

Heathrow Airport Limited

2010-11 Pricing to Table 6-3 Variance Analysis

Year ended 31 March 2011

Introduction

This report provides users with explanations of variances between figures utilised when setting prices to those included within the CAA forecast for activities identified as 'Specified Activities' within Table 6-3 of the 'Economic Regulation of Heathrow and Gatwick Airports 2008-2013', CAA decision dated 11th March 2008 for the year ending 31st March 2011.

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

The specified activities are:

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

The variance analysis has been made against third party elements of the prices set for the period 1st April 2010 to 31st March 2011. The pricing exercise was undertaken using constructive engagement through the Non-Regulated Charges Group and the General Notice was issued on 12th March 2010.

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

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

This paper includes Table 6-3 for Q5 and an update showing this table uplifted to nominal prices using RPI for 2010/11 from The Office for National Statistics (ONS), and Oxford Economic Forecast (OEF) for future years. The RPI uplift is applied to provide a consistent comparison between CAA forecast and actuals in nominal prices (ie. current year prices). These variances are explained on the following sheets.

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

RPI						2.97%	0.46%	2.40%	2.12%	2.75%		
Index						1.030	1.034	1.059	1.082	1.111	Pricing	Variance to Table 6-3
£m	Breakdown Table 6.3 in 07/08p					Breakdown Table 6.3 in Outturn					2010/11	
Baggage, Check-in & CUSS	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
Income	89.081	86.720	87.721	87.361	89.472	91.727	89.703	92.916	94.497	99.441	112.650	19.734
Direct Cost	82.3	79.1	79.4	78.3	79.8	84.703	81.852	84.092	84.728	88.669	101.726	(17.634)
Annuity	0	0	0	0	0	-	-	-	-	-	0.000	0.000
Allocated Costs	6.8	7.6	8.3	9.0	9.7	7.024	7.851	8.824	9.769	10.772	8.824	0.000
Bfwd from prior year											2.100	(2.100)
Total costs	89.081	86.720	87.721	87.361	89.472	91.727	89.703	92.916	94.497	99.441	112.650	(17.634)
											0.000	
Staff Car Parking	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
Income	19.510	19.570	19.550	19.530	19.500	20.089	20.243	20.708	21.125	21.673	20.845	0.137
Direct Costs	7.853	7.871	7.857	7.843	7.826	8.086	8.142	8.323	8.484	8.698	9.536	(1.213)
Annuity	7.453	7.480	7.476	7.472	7.464	7.674	7.737	7.918	8.082	8.295	7.834	0.085
Allocated Costs	4.204	4.219	4.217	4.215	4.210	4.329	4.364	4.467	4.559	4.679	4.419	0.048
Bfwd from prior year											(0.943)	0.943
Total costs	19.510	19.570	19.550	19.530	19.500	20.089	20.243	20.708	21.125	21.673	20.845	(0.137)
											0.000	
Airside Licences	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
Income	0.780	0.780	0.780	0.780	0.780	0.803	0.807	0.826	0.844	0.867	0.958	0.132
Direct Costs	0.378	0.378	0.378	0.378	0.378	0.390	0.391	0.401	0.409	0.421	0.533	(0.132)
Annuity	0.041	0.041	0.041	0.041	0.041	0.042	0.042	0.043	0.044	0.045	0.043	0.000
Allocated Costs	0.361	0.361	0.361	0.361	0.361	0.371	0.373	0.382	0.390	0.401	0.382	0.000
Bfwd from prior year											0.000	0.000
Total costs	0.780	0.780	0.780	0.780	0.780	0.803	0.807	0.826	0.844	0.867	0.958	(0.132)
											0.000	
Electricity	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
Income	29.490	28.750	28.420	27.920	28.970	30.366	29.739	30.106	30.200	32.198	26.695	(3.411)
Direct Costs	22.212	21.478	21.375	20.957	21.754	22.871	22.217	22.641	22.669	24.178	19.247	3.393
Annuity	4.771	4.764	4.618	4.565	4.727	4.913	4.928	4.891	4.938	5.254	4.880	0.011
Allocated Costs	2.510	2.507	2.430	2.402	2.487	2.585	2.593	2.574	2.598	2.764	2.567	0.006
Bfwd from prior year											0.000	0.000
Total costs	29.493	28.749	28.422	27.925	28.968	30.369	29.737	30.106	30.206	32.196	26.695	3.411
											(0.000)	
Fixed Electrical Ground Power	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
Income	7.180	7.160	7.120	7.090	7.060	7.393	7.406	7.542	7.669	7.847	5.891	(1.651)
Direct Costs	3.094	3.085	3.055	3.042	3.038	3.186	3.191	3.236	3.290	3.376	2.786	0.450
Annuity	2.078	2.072	2.089	2.079	2.054	2.140	2.143	2.213	2.249	2.283	2.207	0.006
Allocated Costs	2.008	2.003	1.977	1.969	1.968	2.067	2.072	2.094	2.130	2.188	2.089	0.005
Bfwd from prior year											(1.191)	1.191
Total costs	7.180	7.160	7.120	7.090	7.060	7.393	7.406	7.542	7.669	7.847	5.891	1.651
											(0.000)	
Heating and Ventilation	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
Income	0.980	0.950	0.930	0.910	0.890	1.009	0.983	0.985	0.984	0.989		
Direct Costs	0.702	0.681	0.666	0.652	0.638	0.723	0.704	0.706	0.705	0.709		
Annuity	0.565	0.548	0.536	0.525	0.513	0.582	0.567	0.568	0.568	0.571		
Allocated Costs	0.299	0.290	0.284	0.278	0.272	0.308	0.300	0.301	0.300	0.302		
Bfwd from prior year												
Total costs	1.567	1.519	1.487	1.455	1.423	1.613	1.571	1.575	1.574	1.581		
Water & Sewerage	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
Income	0.950	0.930	0.930	0.930	0.930	0.978	0.962	0.983	1.006	1.034	0.707	(0.276)
Direct Costs	0.598	0.597	0.600	0.605	0.610	0.616	0.617	0.635	0.654	0.678	0.788	(0.153)
Annuity	0.163	0.156	0.152	0.149	0.146	0.167	0.161	0.161	0.161	0.162	0.160	0.000
Allocated Costs	0.189	0.181	0.176	0.173	0.170	0.195	0.187	0.187	0.187	0.189	0.187	0.000
Bfwd from prior year											(0.428)	0.428
Total costs	0.950	0.934	0.928	0.927	0.926	0.978	0.966	0.983	1.002	1.029	0.707	0.276
											(0.000)	
Security ID	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
Income	2.730	2.750	2.780	2.800	2.730	2.811	2.845	2.945	3.029	3.034	3.485	0.541
Direct Costs	1.327	1.337	1.351	1.361	1.327	1.366	1.383	1.431	1.472	1.475	1.419	0.012
Annuity	0.079	0.080	0.081	0.081	0.079	0.081	0.082	0.085	0.088	0.088	0.100	(0.015)
Allocated Costs	1.324	1.334	1.348	1.358	1.324	1.363	1.379	1.428	1.469	1.472	1.670	(0.242)
Bfwd from prior year											0.296	(0.296)
Total costs	2.730	2.750	2.780	2.800	2.730	2.811	2.845	2.945	3.029	3.034	3.485	(0.541)
											0.000	
Bus and Coach	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
Income	1.390	1.390	1.390	1.390	1.390	1.431	1.438	1.472	1.504	1.545		
Direct Costs	0.109	0.109	0.109	0.109	0.109	0.113	0.113	0.116	0.118	0.121		
Annuity	0.783	0.783	0.783	0.783	0.783	0.806	0.810	0.830	0.847	0.870		
Allocated Costs	2.523	2.523	2.523	2.523	2.523	2.598	2.610	2.672	2.729	2.804		
Bfwd from prior year												
Total costs	3.415	3.415	3.415	3.415	3.415	3.517	3.533	3.617	3.694	3.796		

Priced using AOC rents group and recovered as an occupancy charge

Priced using AOC rents group and recovered as an occupancy charge

**Baggage, Check-In & CUSS
2010-11**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>112,650</u>	<u>92,916</u>	<u>19,734</u>	Pricing adjusted to reflect cost increases	<u>19,734</u>
				Additional scope - ITO operation (5T)	(1,100)
				Additional scope - T1 - T4 Tunnel operating at fuller capacity than previously assumed	(400)
				Additional scope - T1 OOG assumed closed	(200)
				Additional scope - Terminal 4 Ancilliary Baggage Facility	(800)
				Additional scope- T4 following transfer of responsibilities from BA	(1,800)
				Additional scope - T4IB	(700)
				Additional scope - T4 prolongation	(1,000)
				Under estimated T5 O&M costs, now based on actuals and reflecting extended scope.	(5,900)
				Additional scope- Building 560/Baggage Recovery Facility	(1,200)
				Check-in & CUSS - check-in under estimated and CUSS fully recovered	(4,400)
				Miscellaneous	(134)
Direct Expenditure	<u>101,726</u>	<u>84,092</u>	<u>(17,634)</u>		<u>(17,634)</u>
Allocated costs	8,824	8,824	0		
Prior year under / (over) recovery	600	0	(600)	Forecasted prior year under-recovery not included within Table 6-3	
Feb settlement 08/09 and 09/10	1,500	0	(1,500)	Agreed settlement through Non Regulated Charges Group	
Net (under) / over recovery at 31 March 2011	<u>(0)</u>	<u>0</u>	<u>(0)</u>		

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

**Staff Car Parking
2010-11**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>20,845</u>	<u>20,708</u>	<u>137</u>	Pricing adjusted to reflect cost increases and prior year over-recovery Decrease in 3rd party share from 81% per Table 6-3 to 73% per Pricing	 2,183 <u>(2,045)</u> 137
Direct Expenditure	<u>9,536</u>	<u>8,323</u>	<u>(1,213)</u>	Additional staffing and maintenance costs Coaching & Fuel - additional schedules and increased fuel costs. Rent & Rates Passenger Transport Levy Decrease in 3rd party share from 81% per Table 6-3 to 73% per Pricing	 (458) (1,271) (328) 22 <u>822</u> (1,213)
Allocated costs and Annuity	12,252	12,385	133	RPI movement	
Prior year under / (over) recovery	(943)	0	943	Forecasted prior year over-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2011	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>(0)</u></u>		

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

**Airside Licences
2010-11**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance
Total Revenue	<u>958</u>	<u>826</u>	<u>132</u>	Pricing adjusted to reflect cost increases
Direct Expenditure	<u>533</u>	<u>401</u>	<u>(132)</u>	Increase in safety work costs - agreed with Airport User Committee
Allocated costs and Annuity	425	425	0	
Net (under) / over recovery at 31 March 2011	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	

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

**Electricity
2010-11**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>26,695</u>	<u>30,106</u>	<u>(3,411)</u>	Pricing adjusted to reflect cost decreases Decrease in 3rd party share from 39.5% per Table 6-3 to 37% per Pricing	(1,505) (1,905) <u>(3,411)</u>
Direct Expenditure	<u>19,247</u>	<u>22,641</u>	<u>3,393</u>	Reduced consumption and costs Decrease in 3rd party share from 39.5% per Table 6-3 to 37% per Pricing	1,960 1,433 <u>3,393</u>
Allocated costs and Annuity	<u>7,447</u>	<u>7,465</u>	<u>18</u>	RPI movement	
Net (under) / over recovery at 31 March 2011	<u><u>0</u></u>	<u><u>(0)</u></u>	<u><u>0</u></u>		

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

Fixed Electrical Ground Power (FEGP)

2010-11

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>5,891</u>	<u>7,542</u>	<u>(1,651)</u>	Pricing adjusted to reflect prior year over-recovery	
Direct Expenditure	<u>2,786</u>	<u>3,236</u>	<u>450</u>	Higher electricity usage Reduced maintenance costs	(24) 473
Allocated costs and Annuity	<u>4,296</u>	<u>4,306</u>	<u>10</u>	RPI movement	
Prior year under / (over) recovery	<u>(1,191)</u>	<u>0</u>	<u>1,191</u>	Forecasted prior year over-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2011	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>		<u><u>450</u></u>

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

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

**Water & Sewerage
2010-11**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>707</u>	<u>983</u>	<u>(276)</u>		
				Pricing adjusted to reflect prior year over-recovery	(460)
				Increase in 3rd party share from 16% per Table 6-3 to 19% per Pricing	184
					<u>(276)</u>
Direct Expenditure	<u>788</u>	<u>635</u>	<u>(153)</u>		
				Increase in costs mainly T5 related	(34)
				Increase in 3rd party share from 16% per Table 6-3 to 19% per Pricing	(119)
					<u>(153)</u>
Allocated costs and Annuity	347	348	1	RPI movement	
Prior year under / (over) recovery	(428)	0	428	Forecasted prior year over-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2011	<u><u>0</u></u>	<u><u>(0)</u></u>	<u><u>0</u></u>		

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

**Security Documentation
2010-11**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>3,485</u>	<u>2,945</u>	<u>541</u>	Pricing adjusted to reflect cost increases and prior year under-recovery Decrease in 3rd party share from 85% per Table 6-3 to 82% per Pricing	<u>645</u> <u>(104)</u> <u>541</u>
Direct Expenditure	<u>1,419</u>	<u>1,431</u>	<u>12</u>	Materially in line with Table 6-3	
Allocated costs and Annuity	1,770	1,514	(256)	RPI movement	
Prior year under / (over) recovery	296	0	(296)	Forecasted prior year under-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2011	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>		

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

