

Date: **25<sup>th</sup> March 2009**

GN: **03/09**

Subject: **TARIFFS WITH EFFECT FROM 1<sup>ST</sup> APRIL 2009:**

- **ELECTRICITY**
- **FIXED ELECTRICAL GROUND POWER**
- **WATER AND SEWERAGE**
- **LOW TEMPERATURE HOT WATER**
- **DOMESTIC HOT WATER**
- **CHILLED WATER**
- **GAS**
- **STAFF ID CARDS AND VEHICLE APRON PASSES**
- **STAFF CAR PARKING**
- **BAGGAGE**
- **CHECK-IN DESKS AND CUSS**
- **AIRSIDE LICENCES**
- **AIRPORT WASTE SERVICES**
- **PRE CONDITIONED AIR**
- **PASSENGERS WITH REDUCED MOBILITY**

## **1.0 INTRODUCTION**

This Notice sets out revised charges for the above activities and services at Heathrow Airport effective from 1<sup>st</sup> April 2009.

Some of the above are “Specified Activities“ as prescribed by the Civil Aviation Authority (CAA). In these cases, the CAA has set out the principles underlying the price setting process. The method of price setting is cost- related and pricing must be supported by transparency on costs and revenues and externally audited Transparency statements. Others are not designated as Specified Activities but the method of price calculation is similar.

Consistent with previous years, pricing is restricted solely to enable cost recovery. Total forecast costs are divided by forecast consumption to give unit prices for 2009/10. The accounting year is 1<sup>st</sup> April to 31<sup>st</sup> March. In some cases, there is a balancing credit or debit for any over or under recoveries of cost in 2008/9, carried into the 2009/10 cost base. Through this methodology, HAL only recovers its costs and doesn't derive any mark-up or direct return.

This Notice follows the completion of formal consultation by Heathrow Airport Limited (HAL) on 2009/10 prices for these activities and services through the Heathrow Non Regulated Charges Group (NRCG). The NRCG operates under the Constructive Engagement framework set out by the CAA and its membership includes airline representatives and the Heathrow AOC (AOC). During the consultation, HAL has sought to provide full transparency on costs, focusing particularly on reasons for variance to the current year 2008/9. Explanation of this detail is included in this General Notice, but HAL would be pleased to provide further information on request via the contact details provided ahead.

Reference to “Q5” relates to the current 5 year pricing period (Quinquennium 5).

## **2.0 EXECUTIVE SUMMARY**

The prices for 2009/10 are set out in the attached schedule. Main highlights are as follows:

- Of the 12 product and service areas, 6 have zero price increases.
- A further 2 have increases of less than 3%.
- Baggage pricing is increasing by 10.3%, but this includes under-billed sums from 2008/9. The net increase is 5.6%.
- Water and electricity are increasing by 11.6% and 26.6% respectively, both impacted by market utility prices and capital charges arising from new infrastructure.
- Pre-conditioned air is increasing by 8% , impacted by electricity cost.

After like for like adjustments to make comparison, total cost recovered from this pricing is forecast at £200.1m, compared to £182.9m in 2008/9. Of this increase, £6m is recovery of monies due in 2008/9, the net figure for 2009/10 is therefore £194.1m.

## **3.0 BACKGROUND**

The consultation on 2009/10 prices, conducted through the NRCG, commenced on 4<sup>th</sup> November 2008 and was completed on 12<sup>th</sup> March 2009. During this process, HAL set out its forecasts of cost and consumption and its estimates of the likely balancing position for 2008/9.

During the consultation, the AOC and Airline representatives focused strongly on the need for HAL to provide full transparency, to target cost efficiencies and to minimise price increases as a response to the current economic climate in the aviation sector. HAL has sought to respond to this in the following ways:

- Consistent with previous years, pricing is restricted solely to the principle of cost recovery, as described above.

- 2009/10 pricing falls substantially short of prices required to achieve full cost recovery. The following estimated sums are deferred / written off in 2009/10 pricing to minimise price impact:

	<u>Written Off (£m)</u>	<u>Deferred (£m)</u>	<u>Comments</u>
<b>Electricity</b>		6.86	The full cost of external electricity purchase is included, but additional capital charges are deferred by 18 months, commencing 1 <sup>st</sup> October 2009, rather than 1 <sup>st</sup> April 2008.
<b>Water</b>		2.12	The full cost of external water purchase is included, but additional capital charges are deferred by 18 months, commencing 1 <sup>st</sup> October 2009, rather than 1 <sup>st</sup> April 2008.
<b>Staff ID</b>		0.25	Under recovery from 2008/9 is carried forward beyond 2009/10 to smooth the price effect in Q5.
<b>Baggage</b>		28.97	The full impact of indirect / overhead costs and 2008/9 under recovery has been reduced .
<b>Check-in/CUSS</b>	1.44	1.44	Total cost recovered is capped at the 2008/9 level, but CUSS is added in.
<b>PRM</b>		0.25	Current pricing is extended to 16 <sup>th</sup> June 2009.
<b>TOTAL</b>	1.44	39.89	

Of the above totals, approximately £21.03m relates to the estimated 2009/10 cost base and £20.30m relates to under recoveries carried forward from 2008/9.

- By providing full details and transparency on costs, focusing particularly on reasons for variance to the current year 2008/9. These variances are identified and explained in this Notice.
- By introducing some stretch targets for HAL to deliver targeted cost savings in the 2009/10 cost base. These are reflected in 2009/10 pricing.
- HAL has committed to establish joint governance fora (HAL and airlines) to oversee issues such as transparency, scope, costs, service, contract placement etc for individual activities. These will run through the coming year. Some of are already in place and others will be set up shortly. They will all report into the NRCG during the year. The objective is to achieve a shared approach to managing the cost base.

- To undertake a review of policy in respect of indirect and overhead cost allocation and capital charges in time for the 2010/11 pricing round later this year.

#### 4.0 PRICING

All prices exclude VAT.

The prices set out in this Notice are intended to apply for the entire year ending 31<sup>st</sup> March 2010, except PRM which is for a shorter period (see ahead). However, HAL reserves the right to amend prices during the year where a material change arises which significantly changes the assumptions on which prices are assessed. In this event, any proposed changes would be subject to consultation in advance through the NRCG. The trading statements at the end of the year will show any under or over recoveries and these will be taken into account when setting prices for individual activities in the following year.

Commentary on each service / activity is set out below:

##### Electricity

Electricity pricing is calculated by forecasting the total cost base in 2009/10 and dividing by forecast consumption to derive an average unit price. This is undertaken at an airport-wide level, with approximately 33% used by, and billed to, airport customers and the remainder used and paid for by HAL. The cost base primarily contains the cost of purchasing electricity, indirect cost allocation and capital charges.

The price of both High Voltage (HV) & Medium Voltage (MV) electricity will increase by 26.63%. Individual prices will be as set out in the attached schedule.

Principal factors influencing this increase are as follows:

- An increased cost of buying in electricity from external suppliers. UK utility market prices have increased significantly in recent months. HAL has entered into a new 4 year supply contract, commencing 1<sup>st</sup> April 2009 with EDF. The first 3 years will be fixed at £75 per mega watt hour subject to annual increase for only the delivery charge element. These revised rates are included in 2009/10 pricing.
- There is no increase in maintenance costs.
- An increase in the capital charge for funds supplied by both LES and HAL arising from new airport electricity assets. Details are set out as follows:

	<u>Asset Base</u> <u>(£m)</u>	<u>Full Capital</u> <u>Charge</u> <u>(@33%) (£m)</u>	<u>Included in</u> <u>pricing</u> <u>(@33%) (£m)</u>	<u>Deferred</u> <u>(@33%) (£m)</u>
<b>2007/8</b>	142.9			
<b>2008/9</b>	405.0	12.35	7.80	4.55
<b>2009/10</b>	405.0	<u>12.96</u>	<u>10.66</u>	<u>2.30</u>
<b>TOTAL</b>		25.31	18.46	6.85

Capital charges of £10.66m are included in 2009/10 pricing, with £6.85m excluded by way of deferral.

### **Fixed Electrical Ground Power (FEGP)**

The FEGP cost base is primarily made up of electricity costs (using the airport rate set out above), indirect costs and capital charges.

The price of FEGP will increase by 0.61% to £3.04 per quarter hour. Although there is a significant rise in the cost of electricity utilised by the FEGP system, this is cancelled out by a predicted over recovery from 2008/9. The overall effect is a minimal price increase.

There are no changes to the terms and conditions of the supply of FEGP. These are attached for information.

### **Water, Sewerage, Chilled and Heated Water**

Like electricity, water pricing is calculated by forecasting the cost base in 2009/10 and dividing by forecast consumption to derive an average unit price. This is undertaken at an airport-wide level, with approximately 23% used by airport customers and the remainder used and paid for by HAL. The water cost base is primarily made up of water purchase, maintenance, staff, capital and indirect costs.

Prices will increase by 11.6%, to:

- £2.98 per cubic metre (water and sewerage combined).
- £2.30 per cubic metre (water only).
- £2.65 per cubic metre (Low Temperature Hot Water (LTHW))
- £3.52 per cubic metre (Domestic Hot Water (DHW))
- £2.65 per cubic metre (Chilled Water (CW)).

Principal factors influencing this price increase are as follows:

- An increased cost of buying in water services from external suppliers, Thames Water and Three Valleys. This amounts to £15,000.
- A reduction of £ 76,000 in HAL's forecast maintenance costs, based on efficiencies in the maintenance plan for the coming year.
- Capital charges arising from new airport water assets (mainly T5). Details are set out as follows:

	<u>Asset Base</u> <u>(£m)</u>	<u>Full Capital</u> <u>Charge</u> <u>(@23%) (£m)</u>	<u>Included in</u> <u>pricing</u> <u>(@23%) (£m)</u>	<u>Deferred</u> <u>(@23%) (£m)</u>
<b>2007/8</b>	11.87			
<b>2008/9</b>	88.30	1.74	0.24	1.50
<b>2009/10</b>	88.30	<u>1.78</u>	<u>1.17</u>	<u>0.61</u>
<b>TOTAL</b>		3.52	1.41	2.11

Capital charges of £1.17m are included in 2009/10 pricing, with £2.11m excluded by way of deferral.

- There is adjustment for a predicted over recovery in 2008/9 of £315,000.

The approach to calculating charges for LTHW, DHW and CW is in line with the approach adopted in 2008/9 and by previous agreement with the AOC, namely an agreed escalator against the base water price. This reflects the additional cost incurred by HAL in heating/chilling water. The escalators are 15% for LTHW and CW and 33% for DHW.

The charge for water supply only applies in circumstances where a user has a separate trade effluent consent. In these circumstances a separate charge for trade effluent will be made by Thames Water who will bill customers direct. This replaces the sewerage charge currently included within the combined water and sewerage price. Please note, the price of £2.30 will only apply where a trade effluent consent exists.

### **Gas**

The price of gas will reduce by 5.46% to 4.51p per kwh for those customers billed for gas supplied direct. Although there has been some increase in the cost of purchasing gas in line with the general rise in market utility prices, this is more than offset by a predicted over recovery in 2008/9. This price change does not relate to heating rents, which will continue to be index-linked.

### **Staff ID Cards and Vehicle Apron Passes**

The cost base for staff ID cards and Vehicle Apron passes comprises a variety of operating and indirect costs associated with operation of the control and administration activities.

The prices of all Staff ID Cards and Vehicle Apron Passes will remain unchanged. The full cost for 2009/10 indicates a price increase of 9.82%. However, this is distorted by an under recovery from 2008/9. The ID Centre has implemented a number of efficiencies targeted at reducing cost and HAL believes these will continue to flow through to prices in future years. HAL has therefore taken the decision to defer c. £250,000 into later years of Q5 in anticipation that this will help to smooth pricing during the overall Q5 period.

### **Staff Car Parking**

The cost base for staff car parking comprises mainly operating costs, capital charges and indirect costs.

The price of staff car parking passes in the CTA and Perimeter will remain unchanged. The predicted cost base in 2009/10 is expected to be similar to 2008/9 and with no forecast changes in consumption.

The price includes a £12 levy on each pass, in order to help fund Public Transport initiatives. This levy is included as part of the transparent costing.

### **Baggage**

Baggage charges relate to recovery of forecast operating costs for departing, arriving and transfer bags. The cost base is made up of operating costs (mainly 3<sup>rd</sup> party suppliers), Business Rates on baggage facilities, HAL maintenance and indirect costs.

In 2009/10, baggage charges will continue to be set against departing bags. The charge will be £3.22 per departing bag, invoiced monthly in arrears against each airline's actual number of direct and transferring departing bags processed. This is a slight change to the approach in 2008/9 where baggage costs were apportioned to individual airlines based on their percentage system use. The move to an "Actual Bags x £3.22" approach is now preferred, given that a full years evidence of bag volumes is available.

During consultation through the NRCG, HAL has agreed to restrict billing to recover a forecast cost of £112.7m. This is significantly below the full cost base as identified in the table in paragraph 3.0 above. The rate of £3.22 has been set by dividing this cost base by a forecast of 35m dep bags.

The comparison with 2008/9 is as follows:

	<b><u>Total Cost</u></b>	<b><u>% Change</u></b>	<b><u>Cost/Dep Bag</u></b>	<b><u>% Change</u></b>
<b>2008/9</b>	£103.5m		£2.92	
<b>2009/10</b>	£112.7m	+ 8.9%	£3.22	+ 10.3%

Of the increase, £6m (17p per dep bag) represents deferred billing from 2008/9. During the lead up to the 2008/9 pricing round, HAL agreed to defer airline payments equivalent to this sum into 2009/10. The like for like increase is therefore £ 3.2m (3.1%) on total system cost and 13p (5.6%) per dep bag. The reason for a higher percentage increase on the bag rate is a slightly reduced forecast bag volume in 2009/10; 2008/9 is predicted at c. 35.5m bags, compared to 35m in 2009/10.

The cost base should be seen in the context of a significant improvement in performance over the last year:

	<b>February 2008</b>	<b>February 2009</b>
Overall Misconnect Rate /1000 pax	38	19
Transfer Misconnect Rate / 1000 pax	102	50

The above cost base is the output of a review of the 2009/10 baggage budget undertaken jointly by HAL and airline representatives over the last few months. The objective has been to identify opportunities for savings and efficiencies. Prior to this review, a number of factors were indicating a cost base significantly in excess of £112.7m. Main highlights from the review are summarised as follows:

- Opportunities have been identified to eliminate duplication and related cost from activities undertaken by both HAL and handlers.
- Some scope reductions have been agreed.
- Stretch targets have been included to save costs.
- Estimated costs associated with the extended airline relocation sequence have been excluded. These are costs in 2008/9 and 2009/10 incurred in keeping T2 open longer than originally planned and the related additional TBS and ITO costs.

After scope and cost saving assumptions, the main variances to 2008/9 are as follows:

	<b><u>£m</u></b>
<b>Electricity cost</b>	1.6
<b>IT Assurance</b>	1.0
<b>Baggage contingency facility</b>	0.5
<b>Miscellaneous</b>	0.1
<b>Agreed opex under-billing in 2008/9</b>	<u>6.0</u>
<b>TOTAL</b>	9.2

### **Check-in Desks and Common Use Self Service (CUSS)**

The cost base for check-in and CUSS includes amortisation, operating, maintenance, Business Rates, site fees and indirect costs.

A revised charging structure for check-in and CUSS will be introduced from 1<sup>st</sup> April 2009, following formal consultation with the AOC and NRCG. From this date, check-in and CUSS charges will be merged. At the current time they have separate charging models. One of the objectives behind this new structure is to incentivise the take-up of CUSS to make best use of check-in space and to obviate the need to develop additional check-in desk capacity. The revised arrangements will be as follows:

- Check-in desk billing will be on the same basis as 2008/9 ie a time based charge against use of desks, assessed monthly and invoiced monthly in arrears.
- Check-in desk billing will include charges for CUSS. Billing arising from existing CUSS contracts will cease on 31<sup>st</sup> March 2009.



- HAL will restrict billing for check-in desks in 2009/10 at a rate which recovers the same total sum as 2008/9 ie c. £5.11m capped. This sum compares to HAL's forecast total cost of check-in and CUSS combined of c. £7.98m. The predicted deficit is therefore c. £2.87m. This deficit will be assessed at the end of 2009/10 and 50% will be written-off by HAL and 50% carried into pricing in the remaining years of Q5.
- There is a slight reduction in the forecast number of check-in desks in 2009/10 ie an average of 786 desks, compared with 810 in 2008/9. This results in an average headline unit rate of £17.81 per desk per day. As with the approach used in 2008/9 this assumes full utilisation and in practice, charge out rates vary from month to month depending on utilisation.
- HAL and the AOC have committed to a joint work stream to tender the CUSS operational contract with plans for a new contract to be effective from 1<sup>st</sup> April 2010. The intention is to ensure a best-practice appointment in terms of service and cost. Any savings achieved will be passed into the cost base for future years. It is also anticipated that unit rates will be reduced as take up of CUSS increases.
- Airline SSK machines will remain outside of the above structure.

HAL plans to update the existing protocol to reflect these changes.

### **Airside Licences**

During 2008, an agreement was reached at the Airport Users Committee that the price for an Airside Licence would be set at £2,590 per licence for the period April 2008 to March 2009 and held at this level for April 2009 to March 2010. This agreement has been approved by the NRCG and prices will therefore remain at £2,590.

### **Waste**

The cost base for waste services primarily constitutes 3<sup>rd</sup> party supplier costs in managing the airport waste contract. The cost base is assessed at an airport-wide level to derive an average airport rate. Some is billed to airport users (34%) and the balance is incurred by HAL.

Waste charges will increase by 2.92% to £52.78 per assessed unit per Quarter. The main issue impacting on price is a marginal increase in waste supplier costs.

### **Pre-Conditioned Air (PCA)**

The cost base for PCA mainly constitutes electricity, maintenance and capital costs.

The price of PCA will increase by 8% to 27p per kwh. This price increase reflects the impact of the electricity price offset by a predicted over-recovery in 2008/9.

### **Passengers with Reduced Mobility (PRM)**

The price of the PRM service will be unchanged for the period from 1<sup>st</sup> April to 16<sup>th</sup> June 2009 at 35p per departing passenger.

The airport-wide charging model was introduced on 17<sup>th</sup> June 2008 for the period up to 31<sup>st</sup> March 2009. The accounts for this period indicate an outturn cost broadly in line with prediction and a similar cost base in 2009/10. However, departing passenger numbers are forecast to decrease slightly against 2008/9 and this would indicate an increase in the unit rate from 1<sup>st</sup> April 2009.

The AOC has requested HAL to undertake a review of the structure of PRM charging and HAL has therefore agreed to the following:

- To undertake the review in consultation with the AOC during the period up to 16<sup>th</sup> June 2009, with the intention that any revisions are implemented from 17<sup>th</sup> June 2009.
- To hold billing at the existing rate of 35p from 1<sup>st</sup> April to 16<sup>th</sup> June 2009.
- To assess any deficit during the period up to 16<sup>th</sup> June and to include this in pricing from 17<sup>th</sup> June 2009.

### **5.0 QUERIES**

Should you have any questions concerning the new charges, please contact HAL's Commercial Team on 020 8745 5114, who will be pleased to assist.

**For and on behalf of  
Managing Director**



Distribution: Full  
Enc

# HEATHROW AIRPORT LIMITED

## PRICING MATRIX

EFFECTIVE FROM 1<sup>ST</sup> APRIL 2009

Product / Service	2008/09 Price	Price Increase %	2009/10 Proposed Price
Baggage	£2.92 per departing bag *	10.27%	£3.22 per departing bag **
Check-In	£17.14 per desk per day ***	n/a	n/a
Check-In & CUSS	n/a	n/a	£17.81 per desk per day ****
Electricity MV	12.94 pence per KWH	26.63%	16.39 pence per KWH
Electricity HV	8.83 pence per KWH		11.18 pence per KWH
Availability	£2.06 per month per KVA available capacity		£2.61 per month per KVA available capacity
Max Demand:			
Nov & Feb	£5.43 per KVA per month		£6.88 per KVA per month
Dec & Jan	£17.54 per KVA per month	£22.21 per KVA per month	
Pre Conditioned Air	25 pence per KWH	8.00%	27 pence per KWH
FEGP per Qtr Hour	£3.02 per 1/4 hour	0.61%	£3.04 per 1/4 hour
WATER & SEWERAGE	£2.67 per cubic meter	11.60%	£2.98 per cubic meter
WATER Only	£2.06 per cubic meter		£2.30 per cubic meter
Low Temperature Hot Water	£2.36 per cubic meter		£2.65 per cubic meter
Domestic Hot Water	£3.14 per cubic meter		£3.52 per cubic meter
Chilled Water	£2.36 per cubic meter		£2.65 per cubic meter
STAFF CAR PARKS - Perimeter	£698.80 per pass pa	0.00%	£698.80 per pass pa
STAFF CAR PARKS - CTA	£1111.23 per pass pa		£1111.23 per pass pa
ID PASSES (Standard)		0.00%	
Machine Readable ID Pass - Issue	£95.76 per pass		£95.76 per pass
Machine Readable ID Pass - Re-Issue	£82.55 per pass		£82.55 per pass
Machine Readable ID Pass - Amendment	£32.95 per pass		£32.95 per pass
Non-Machine Readable Pass - Landside	£16.46 per pass		£16.46 per pass
Temporary Photographic ID Pass	£32.95 per pass		£32.95 per pass
Penalty Charge for lost or stolen pass	£50 per penalty		£50 per penalty
Application 'No Show'	£95.76 per 'no show'		£95.76 per 'no show'
Liveried Vehicle Airside Pass - Annual	£49.61 per pass		£49.61 per pass
Liveried Vehicle Airside Pass - Temporary	£12.20 per pass		£12.20 per pass
Private Vehicle Airside Pass	£1436.2 per pass	£1436.2 per pass	
Private Vehicle Airside Pass - Temporary	£27.46 per pass	£27.46 per pass	
Airside Licence	£ 2,590 per annum	0.00%	£ 2,590 per annum
Airport Waste	£ 51.29 per assessed unit per Qtr	2.92%	£ 52.78 per assessed unit per Qtr
PRM	35 pence per departing passenger	0.00%	35 pence per departing passenger *****
GAS	4.77 pence per KWH	-5.46%	4.51 pence per KWH

\* Assumes total cost £ 103.77m and 35.5m departing bags.

\*\* Assumes total charge of £112.73m and 35m departing bags. Effectively 0% increase given inclusion of CUSS.

\*\*\* Assuming all Airport check-in desks are fully utilised.

\*\*\*\* Assuming all Airport check-in desks are fully utilised. Average across entire airport, rates in T1-T4 will be different to T5 which is ring fenced.

\*\*\*\*\* 2008/09 model extended up to 16th June. Anticipated new recovery model introduced from this date.

**FIXED ELECTRICAL GROUND POWER  
CONDITIONS OF USE (SUMMARY)**

The service is limited to aircraft with 115/200 volt, 400Hz electrical systems.

Mobile transformers/rectifiers between FEGP outlets and aircraft with 28V DC systems may be used subject to HAL approval.

Use of FEGP service constitutes prior acceptance of the charges in this notice.

Chargeable use of the service begins at the time of occupying the stand.

Charges are made for the total number of quarter hours that an aircraft is parked on a stand, whether or not the FEGP service is used. However, in any 24 hours of stand occupancy, there is a maximum charge of 6 hours at the full rate.

If any aircraft is moved from one stand to another at HAL's request, charges are made as though it had not been moved.

No charges are made for aircraft types unable to accept the FEGP system.

The standard charge is reduced by 50% between 10 pm and 5.59 am.