

# Heathrow Airport

## Airport Charges for 2016 Consultation Document

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## Executive Summary

Heathrow's vision "to give passengers the best airport service in the world" puts passengers at the heart of all we do. Heathrow was recently named the "Best airport in Western Europe"<sup>1</sup> for the first time, recognising the excellent passenger service and the transformation of the airport following £11bn of investment.

Heathrow will maintain its focus on transforming the service we give to our passengers and airlines, improving punctuality and resilience. Passenger demand continues to remain strong at Heathrow and the extensive improvements made possible through capital expenditure over the past decade needs to be recovered.

This document frames Heathrow's consultation on the level of airport charges for 2016. Heathrow is proposing to set 2016 prices to recover the maximum allowable yield permitted by the Regulator. The forecast maximum allowable yield for 2016 is £22.118 per passenger, which is a 2.2% reduction compared to the 2015 forecast maximum allowable yield. The proposed charges are in line with the four year, nine month price cap (2014 to 2018), which limits the increase in the price cap to RPI plus -1.5%.

Publication of this consultation document initiates the consultation process. Heathrow will be holding a consultation meeting on 15 September 2015. To help inform the consultation, Heathrow requests written responses from the airline community by 1 October 2015. Heathrow will then consider all comments received during the consultation period, with a view to issuing a decision on 30 October 2015, for implementation from 1 January 2016.

Finally, Heathrow recently announced its decision on the future structure of charges, with a 2017 planned implementation date. This means the structure of airport charges for 2016 is unchanged.

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<sup>1</sup> <https://www.aci-europe.org/press-releases.html>

## Chapter 1 – Introduction and Consultation Programme

### Purpose

- 1.1 The purpose of this document is to set out Heathrow's proposal for the level of airport charges and invites the airline community to provide views on the proposals.
- 1.2 Heathrow is proposing to set airport charges for 2016 to recover the forecast maximum allowable yield.
- 1.3 This consultation document sets out the calculations for the 2016 forecast maximum allowable yield based on the CAA's Q6 price control licence condition.
- 1.4 This document also includes information on major capital investment projects subject to capital triggers, passenger forecasts/actuals and financial information on revenues and costs.

### Economic Regulation

- 1.5 In December 2012, the Civil Aviation Act 2012 (the Act) came into force. The Act allows the CAA to set the maximum yield per passenger that may be levied by Heathrow through the application of the price control conditions under a new licence.
- 1.6 2016 is the third year of the sixth *regulatory period* at Heathrow. The basis of the price control regulation is the application of the RPI-X formula under Single Till regulation to determine the maximum airport charge revenue yield.
- 1.7 Airport charges are levied on operators of aircraft in connection with the landing, parking or take off of aircraft at the airport (including charges that are to any extent determined by reference to the number of passengers on board the aircraft)<sup>2</sup>.
- 1.8 The CAA also requires Heathrow to (i) meet service quality conditions, and (ii) consult on capital investment and other regulated charges.
- 1.9 The CAA conditions for service quality require Heathrow to make payments to airlines if it fails to meet the assigned targets. The service quality measures include; seat availability; cleanliness; way-finding; flight information; passenger-sensitive equipment; arrivals reclaim; stands; jetties; pier service; fixed electrical ground power; pre-conditioned air; central security queuing; transfer security queuing; staff security queuing; control post queuing; stand entry guidance and track transit system. Further details on the service quality measures, including targets and penalties, can be found at [www.heathrow.com](http://www.heathrow.com)<sup>3</sup>.

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<sup>2</sup> The Airport Charges Regulations 2011

<sup>3</sup><http://www.heathrow.com/company/investor-centre/results-and-performance/service-quality>

1.10 Details of Heathrow’s capital investment plan can be found at [www.heathrow.com](http://www.heathrow.com)<sup>4</sup>, a list of other regulated facilities and services can be found at [www.heathrow.com/orc](http://www.heathrow.com/orc) and a list of property accommodation can be found at [www.heathrow.com/property](http://www.heathrow.com/property). In addition, the full schedule of airport charges is listed in the Conditions of Use, which can be found at [www.heathrow.com/cou](http://www.heathrow.com/cou).

### Consultation Programme

1.11 Heathrow is consulting on the level of charges with the airline community and plans to announce its decision on 30 October 2015. The publication of this consultation document is the start of our consultation on the annual setting of 2016 airport charges.

1.12 The consultation programme is as follows:

Table 1

Date	Milestone
7 Aug 2015	Publication of Heathrow consultation document
15 Sep 2015	Consultation meeting
1 Oct 2015	Airline written responses submitted by close of business
30 Oct 2015	Heathrow announces 2016 prices
1 Jan 2016	Prices applicable from

1.13 The consultation meeting will be held on 15 September 2015, which will provide the airline community with the opportunity to comment on the price proposals. The meeting will be open to all airlines and their representative bodies.

Date: Tuesday 15 September 2015  
Time: 14:30 to 16:30  
Location: The Compass Centre  
Meeting room - Geneva/Hong Kong  
Nelson Road  
Hounslow  
Middlesex  
TW6 2GW

1.14 Please let us know if you would like to attend the consultation meeting using the contact details provided in the “how to respond” section.

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<sup>4</sup><http://www.heathrow.com/company/investor-centre/document-centre/capital-investment-plans>

## How to Respond

1.15 We invite interested parties to submit written responses to the proposals set out in this document by close of business on 1 October 2015. Responses should be sent to: [airline\\_relations@heathrow.com](mailto:airline_relations@heathrow.com)

1.16 Alternatively, comments may be posted to:

Airline Business Development  
Heathrow Airport Limited  
The Compass Centre  
Nelson Road  
Hounslow  
Middlesex  
TW6 2GW  
UK

Or, if you have any questions on the consultation document or consultation process, please contact Airline Business Development on the above e-mail address.

Please clearly mark any confidential information in responses to this consultation.

## Chapter 2 – Structural Review of Airport Charges

- 2.1 Heathrow commenced the review of its airport charges structure at the start of 2014. 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.
- 2.2 To help us inform the development of our proposals we held a number of informal engagement sessions with the airline community in late 2014 and early 2015. The proposals and decision was designed to:
- support passenger growth;
  - improve environmental performance;
  - promote efficient use of the airport; and
  - support the hub.
- 2.3 The key features of the decision included a £10 passenger discount to UK routes and a £5 passenger discount to European routes, compared to the existing European passenger charge. This was supported with an increased emphasis on environmental charges, with more of the charges recovered through environmental charges, and the introduction of a quieter noise chapter.
- 2.4 Heathrow started the formal consultation process by issuing its proposals on 2 April 2014, followed by a formal consultation meeting on 30 April 2015. Heathrow invited interested parties to submit written responses to its proposals and held a second consultation meeting on 4 June 2015.
- 2.5 Heathrow received mixed views but a common theme was a request to defer the implementation of the structure of charges, providing airlines with more time to plan for any necessary changes to respond to the incentives within the proposed structure of charges.
- 2.6 Heathrow then issued a notice informing the airline community of two proposed changes from the original proposal, (i) deferred implementation of the structure of charges to 1 January 2017 rather than 1 January 2016, and (ii) an amendment to the minimum departure charge.
- 2.7 Heathrow then announced its final decision on 5 August 2015 that the structure of charges is planned to be implemented on 1 January 2017.

## Chapter 3 – Calculating the Maximum Allowable Yield

### Calculating the Maximum Allowable Yield

3.1 Based on the CAA's Q6 price control licence condition the following price formula has been used for calculation of the 2016 yield:

$$M_{2016} = (1 + RPI_{t-1} + X + B_{t-2})Y_{t-1} + \frac{D_t}{Q_t} - \frac{T_t}{Q_t} + \frac{BR_t}{Q_t} - K_t$$

Where:

$M_{2016}$  = maximum revenue yield per passenger using Heathrow airport in Regulatory Year ("2016") expressed in pounds.

$RPI_{t-1}$  = is the percentage change (positive or negative) in the Office for National Statistics (ONS) CHAW Retail Price Index between April in year t-1 and the immediately preceding April. For 2016 this would be the change from April 2014 to April 2015.

$X$  = -1.5%

$B_{t-2}$  = bonus factor based on certain service quality performance in 2014.

$Y_{t-1}$  = specified average revenue yield per passenger for the period t-1 (2015).

$D_t$  = cumulative development capex adjustment.

$T_t$  = reduction in maximum allowable charges when the airport has not achieved specific trigger dates associated with relevant projects (Triggers).

$BR_t$  = business rates revaluation factor.

$K_t$  = correction factor (K Factor) per passenger (whether positive or negative value) for 2014.

$Q_t$  = forecast passengers using Heathrow airport in 2016.

3.2 The relevant year "2016", means the period of twelve months from 1 January 2016 to 31 December 2016.

### **Maximum allowable yield forecast for 2016**

3.3 The combined impact of all the elements of the formula results in a forecast 2016 maximum allowable yield of £22.118 (passenger only flights). The full details of the formula are shown below.

### **Bonus Factor**

3.4 The formula includes a bonus factor that allows the airport to recover a bonus when performance on certain service quality measures exceed a specified service standard. The bonus term in any given year is based on actual service quality, based on the two year period preceding the relevant year i.e. 2014. No bonus was achieved in 2014.

### **Cumulative development capex adjustment**

3.5 The cumulative development capex adjustment, adjusts the maximum allowable yield to account for the cumulative difference between the development capex allowance in the Q6 settlement and forecast development capex spend. Heathrow forecast to transition less cumulative development capex up to 31 December 2016 than the CAA's allowance. Further detail is provided in Chapter 5.

### **Triggers**

3.6 Triggers reduce the maximum allowable charges when the airport has not achieved particular capital investment project dates. As at 1 June 2015, five trigger projects have been agreed with the airline community, and of these five trigger projects only one project has a completion date that falls into 2016, (i) T3 integrated baggage cut-ins completed and baggage system operational, which is forecast not to be delivered to its trigger date by four months. Therefore in setting airport charges for 2016 there is an assumption for triggers which is set at £1,695k.

3.7 Any trigger payment that may arise in 2016 due to new triggered projects or any deviation in actual completion dates will be corrected through the K Factor when setting 2018 airport charges.

### **Passengers**

3.8 Heathrow passenger forecast for 2016 is 74,749k (twelve months – January 2016 to December 2016).

### **K Factor**

3.9 The K Factor in the formula has reduced the 2016 forecast maximum allowable yield to compensate for the unanticipated over-recovery against the maximum allowable yield in 2014, together with an allowance for interest (with an additional 3% points for an over-recovery).

3.10 The K Factor calculation is shown in Chapter 7.

### Application of the Regulatory Pricing Formula

3.11 Based on the regulatory pricing formula, the 2016 forecast maximum allowable is set out below.

$$M_{2016} = (1 + RPI_{t-1} + X + B_{t-2})Y_{t-1} + \frac{D_t}{Q_t} - \frac{T_t}{Q_t} + \frac{BR_t}{Q_t} - K_t$$

Where :

RPI <sub>t-1</sub>	=	0.90%	
X	=	-1.5%	
B <sub>t-2</sub>	=	0%	- no bonus was achieved in 2014
Y <sub>t-1</sub>	=	£22.484	
D <sub>t</sub>	=	-£13,747k	- this figure is a forecast
T <sub>t</sub>	=	£1,695k	- this figure is a forecast
BR <sub>t</sub>	=	0	- only applicable in 2018
K <sub>t</sub>	=	0.024	- this positive figure is a forecast
Q <sub>t</sub>	=	74,749k	- this figure is a forecast

Hence:

$$M_{2016} = (1 + RPI_{t-1} + X + B_{t-2})Y_{t-1} + \frac{D_t}{Q_t} - \frac{T_t}{Q_t} + \frac{BR_t}{Q_t} - K_t$$

$$M_{2016} = (1 + 0.9\% + -1.5\% + 0\%)22.484 + \frac{(13,747)}{74,749} - \frac{1,695}{74,749} + \frac{0}{74,749} - 0.024$$

$$M_{2016} = (0.994 * 22.484) + (0.184) - 0.023 + 0 - 0.024$$

$$M_{2016} = 22.118$$

## Charges in 2015

3.12 The forecast maximum allowable yield at Heathrow in 2015 was calculated at £22.627.

Table 2

<b>Specified yield 2014</b>	<b>£22.261</b>
12 months RPI movement to April 2014	£0.557
X	-£0.334
Bonus term	0.000
Trigger payments	0.000
Development capex	0.000
Business rates	0.000
K factor from 2013/14 under recovery	0.143
<b>Forecast 2015 maximum allowable yield</b>	<b>£22.627</b>

## Proposed pricing for 2016

3.13 Heathrow is proposing to set prices for 2016 to recover the forecast maximum allowable yield of £22.118 per passenger (details of the charges are shown in Chapter 8).

3.14 The 2016 maximum allowable yield reduces by 2.2% compared to the 2015 maximum allowable yield.

3.15 Full details of the individual tariffs are shown in chapter 8 and 9.

## Chapter 4 – Bonus Factor

- 4.1 The price control licence condition for the maximum allowable yield includes a bonus component for performance of certain service quality measures. A service quality bonus can be achieved when performance for certain measures exceeds the specified target levels. Full details of the bonus can be found in the Licence granted to Heathrow Airport Limited.
- 4.2 The service quality bonus can be recovered from 2014 to 2018 for departure lounge seating availability, cleanliness, way-finding and flight information. For the purposes of the 2016 forecast maximum allowable yield the service quality bonus can be recovered for the Regulatory Period 2014 from 1 April 2014 to 31 December 2014.
- 4.3 However, Heathrow did not achieve the service quality bonus for 2014 and therefore this is set at zero for the purposes of the 2016 forecast maximum allowable yield.
- 4.4 Table 3 sets out the 2014 performance of these measures for the purposes of the bonus.

Table 3

Departure lounge seating availability (QSM)	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total
Terminal 1 (actual)	4.12	4.12	4.11	4.13	4.13	4.16	4.18	4.18	4.19	
Terminal 2 (actual)	4.50	4.50	4.51	4.70	4.55	4.55	4.49	4.47	4.46	
Terminal 3 (actual)	3.90	3.90	3.91	3.94	3.95	3.96	3.98	4.00	4.05	
Terminal 4 (actual)	4.19	4.20	4.21	4.21	4.22	4.22	4.25	4.26	4.26	
Terminal 5 (actual)	3.96	3.96	3.96	3.95	3.97	3.98	3.99	4.01	4.01	
BNS(T1) <sub>KJ</sub>	0.0020%	0.0020%	0.0010%	0.0030%	0.0030%	0.0060%	0.0080%	0.0080%	0.0090%	
BNS(T2) <sub>KJ</sub>	0.0400%	0.0400%	0.0400%	0.0400%	0.0400%	0.0400%	0.0390%	0.0370%	0.0360%	
BNS(T3) <sub>KJ</sub>	-0.0200%	-0.0200%	-0.0190%	-0.0160%	-0.0150%	-0.0140%	-0.0120%	-0.0100%	-0.0050%	
BNS(T4) <sub>KJ</sub>	0.0090%	0.0100%	0.0110%	0.0110%	0.0120%	0.0120%	0.0150%	0.0160%	0.0160%	
BNS(T5) <sub>KJ</sub>	-0.0140%	-0.0140%	-0.0140%	-0.0150%	-0.0130%	-0.0120%	-0.0110%	-0.0090%	-0.0090%	
Bonus term =	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.000%

  

Cleanliness (QSM)	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total
Terminal 1 (actual)	4.13	4.14	4.14	4.14	4.14	4.14	4.15	4.14	4.15	
Terminal 2 (actual)	4.50	4.50	4.44	4.57	4.56	4.54	4.49	4.49	4.48	
Terminal 3 (actual)	4.10	4.10	4.10	4.11	4.11	4.11	4.11	4.11	4.12	
Terminal 4 (actual)	4.13	4.12	4.12	4.12	4.12	4.13	4.14	4.14	4.14	
Terminal 5 (actual)	4.22	4.22	4.22	4.23	4.24	4.24	4.24	4.24	4.24	
BNS(T1) <sub>KJ</sub>	-0.0093%	-0.0080%	-0.0080%	-0.0080%	-0.0080%	-0.0080%	-0.0067%	-0.0080%	-0.0067%	
BNS(T2) <sub>KJ</sub>	0.0400%	0.0400%	0.0320%	0.0400%	0.0400%	0.0400%	0.0387%	0.0387%	0.0373%	
BNS(T3) <sub>KJ</sub>	-0.0133%	-0.0133%	-0.0133%	-0.0120%	-0.0120%	-0.0120%	-0.0120%	-0.0120%	-0.0107%	
BNS(T4) <sub>KJ</sub>	-0.0093%	-0.0107%	-0.0107%	-0.0107%	-0.0107%	-0.0093%	-0.0080%	-0.0080%	-0.0080%	
BNS(T5) <sub>KJ</sub>	0.0027%	0.0027%	0.0027%	0.0040%	0.0040%	0.0053%	0.0053%	0.0053%	0.0053%	
Bonus term =	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.000%

  

Way finding (QSM)	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total
Terminal 1 (actual)	4.12	4.12	4.11	4.11	4.12	4.11	4.11	4.11	4.11	
Terminal 2 (actual)	4.50	4.50	4.25	4.30	4.30	4.26	4.25	4.25	4.25	
Terminal 3 (actual)	4.19	4.19	4.19	4.19	4.19	4.20	4.20	4.20	4.21	
Terminal 4 (actual)	4.18	4.18	4.18	4.18	4.19	4.19	4.20	4.20	4.20	
Terminal 5 (actual)	4.21	4.21	4.21	4.20	4.20	4.19	4.18	4.17	4.17	
BNS(T1) <sub>KJ</sub>	-0.0107%	-0.0107%	-0.0120%	-0.0120%	-0.0107%	-0.0120%	-0.0120%	-0.0120%	-0.0120%	
BNS(T2) <sub>KJ</sub>	0.0400%	0.0400%	0.0067%	0.0133%	0.0133%	0.0080%	0.0067%	0.0067%	0.0067%	
BNS(T3) <sub>KJ</sub>	-0.0013%	-0.0013%	-0.0013%	-0.0013%	-0.0013%	0.0000%	0.0000%	0.0000%	0.0013%	
BNS(T4) <sub>KJ</sub>	-0.0027%	-0.0027%	-0.0027%	-0.0027%	-0.0013%	-0.0013%	0.0000%	0.0000%	0.0000%	
BNS(T5) <sub>KJ</sub>	0.0013%	0.0013%	0.0013%	0.0000%	0.0000%	-0.0013%	-0.0027%	-0.0040%	-0.0040%	
Bonus term =	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.000%

  

Flight information (QSM)	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total
Terminal 1 (actual)	4.30	4.30	4.28	4.27	4.26	4.26	4.27	4.26	4.26	
Terminal 2 (actual)	4.70	4.70	4.46	4.55	4.48	4.43	4.43	4.41	4.40	
Terminal 3 (actual)	4.38	4.37	4.38	4.38	4.36	4.35	4.35	4.36	4.36	
Terminal 4 (actual)	4.26	4.26	4.26	4.25	4.25	4.25	4.26	4.26	4.27	
Terminal 5 (actual)	4.32	4.32	4.32	4.31	4.30	4.30	4.30	4.29	4.29	
BNS(T1) <sub>KJ</sub>	-0.0133%	-0.0133%	-0.0160%	-0.0173%	-0.0187%	-0.0187%	-0.0173%	-0.0187%	-0.0187%	
BNS(T2) <sub>KJ</sub>	0.0400%	0.0400%	0.0080%	0.0200%	0.0107%	0.0040%	0.0040%	0.0013%	0.0000%	
BNS(T3) <sub>KJ</sub>	-0.0027%	-0.0040%	-0.0027%	-0.0027%	-0.0053%	-0.0067%	-0.0067%	-0.0053%	-0.0053%	
BNS(T4) <sub>KJ</sub>	-0.0187%	-0.0187%	-0.0187%	-0.0200%	-0.0200%	-0.0200%	-0.0187%	-0.0187%	-0.0173%	
BNS(T5) <sub>KJ</sub>	-0.0107%	-0.0107%	-0.0107%	-0.0120%	-0.0133%	-0.0133%	-0.0133%	-0.0147%	-0.0147%	
Bonus term =	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.000%

  

<b>Bonus term =</b>	<b>0.0000%</b>	<b>0.0000%</b>	<b>0.0000%</b>	<b>0.0000%</b>	<b>0.0000%</b>	<b>0.0000%</b>	<b>0.0000%</b>	<b>0.0000%</b>	<b>0.0000%</b>	<b>0.0000%</b>
<b>Rounded to 3 decimal places Bt =</b>	<b>0.000%</b>	<b>0.000%</b>	<b>0.000%</b>	<b>0.000%</b>	<b>0.000%</b>	<b>0.000%</b>	<b>0.000%</b>	<b>0.000%</b>	<b>0.000%</b>	<b>0.000%</b>

## Chapter 5 - Development Capital

- 5.1 Heathrow, the airlines and the CAA have recognised that agreeing investment plans at the time of the price review for the next five to six years, does not reflect the need for flexibility. Therefore, it was agreed that a two tier approach would be adopted, where capital investment would be classified as either, Development or Core, to ensure flexibility of the capital investment programme throughout Q6.
- 5.2 Core capital represents firm investment commitments where scope and cost estimates are reasonably certain. Core capital investment is estimated at a P50 level (where the likelihood of the cost being higher than the estimate is equal to the likelihood being lower). Development capital projects have a lower definition of scope and cost estimations than Core projects (and are estimated at P80 level).
- 5.3 Development and Core capital investment are subject to the Gateway process with airlines. The Gateway process has a number of Gateway events. The first two Gateways are where the scope and cost estimates are developed, after which the project is transitioned to Core, at Gateway 3, when the scope and cost estimates are well defined. The project is then progressed through the remaining Gateways.
- 5.4 This approach to the two tier capital investment is designed so that Heathrow does not earn a return on any Development capital allowance that has not been used. The mechanism to take this into effect is the cumulative development capex adjustment in the maximum allowable yield, which requires Heathrow to make an estimate (on a cumulative basis throughout Q6) of how much Development capital allowance will be spent or transitioned to Core. This adjustment only applies to Development capital investment.
- 5.5 Capital projects are subject to the on-going Gateway process with the airline community and the current trajectory of project approvals, as at 1 June 2015, indicates that fewer projects are transitioning to Core than originally anticipated in the settlement. Therefore a lower cumulative capex spend to 2016 than the CAA's Q6 settlement of up to £306m (2016 prices) is now expected.
- 5.6 Table 4 sets out the actual and projected development and core capex compared to the settlement in 2016 prices.

**Table 4**

£m and in 2016 prices	2014 9 months	2015	2016	Year to date
Development plus core	375.8	699.2	650.0	1,725.0
Settlement	508.5	774.7	747.6	2,030.8
Difference	(132.7)	(75.5)	(97.6)	(305.8)

- 5.7 The lower cumulative spend translates into a lower 2016 average RAB of £257m. Applying the cumulative development adjustment results in the 2016 maximum allowable yield reducing by £13.7m, equivalent to 18 pence per passenger.
- 5.8 Any subsequent change in actual development capex transitioning to core capex will be adjusted in the K Factor when setting charges for 2018.
- 5.9 The formula to calculate the 2016 cumulative development capex adjustment of £13.7m is set out below:

Year t =	9mo.2014	2015	2016	2017	2018
Additional revenue requirement for 2014 projects	$0.5 \times d_{2014}$	$\frac{P_{t-1}}{P_{t-2}} \times d_{2014}$	$\frac{P_{t-1}}{P_{t-3}} \times d_{2014}$	$\frac{P_{t-1}}{P_{t-4}} \times d_{2014}$	$\frac{P_{t-1}}{P_{t-5}} \times d_{2014}$
Additional revenue requirement for 2015 projects	0	$0.5 \times d_{2015}$	$\frac{P_{t-1}}{P_{t-2}} \times d_{2015}$	$\frac{P_{t-1}}{P_{t-3}} \times d_{2015}$	$\frac{P_{t-1}}{P_{t-4}} \times d_{2015}$
Additional revenue requirement for 2016 projects	0	0	$0.5 \times d_{2016}$	$\frac{P_{t-1}}{P_{t-2}} \times d_{2016}$	$\frac{P_{t-1}}{P_{t-3}} \times d_{2016}$
Additional revenue requirement for 2017 projects	0	0	0	$0.5 \times d_{2017}$	$\frac{P_{t-1}}{P_{t-2}} \times d_{2017}$
Additional revenue requirement for 2018 projects	0	0	0	0	$0.5 \times d_{2018}$
<b>D<sub>t</sub> =</b>	Sum Rows x W	Sum Rows x W	Sum Rows x W	Sum Rows x W	Sum Rows x W

Where:

W	=	Weighted Average Cost of Capital of 5.35%
d <sub>2014</sub>	=	Annual development capex adjustment in 2014
d <sub>2015</sub>	=	Annual development capex adjustment in 2015
d <sub>2016</sub>	=	Annual development capex adjustment in 2016
P <sub>t-1</sub>	=	ONS CHAW Retail Price Index in April 2015 is 258.0
P <sub>t-2</sub>	=	ONS CHAW Retail Price Index in April 2014 is 255.7
P <sub>t-3</sub>	=	ONS CHAW Retail Price Index in April 2013 is 249.5

The annual development capex adjustment for  $d_{2014}$ ,  $d_{2015}$  and  $d_{2016}$  is calculated as follows:

$$d_t = O_t - \left( V_t * \frac{P_{t-1}}{222.80} \right)$$

Where:

$O_t$  = total capex in Regulatory Period or Regulatory Year t associated with all development capex that has transitioned to core projects including the actual capital spend incurred during development stages of projects (irrespective of whether projects have transitioned from development to core)

$V_t$  = development capex allowance in Regulatory Period or Regulatory Year t

$P_{t-1}$  = Value of the ONS CHAW Retail Price Index in April in Regulatory Period or Regulatory Year t-1

Hence  $d_{2014}$ :

$$d_{2014} = O_{2014} - \left( V_{2014} * \frac{P_{t-1}}{222.80} \right)$$

$O_{2014}$  = £363,400k

$V_{2014}$  = £439,100k

$P_{t-1}$  = ONS CHAW Retail Price Index in April 2013 is 249.5

$$d_{2014} = 363,400 - \left( 439,100 * \frac{249.5}{222.8} \right)$$

$d_{2014}$  = -£128,321k

Hence  $d_{2015}$ :

$$d_{2015} = O_{2015} - \left( V_{2015} * \frac{P_{t-1}}{222.80} \right)$$

$$O_{2015} = \text{£}693,000\text{k}$$

$$V_{2015} = \text{£}669,000\text{k}$$

$$P_{t-1} = \text{ONS CHAW Retail Price Index in April 2014 is 255.7}$$

$$d_{2015} = 693,000 - \left( 669,000 * \frac{255.7}{222.8} \right)$$

$$d_{2015} = \text{£}74,789\text{k}$$

Hence  $d_{2016}$ :

$$d_{2016} = O_{2016} - \left( V_{2016} * \frac{P_{t-1}}{222.80} \right)$$

$$O_{2016} = \text{£}650,000\text{k}$$

$$V_{2016} = \text{£}645,600\text{k}$$

$$P_{t-1} = \text{ONS CHAW Retail Price Index in April 2015 is 258.0}$$

$$d_{2016} = 650,000 - \left( 645,600 * \frac{258.0}{222.8} \right)$$

$$d_{2016} = \text{£}97,598\text{k}$$

Therefore  $d_{2014}$ ,  $d_{2015}$  and  $d_{2016}$  is applied to the development capex adjustment table in 2016, as follows to determine the adjustment:

Hence:

Year t =	2016	Results in
Additional revenue requirement for 2014 projects	$\frac{258.0}{249.5} \times -128,321$	-132,693
Additional revenue requirement for 2015 projects	$\frac{258.0}{255.7} \times -74,789$	-75,461
Additional revenue requirement for 2016 projects	$0.5 \times -97,598$	-48,799
Additional revenue requirement for 2017 projects	0	0
Additional revenue requirement for 2018 projects	0	0
<b>D<sub>t</sub> =</b>		-256,953 x 5.35%

$$D_t = -£13,747k$$

5.10 Therefore for the 2016 forecast maximum allowable yield is adjusted to account for the -£13,747k cumulative development capex adjustment.

## Chapter 6 – Capital Triggers

- 6.1 The CAA’s maximum allowable yield formula for Q6 includes a trigger element which means that if a trigger project is not complete by a specified project trigger date then the allowable yield is reduced.
- 6.2 Q6 triggers are placed around a subset of “key projects”. However, unlike Q5, projects that triggers will be attached to have not been defined in the CAA’s Q6 price control licence condition. In Q6, triggers will be attached to projects at Gateway 3 of the projects process, as projects transition from Development to Core. This means trigger projects will be developed during the Gateway Process with airlines, where triggers for individual projects will be developed, and then formally attached to applicable key projects at Gateway 3.
- 6.3 As at 1 June 2015, five capital trigger projects have been agreed with the airline community. Table 5 sets out the agreed trigger projects.

**Table 5**

<b>Project</b>	<b>Trigger date</b>	<b>Forecast Completion date</b>
Northern Runway returned to CAT3 Operations	Sep-14	Sep-14
Reconfigure Stand 410 to handle Code F aircraft	Dec-14	Nov-14
T3 Integrated Baggage Cut-Ins Completed and Baggage System Operational	Jan-16	May-16
Main Tunnel Life Safety System	Dec-16	Dec-16
Bravo Taxiway Open for Code F Operation	May-17	May-17

- 6.4 The trigger date for “Main Tunnel Life Safety System” has changed from June 2016 to December 2016, which was jointly agreed with the airline community.
- 6.5 One trigger project has a trigger date that falls in 2016; (i) T3 Integrated Baggage Cut-Ins Completed and Baggage System Operational, which Heathrow anticipates will not meet its trigger date by four months. The forecast trigger calculation associated with this trigger is shown below:

- **T3 Integrated Baggage Cut-Ins Completed and Baggage System Operational**

Trigger date	= January 2016
Forecast Completion	= May 2016
Expected Delay	= 4 months
Months falling into 2016	= 4 months
Monthly Payment	= £365,900 in 2011/12 prices
Expected Payment	= £1,463,600 in 2011/12 prices
Inflation Index (RPI)	= 1.158 <sup>5</sup>
Expected Payment	= £1,694,849 in 2016 prices
Forecast Passengers (000s)	= 74,749 in 2016
Impact on Yield	= £0.023 in 2016

6.6 Therefore the 2016 maximum allowable yield reduces to account for the trigger payment of £0.023.

6.7 Any triggers that are attached to projects that have trigger dates for 2016, which are finalised after 1 June 2015, will be accounted through the K Factor when setting 2018 airport charges.

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<sup>5</sup> The monthly payment for triggers is shown in 2011/12 prices and then is required to be adjusted to account for the difference in ONS CHAW Retail Price Index in April 2015 and April 2010 i.e. 258/222.8 in accordance with Heathrow's Licence granted under the Civil Aviation Act 2012 (latest version 5 May 2015) page 14.

## Chapter 7 - Correction Factor for 2014

### The Correction factor

7.1 The K Factor sets out the level of over recovery or under recovery on a per passenger basis. This over recovery is when Heathrow exceeds the maximum allowable yield on a per passenger basis. The under recovery is when Heathrow does not achieve the maximum allowable yield on a per passenger basis. This over/under recovery generally reflects a change in mix of actual passengers and movements compared to the forecasts used to set the airport charges for that relevant year, trigger completion dates and recovery of actual service quality bonus.

7.2 The K Factor formula has a component to calculate the actual allowable yield, the K Factor formula is shown below:

$$K_t = \frac{R_{t-2} - (Q_{t-2}M_{t-2})}{Q_t} \left(1 + \frac{I_{t-2}}{100}\right)^{21/12}$$

### Formula for 2014 actual maximum allowable yield

7.3 The combined impact of all the elements of the formula results in 2014 actual maximum allowable yield of £23.083 (passenger only flights). 2014 is the Regulatory Period from April 2014 to 31 December 2014. The section below presents the components of the formula.

7.4  $M_{t-2}$  relates to 2014 and its calculation is shown below:

$$M_{2014} = £22.261(1 + B_{2012/13}) + \frac{D_{2014}}{Q_{2014}} - \frac{T_{2014}}{Q_{2014}} - K_{2014}$$

Where:

$M_{2014}$	=	maximum revenue yield per passenger using Heathrow airport in relevant year (2014) expressed in £
£22.261	=	Starting yield per passenger as defined by the CAA
$B_{2012/13}$	=	bonus factor based on certain service quality performance in 2012/13
$D_{2014}$	=	cumulative development capex adjustment
$T_{2014}$	=	reduction in maximum allowable charges when the airport has not achieved specific trigger dates associated with relevant projects (Triggers).
$Q_{2014}$	=	actual passengers using Heathrow airport in 2014
$K_{2014}$	=	correction factor (k factor) per passenger (whether positive or negative value) for 2012/13

### Application of the Regulatory Pricing Formula

7.5 Based on the regulatory pricing formula, the actual maximum allowable yield in 2014 for the K Factor is set out below.

$$M_{2014} = \text{£}22.261(1 + B_{2012/13}) + \frac{D_{2014}}{Q_{2014}} - \frac{T_{2014}}{Q_{2014}} - K_{2014}$$

Where:

$B_{2012/13}$	= 0	- this figure is set at Zero (2012/13 bonus is recovered through K factor)
$D_{2014}$	= -£3,433k	- this figure is an actual
$T_{2014}$	= 0	- this figure is an actual
$Q_{2014}$	= 57,371k	- this figure is an actual
$K_{2014}$	= -0.882	- this figure is an actual

Hence:

$$M_{2014} = 22.261(1 + 0) + \frac{(3,433)}{57,371} - \frac{0}{57,371} - (-0.882)$$

$$M_{2014} = 22.261 * (1) + (-0.060) - 0 - (-0.882)$$

$$M_{2014} = 23.083$$

7.6 The actual maximum allowable yield for 2014 is £23.083.

7.7 The components of the formula are explained in the following sections.

### Bonus term (2012/13)

7.8 The regulatory pricing formula includes a bonus component for performance of certain service quality measures.

7.9 The CAA has decided through its Q6 price control licence condition to formalise the recovery of the bonus on actual performance based on two year lag. The recovery of the actual bonus for 2012/13 and 2013/14 will be recovered through the K Factor when setting charges for 2014 and 2015, respectively. The actual bonus for these two periods, 2012/13 and 2013/14, shall be calculated by reference to the conditions as to airport charges imposed to the Airport under the Airports Act 1986 in force at 31 March 2014<sup>6</sup>.

7.10 The actual bonus for the period 2014 to 2018 shall be calculated by reference to the Licence Conditions that came into force 1 April 2014.

7.11 Therefore the 2012/13 actual performance was captured at the time of setting the 2014 charges.

### Cumulative development capex adjustment

7.12 The cumulative development capex adjustment, adjusts the actual maximum allowable yield to account for the actual difference between the development capex allowance and actual development capex spend. Heathrow has used less than the development capex allowance in 2014.

7.13 The below sets out the formula to calculate the cumulative development capex adjustment. And the 9mo 2014 formula is used:

Year t =	9mo.2014	2015	2016	2017	2018
Additional revenue requirement for 2014 projects	$0.5 \times d_{2014}$	$\frac{P_{t-1}}{P_{t-2}} \times d_{2014}$	$\frac{P_{t-1}}{P_{t-3}} \times d_{2014}$	$\frac{P_{t-1}}{P_{t-4}} \times d_{2014}$	$\frac{P_{t-1}}{P_{t-5}} \times d_{2014}$
Additional revenue requirement for 2015 projects	0	$0.5 \times d_{2015}$	$\frac{P_{t-1}}{P_{t-2}} \times d_{2015}$	$\frac{P_{t-1}}{P_{t-3}} \times d_{2015}$	$\frac{P_{t-1}}{P_{t-4}} \times d_{2015}$
Additional revenue requirement for 2016 projects	0	0	$0.5 \times d_{2016}$	$\frac{P_{t-1}}{P_{t-2}} \times d_{2016}$	$\frac{P_{t-1}}{P_{t-3}} \times d_{2016}$
Additional revenue requirement for 2017 projects	0	0	0	$0.5 \times d_{2017}$	$\frac{P_{t-1}}{P_{t-2}} \times d_{2017}$
Additional revenue requirement for 2018 projects	0	0	0	0	$0.5 \times d_{2018}$
<b>D<sub>t</sub> =</b>	Sum Rows x W	Sum Rows x W	Sum Rows x W	Sum Rows x W	Sum Rows x W

<sup>6</sup> Economic regulation at Heathrow from April 2014: Notice granting the licence, page 131.

Where:

W = Weighted Average Cost of Capital which shall have a value of 5.35%

$d_{2014}$  = Annual development capex adjustment in 2014

$P_{t-1}$  = Value of the ONS CHAW Retail Price Index in April in 2013

$D_{2014}$ : Annual development capex adjustment is calculated as follows:

$$d_{2014} = O_{2014} - \left( V_{2014} * \frac{P_{t-1}}{222.80} \right)$$

Where:

$O_{2014}$  = total capex in 2014 (9 months) associated with development capex that has transitioned to core projects including the actual capital spend incurred during development stages of projects (irrespective of whether projects have transitioned from development to core)

$V_{2014}$  = development capex allowance in 2014

$P_{t-1}$  = Value of the ONS CHAW Retail Price Index in April 2013

Hence:

$O_{2014}$  = £363,400k

$V_{2014}$  = £439,100k

$P_{t-1}$  = ONS CHAW Retail Price Index in April 2013 is 249.5

$$d_{2014} = 363,400 - \left( 439,100 * \frac{249.5}{222.8} \right)$$

$d_{2014}$  = -£128,321k

7.14 The -£128,321k for  $d_{2014}$  is applied to the development capex adjustment table, as follows to determine the adjustment:

Therefore:

Year t =	9mo.2014	Results in
Additional revenue requirement for 2014 projects	0.5 x -128,321	-64,161
Additional revenue requirement for 2015 projects	0	
Additional revenue requirement for 2016 projects	0	
Additional revenue requirement for 2017 projects	0	
Additional revenue requirement for 2018 projects	0	
D <sub>t</sub> =		-64,161 x 5.35%

$$D_t = -£3,433k$$

### Triggers

7.15 The K Factor for 2014 adjusts the completion dates for trigger projects that have trigger completion dates in 2014.

7.16 At the time of setting the 2014 charges, trigger projects were being defined with the airline community. Since then two trigger projects with completion dates in 2014 have been agreed, which have been delivered to their trigger dates. These projects are set out in Table 6:

**Table 6**

	Trigger Month	Actual Completion Date
Northern Runway returned to CAT3 Operations	Sep-14	Sep-14
Reconfigure Stand 410 to handle Code F aircraft	Dec-14	Nov-14

### K factor for 2014 (April 2014 to December 2014)

Actual passengers 000s	57,371
Actual airport charges £000s	1,326,000
Actual yield £	23.113
Actual maximum allowable yield £	23.083
Under/Over Recovery	Over Recovery

Total revenue from airport charges (passenger only flights) at Heathrow in	2014	Actual (£000s)	$R_{t-2}$	1,326,000
Passengers using Heathrow Airport in	2014	Actual (000s)	$Q_{t-2}$	57,371
Maximum allowable revenue yield at Heathrow in	2014	Actual (£)	$M_{t-2}$	23.083
Interest rate from weekly Treasury Bill Discount rate*	2014	Actual %	$I_{t-2}$	3.392
Forecast Passengers using Heathrow in	2016	Forecast (000s)	$Q_t$	74,749
Correction amount	$K_t = (R_{t-2} - (Q_{t-2} \times M_{t-2})) / Q_t \times ((1 + I_{t-2}/100)^{(21/12)})$		Forecast (£)	<b>0.024</b>

\*Table 7. Note that 3% points have been added to the Interest Rate to the positive K Factor.

Table 7

Tender Date	Maturity date	Size (£ m)	Cover	Avg Yield (%)
02-May-14	04-Aug-14	500	5.38	0.321
09-May-14	11-Aug-14	500	5.65	0.291
16-May-14	18-Aug-14	500	4.61	0.276
23-May-14	26-Aug-14	500	4.16	0.256
30-May-14	01-Sep-14	500	3.38	0.276
06-Jun-14	08-Sep-14	500	4.78	0.244
13-Jun-14	15-Sep-14	1,000	2.28	0.371
20-Jun-14	22-Sep-14	1,000	3.28	0.403
27-Jun-14	29-Sep-14	1,000	2.63	0.418
04-Jul-14	06-Oct-14	1,500	3.26	0.439
11-Jul-14	13-Oct-14	1,500	3.09	0.436
18-Jul-14	20-Oct-14	1,500	3.48	0.429
25-Jul-14	27-Oct-14	1,500	2.79	0.415
01-Aug-14	03-Nov-14	1,500	2.87	0.418
08-Aug-14	10-Nov-14	1,500	3.22	0.401
15-Aug-14	17-Nov-14	1,500	2.95	0.396
22-Aug-14	24-Nov-14	1,500	2.45	0.398
29-Aug-14	01-Dec-14	1,500	3.03	0.398
05-Sep-14	08-Dec-14	2,000	2.73	0.411
12-Sep-14	15-Dec-14	2,000	2.66	0.413
19-Sep-14	22-Dec-14	1,500	1.78	0.437
26-Sep-14	29-Dec-14	1,500	2.26	0.481
03-Oct-14	05-Jan-15	500	6.58	0.415
10-Oct-14	12-Jan-15	500	5.99	0.402
17-Oct-14	19-Jan-15	500	5.13	0.389
24-Oct-14	26-Jan-15	1,000	3.49	0.388
31-Oct-14	02-Feb-15	1,000	2.53	0.390
07-Nov-14	09-Feb-15	1,500	2.32	0.415
14-Nov-14	16-Feb-15	1,500	2.33	0.413
21-Nov-14	23-Feb-15	1,500	2.30	0.406
28-Nov-14	02-Mar-15	1,500	1.76	0.413
05-Dec-14	09-Mar-15	1,500	1.53	0.444
12-Dec-14	16-Mar-15	1,500	2.94	0.442
19-Dec-14	23-Mar-15	1,500	3.42	0.389
02-Jan-15	07-Apr-15	1,000	3.36	0.447
09-Jan-15	13-Apr-15	1,000	4.07	0.415
16-Jan-15	20-Apr-15	1,000	3.62	0.396
23-Jan-15	27-Apr-15	1,000	5.33	0.356
30-Jan-15	05-May-15	1,000	3.67	0.342
06-Feb-15	11-May-15	1,000	3.39	0.324
13-Feb-15	18-May-15	1,000	3.54	0.320
20-Feb-15	26-May-15	1,000	2.92	0.309
27-Feb-15	01-Jun-15	2,000	1.79	0.400
06-Mar-15	08-Jun-15	2,000	2.91	0.408
13-Mar-15	15-Jun-15	2,000	2.67	0.438
20-Mar-15	22-Jun-15	1,500	2.33	0.432
27-Mar-15	29-Jun-15	1,500	2.47	0.442
02-Apr-15	06-Jul-15	1,500	2.76	0.442
10-Apr-15	13-Jul-15	1,500	3.30	0.438
17-Apr-15	20-Jul-15	1,000	4.23	0.421
24-Apr-15	27-Jul-15	1,000	4.01	0.425
<b>Average</b>				<b>0.392</b>

### **Application of the Regulatory Pricing Formula**

7.17 The actual maximum allowable yield for 2014 is £23.083 compared to the actual yield recovered £23.113, which results in an over recover of £0.024 (taking into account interest rate). This over recovery is included in the K Factor for 2014 in setting airport charges in 2016, hence lowering the maximum allowable yield.

7.18 The 2014 over recovery is primarily driven by the reduction in the actual maximum allowable yield reflecting the cumulative development adjustment.

## Chapter 8 – Forecast Revenue for 2016

	Traffic Volume Units	Traffic Volume	Proposed Charge	Forecast Revenue
<b>Landing Charge</b>				
<b>Noise Charge</b>				
<b>Peak</b>				
Chapter 2		0	£8,877.84	£0
Chapter 3 High		0	£8,877.84	£0
Chapter 3 Base		1,544	£2,959.28	£4,569,128
Chapter 4 High		41,307	£1,760.77	£72,732,126
Chapter 4 Base		75,528	£1,442.65	£108,960,469
Chapter 4 Minus		115,665	£843.39	£97,550,704
<b>Total</b>		<b>234,044</b>		<b>£283,812,427</b>
<b>Super Night Peak</b>				
Chapter 2	[Landings]	0	£22,194.60	£0
Chapter 3 High	[Landings]	0	£22,194.60	£0
Chapter 3 Base	[Landings]	0	£7,398.20	£0
Chapter 4 High	[Landings]	0	£4,401.93	£0
Chapter 4 Base	[Landings]	0	£3,606.63	£0
Chapter 4 Minus	[Landings]	0	£2,108.48	£0
<b>Total</b>	[Landings]	<b>0</b>		<b>£0</b>
		<b>0</b>		
<b>Emissions Charge</b>				
Total kg Nox rating	[kg]	6,141,495	£8.15	£50,053,184
Average kg Nox per landing	[kg]	26.2		£50,053,184
<b>Revenue exc ANS Charges</b>				<b>£333,865,611</b>
<b>ANS Charge</b>				
Per ATM Charge	[Landings]	234,044	£81.66	£19,112,033
Per Metric Tonne		37,121,456	£1.11	£41,204,816
<b>Total</b>		<b>0</b>		<b>£60,316,849</b>
Average Weight (Tonnes)		158.6		
<b>Total Landing Revenue</b>	<b>(a)</b>			<b>£394,182,460</b>
<b>Departing Passenger Charge</b>				
<b>Departing OD Passenger Charge</b>				
Europe	[Dep Pax]	12,376,152	29.30	£362,621,254
Other	[Dep Pax]	13,895,565	41.14	£571,663,544
<b>Total</b>	[Dep Pax]	<b>26,271,717</b>		<b>£934,284,798</b>
<b>Departing Transfer Passenger Charge</b>				
Europe	[Dep Pax]	4,576,014	21.96	£100,489,267
Other	[Dep Pax]	5,821,703	30.84	£179,541,321
<b>Total</b>	[Dep Pax]	<b>10,397,717</b>		<b>£280,030,588</b>
<b>Departing Transit Passenger Charge</b>				
Europe	[Dep Pax]	0	21.96	£0
Other	[Dep Pax]	28,673	30.84	£884,275
<b>Total</b>	[Dep Pax]	<b>28,673</b>		<b>£884,275</b>
<b>Remote Stand Rebate</b>				
Remote Stand Rebate	[Dep Pax + Arr Pax]	4,097,005	-5.10	-£20,894,726
<b>Total Departing Passenger Charge Revenue</b>	<b>(b)</b>	<b>36,698,107</b>		<b>£1,194,304,935</b>
<b>Parking Charge</b>				
<b>Narrow bodied</b>				
Chargeable Period	[Units of 15 minutes]	656,643	21.79	14,308,251
<b>Wide bodied</b>				
Chargeable Period	[Units of 15 minutes]	936,668	52.30	48,987,736
<b>Total Parking Charge</b>	<b>(c)</b>			<b>£63,295,987</b>
<b>Terminal Pax Flights: Total Revenue</b>				<b>£1,651,783,382</b>
<b>Non-Terminal Pax Flights (GA, Troops etc)</b>				
<b>Non-Terminal Pax Flights</b>				
Landing Revenue	(d)			£648,377
Departing Passenger Revenue	(e)			£453,342
Parking Revenue	(f)			£428,625
<b>Total Non-Terminal Pax Flights Revenue</b>				<b>£1,530,344</b>
<b>Total Regulated Revenue (Pax Only Flights)</b>				
<b>Total Regulated Revenue</b>				
Landing Revenue	(a) + (d)			£394,830,837
Departing Passenger Revenue	(b) + (e)			£1,194,758,277
Parking Revenue	(c) + (f)			£63,724,612
<b>Total Regulated Revenue</b>				<b>£1,653,313,726</b>
<b>Total Passengers</b>				<b>74,749,001</b>
<b>Total Regulated Yield</b>				<b>£22.118</b>

## Chapter 9 – Proposed Airport Charges Tariffs effective 1 January 2016

	Final 2015 £ GBP	Proposed 2016 £ GBP
<b>Charges on Landing</b>		
Peak		
Chapter 2	8,802.15	8,877.84
Chapter 3 high	8,802.15	8,877.84
Chapter 3 base	2,934.05	2,959.28
Chapter 4 high	1,745.76	1,760.77
Chapter 4 base (equivalent)	1,430.35	1,442.65
Chapter 4 minus	836.20	843.39
Super Night Peak		
Chapter 2	22,005.38	22,194.60
Chapter 3 high	22,005.38	22,194.60
Chapter 3 base	7,335.13	7,398.20
Chapter 4 high	4,364.40	4,401.93
Chapter 4 base (equivalent)	3,575.88	3,606.63
Chapter 4 minus	2,090.50	2,108.48
Emissions charge (per kg)	8.57	8.15
ANS charge		
per ATM	80.53	81.66
Per Metric tonne	1.08	1.11
<b>Charge on departing passengers</b>		
Europe - Destination	29.59	29.30
Other - Destination	41.54	41.14
Europe - Transfer	22.19	21.96
Other - Transfer	31.16	30.84
Europe - Transit	22.19	21.96
Other - Transit	31.16	30.84
Remote Stand Rebate (All paxs)	-5.15	-5.10
Minimum charge	1,406.00	1,392.00
<b>Charges on aircraft parking</b>		
Narrow bodied	21.36	21.79
Wide bodied	51.26	52.30

## Chapter 10 - Financial and Traffic Information

### Traffic statistics and charging parameters

10.1 The actual traffic statistics from 2008/09 to 2014 are set out to provide more detailed data on those elements of the traffic mix at Heathrow airport which affect the airport charges yield per passenger.

### Regulatory accounting information

10.2 Heathrow is a privately owned company and a summary of its regulatory accounts are presented for the 9 month period to 31 December 2014. These accounts compare the airport's financial performance for the year ended 31 December 2014 to the CAA forecast for revenues and operating costs underpinning the Q6 price cap.

10.3 The regulatory accounts include revenue and cost comparisons, and calculations of the Regulated Asset Base.

10.4 The full regulatory accounts and annual reports are available from <http://www.heathrow.com/company/investor-centre/regulation/regulatory-accounts>.

Passenger only flights - actual and forecast

	Actual								Forecast
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014 Apr - Dec	2014 Jan - Dec	2015 Jan - Dec
<b>Arriving Passengers</b>	<b>33,055,283</b>	<b>33,167,916</b>	<b>33,282,772</b>	<b>35,092,421</b>	<b>35,305,114</b>	<b>36,597,073</b>	<b>28,931,264</b>	<b>37,099,981</b>	<b>37,625,337</b>
<b>Departing passengers</b>									
Origin and destination									
Europe	14,688,784	14,661,948	14,743,673	11,716,309	11,661,207	12,079,601	9,626,253	12,265,144	12,341,666
Other	18,185,232	18,302,809	18,084,452	14,213,133	13,699,869	14,069,905	11,034,173	14,113,855	14,149,546
Transfer passengers									
Europe				3,856,432	4,028,131	4,081,838	3,307,956	4,220,781	4,458,473
Other				5,172,212	5,579,652	5,585,627	4,439,514	5,675,064	5,629,745
Transit passengers									
Europe	1,859	2,834	1,623	646	1,462	1,293	699	1,103	0
Other	160,859	119,384	96,303	47,738	47,004	34,106	25,337	32,467	29,219
<b>Departing passengers</b>	<b>33,036,734</b>	<b>33,086,975</b>	<b>32,926,051</b>	<b>35,006,470</b>	<b>35,017,325</b>	<b>35,852,370</b>	<b>28,433,932</b>	<b>36,308,414</b>	<b>36,608,649</b>
<b>Total terminal passengers</b>	<b>66,092,017</b>	<b>66,254,891</b>	<b>66,208,823</b>	<b>70,098,891</b>	<b>70,322,439</b>	<b>72,449,443</b>	<b>57,365,196</b>	<b>73,408,395</b>	<b>74,233,986</b>
PATMs	467,130	453,780	453,938	473,761	464,686	467,779	356,773	468,359	470,428

<b>Heathrow Airport 2014 Regulatory Performance £m (nominal)</b>				
	<b>2014 Actual</b>	<b>2014 Settlement</b>	<b>Var</b>	<b>Var %</b>
<b>Terminal passengers (000's)</b>	<b>57,371</b>	<b>55,400</b>	<b>1,971.0</b>	<b>4%</b>
<b>Revenue</b>				
Airport charges	1,331	1,223	108	9%
Retail	374	360	14	4%
Property	82	86	-4	-5%
Other regulated charges	178	188	-10	-5%
Rail	99	95	4	4%
Other	30	24	6	25%
<b>Total revenue</b>	<b>2,094</b>	<b>1,976</b>	<b>118</b>	<b>6%</b>
<b>Expenditure</b>				
Staff costs	325	321	-4	-1%
Maintenance & equipment costs	134	151	17	11%
Rent and rates	101	114	13	11%
Utility costs	72	81	9	11%
Other costs	226	204	-22	-11%
Transfer of exceptional costs included in CAA forecast	19	0	-19	
Depreciation	507	507	0	0%
<b>Total expenditure</b>	<b>1,384</b>	<b>1,378</b>	<b>-6</b>	<b>0%</b>
<b>Regulatory operating profit (before exceptional operating costs)</b>	<b>710</b>	<b>598</b>	<b>112</b>	<b>19%</b>
Exceptional operating costs	0	0	0	
<b>Regulatory operating profit</b>	<b>710</b>	<b>598</b>	<b>112</b>	<b>19%</b>
<b>Capital expenditure</b>	<b>392</b>	<b>475</b>	<b>-83</b>	<b>-17%</b>
<b>Opening RAB</b>	<b>14,816</b>	<b>14,832</b>	<b>-16</b>	
<b>Closing RAB</b>	<b>14,860</b>	<b>14,959</b>	<b>-99</b>	
<b>Weighted average RAB</b>	<b>14,838</b>	<b>14,896</b>	<b>-58</b>	
<b>Return on weighted average RAB (before exceptional operating costs)</b>	<b>4.79%</b>	<b>4.02%</b>	<b>0.77%</b>	
<b>Return on weighted average RAB (after exceptional operating costs)</b>	<b>4.79%</b>	<b>4.02%</b>	<b>0.77%</b>	

Note: Negative indicates adverse

