	4%	4%	67,035,643	4%
Total airport charges (excl ANS)	1,617,850,403			1,675,891,065	
ANS charge	58,040,662			0	
Total Landing (incl ANS)	397,789,247				
<b>Total airport charges</b>	<b>1,675,891,065</b>			<b>1,675,891,065</b>	
Passengers	74,065,986			74,065,986	
<b>Maximum Allowable Yield</b>	<b>22.627</b>			<b>22.627</b>	

The decision includes that the environmental charge proportion of total airport charges can deviate year to year to act as the balancing factor to ensure Heathrow recovers the regulated price cap with the introduction of the proposed passenger charge discounts.

## 9. Summary of decision and indicative tariffs

	<b>Current structure - 2015 Charge</b>	<b>Post Decision Implementation</b>
Overall balance	Environment 21% Passenger 75% Parking 4%	Environment 28% Passenger 68% Parking 4%
Passenger charge by destination	European non European	European non European
Passenger charge discounts	None	EU load factor (£5) UK connectivity (£5)
Transfer passenger charge	25% discount	No change
Transit passenger charge	Charged as per transfer passengers	No change
Minimum departure passenger charge	£1,406	No change
Basis of landing	Movement	No change
ANS charge	33% movement 67% weight	Removed and revenue distributed in environmental charges
Noise charge	Differentiated Chapter 4	New differentiated Chapter 14
Emissions charge	Per kg of NOx	No change
Noise : Emission charge	85:15 (i.e. 85% of landing charge recovered through noise charges and 15% recovered through emission charges)	80:20 (i.e. 80% of environmental charge recovered through noise charges and 20% recovered through emission charges)
Parking charge	Separate free period and charge thereafter for narrow and wide bodied aircraft	No change

Current 2015 Tariff		Impact of Decision on 2015 Tariff	
<b>Passenger Charges £*</b>			
Departing OD Passenger Charge			
EU Destinations	29.59	Domestic Destinations (with UK Connectivity Discount)	19.59
		EU destinations (with Load Factor Discount)	24.59
Non European Destinations	41.54	Non European Destinations	41.54
Departing Transfer and Transit Passenger Charge			
EU Destinations	22.19	Domestic Destinations (with UK Connectivity Discount)	14.69
		EU destinations (with Load Factor Discount)	18.44
Non European Destinations	31.16	Non European Destinations	31.16
Minimum departure charge			
All	1,406		1,406
Remote Stand rebate			
All	5.15	All	4.00
<b>Environmental Charge £</b>			
Noise Charge £ per landing			
Chapter 2	8,802.15	Chapter 3	9,011.94
Chapter 3 High	8,802.15	Chapter 4 High	2,252.99
Chapter 3 Base	2,934.05	Chapter 4 Base	2,027.69
Chapter 4 High	1,745.05	Chapter 14 High	1,577.09
Chapter 4 Base	1,430.35	Chapter 14 Base	1,126.49
Chapter 4 Low	836.20	Chapter 14 Low	675.90
Emission Charge £			
Charge per kg of NOx	8.57	Charge per kg of NOx	16.51
Air Navigation Services			
Charge per landing	80.53	Charge per landing	0
Charge per metric tonne	1.08	Charge per metric tonne	0
<b>Parking Charges £</b>			
Wide bodied aircraft (no charge for first 90 minutes then charge per 15 minutes thereafter)	51.26	Wide bodied aircraft (no charge for first 90 minutes then charge per 15 minutes thereafter)	51.26
Narrow bodied aircraft (no charge for first 90 minutes then charge per 15 minutes thereafter)	21.36	Narrow bodied aircraft (no charge for first 90 minutes then charge per 15 minutes thereafter)	21.36

\*Note the above table provides indicative figures only for comparison purposes, assuming a hypothetical situation where the decision set out in this consultation document were fully implemented at the start of the 2015 charging year.

## **10. Implementation timescales**

Heathrow's timescales to implement the proposal was on 1 January 2016. However there were a significant number of stakeholder submissions which highlighted the need for an extra period of time to make adjustments to their aircraft fleet mix at Heathrow so that they can minimise the impact of the new environmental charges on their operations.

Therefore a second round of consultation was conducted during July 2015 to gauge stakeholder views on revised implementation date for the new charges structure. The proposal moved the originally suggested implementation date from 1 January 2016 to a new implementation date of 1 January 2017.

There was satisfactory stakeholder support for the new 1 January 2017 implementation date. Heathrow plan to implement the full package of changes set out in this decision effective 1 January 2017.

## **11. Next steps**

A separate consultation document will be published in August 2015 as part of the Annual Charges Consultation and this will deal with the level of airport charges applicable from 1 January 2016 as derived through the CAA's price cap formula.

## 12. List of Consultation Respondents

Aberdeen Airport  
Aer Lingus  
Air Astana  
Air Canada  
Air France  
Air New Zealand  
Airlines for America  
American Airlines  
Arab Air Carriers Organisation  
BARUK  
British Airways  
Cathay Pacific  
Delta  
DHL  
Germanwings  
Glasgow Airport  
International Airlines Group  
International Air Transport Association  
KLM  
Leeds Bradford Airport  
LOT  
Lufthansa  
Newcastle Airport  
SAS  
United Airlines  
Virgin Atlantic

### 13. Key Themes Raised in Consultation

Heathrow received a large number of confidential stakeholder responses to the consultation and as such we will respond to all stakeholder responses on a bilateral basis. However we provide a non-confidential summary of the key stakeholder themes and airport responses below.

Airline key theme	Heathrow response
<b>Passenger charges</b>	
All proposed passenger discounts should be removed	The passenger discounts have been proposed to address specific load factor and connectivity issues. The address of these issues is in the public interest as well as the interest of all airport users given the anticipated passenger flows to all airport users.
The UK passenger discount is not aligned to EU charges directive	The departing passenger charge discounts proposed are compliant with the requirements of the Airport Charges Directive and the UK Airport Charges Regulations 2011. Charges justified on the basis of public interest (including environmental impact) are specifically authorised.
The remote stand rebate should be retained at the existing rate and not reduced	No evidence was provided in the consultation that demonstrated that the new (lower) rebate level would not adequately compensate remote stand operation and as such Heathrow has decided to implement its original proposal unchanged.
<b>Minimum departure charge</b>	
The minimum departure charge should be removed	The minimum departure charge incentivises efficient use of the airport and provides a incentive to increase load factors benefiting all airport users and a means of cost recovery for airport use where other applicable charges are insufficient to cover such costs.
The differentiation between the proposed level to the existing level is too high	A number stakeholders raised concerns on the selection of a 70 passenger base for calculation of the proposed minimum charges as this was seen as favouring operators of larger aircraft given that as a percentage the load factors would be lower. Heathrow has decided to retain the existing minimum departure charge structure which is based on the estimated minimum cost of aircraft operating at Heathrow regardless of size.

<b>Environmental charges</b>	
<p>The proposed environmental charge increase to 28% increases fixed costs</p>	<p>Heathrow has decided to increase the overall weighting of the environmental charges and rebalance the overall charges to ensure it is revenue neutral. For example the changes in the departing passenger charges will result in a shortfall in the airport charges, which we will recover through the environmental charges. This change would mean the landing charge will increase from 21% of total airport charges to 28%. Heathrow believes that airlines operating with environmental best in class aircraft and high load factors are likely to reduce their overall airport charges.</p>
<p>The environmental charges has heavy cost impacts on certain aircraft types</p>	<p>Heathrow is specifically authorised under the Regulations to apply environmental charges where those charges seek to reduce the environmental impact of the airport. Heathrow believes that airlines operating with environmental best in class aircraft and high load factors are likely to reduce their overall airport charges.</p>
<p>The ANS charge should be retained for transparency purposes</p>	<p>It was noted that the present ANS charging structure did not have any relation to the actual cost of providing ANS at Heathrow but instead was a historical construct which was originally set when ANS charges were charged for directly to airport users by the ANS provider. Heathrow some time ago took over as contracting counterparty with ANS providers and is wholly responsible for the payment of ANS fees. Heathrow is only permitted to recover costs approved by the CAA as part of its pricing regulation and cost transparency is provided through that mechanism. On that basis Heathrow has decided to roll the ANS charge in to the existing environmental charges as proposed in the consultation.</p>
<p>The charges should be phased overtime</p>	<p>There were a significant number of stakeholder submissions which highlighted the need for an extra period of time to make adjustments to their aircraft fleet mix at Heathrow so that they can minimise the impact of the new environmental charges on their operations. This has been accepted and further time for adjustment has been provided.</p>



<p>The proposed ratios between the noise chapter charges are too large</p>	<p>As part of the improved suite of environmental charges Heathrow has decided to adopt Chapter 14 of Annex 16 to the Chicago Convention as its lowest charge category for noise to encourage further reductions in aircraft noise emissions. This means that aircraft types with at least 7 EPNdB (Effective Perceived Noise in Decibels) quieter emissions than the current Chapter 4 standard will be charged the least noise charges. CAA best practice guidance recommends charging bands of either 3 or 5dB and this is reflected in categories proposed where practicable. The fact that the new Chapter 14 limit is a prime number in relation to the Chapter 3 limits means that one band (Chapter 4 Base) is only 2dB. The associated charges difference aims to encourage the use of the quietest category of aircraft and achieve our EU Noise Action Plan targets of reducing our noise impact and being 100% Chapter 4 equivalent or better by 2020.</p>
<p>Chapter 14 is not being adopted until 2017, why is Heathrow introducing this ahead of that date</p>	<p>The new Chapter 14 category will now not be adopted at Heathrow until 2017. It should be noted that there is no requirement to have the actual certification as equivalence will only be required. It is also noted that over 50% of the movements at Heathrow are operated by aircraft with Chapter 14 equivalence.</p>

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