

Heathrow Airport – Bus and Coach Movement Charge

Consultation Document

Date: 19 May 2011

Prepared by: Heathrow Airport Limited

Status: Final

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Executive Summary

This document sets out Heathrow Airport Limited's (HAL) proposal regarding the Heathrow Bus and Coach Movement charge. Historically HAL has not recovered the costs associated with this activity and is therefore seeking to move towards a charging system based on the principle of cost recovery going forward. HAL does not intend to set pricing to remedy historical under recovery.

HAL have developed a new methodology of charging based on infrastructure utilisation which it believes is an equitable and transparent way to allocate costs between activities within the Central Bus Station and T4&T5 operations and facilities.

We are now seeking formal responses to the proposals set out in this document from the users of these facilities and other interested stakeholders by 8th July 2011. We intend to announce our final decision, taking account of the comments received through the consultation, on 8th August 2011.

Chapter 1

1. Introduction and Consultation Programme

Purpose

- 1.1. Heathrow Airport Limited (HAL) is reviewing the Heathrow Bus and Coach Movement Charge. The purpose of this document is to set out HAL's proposals for the new movement charges and invite views on these proposals.
- 1.2. We are keen to understand interested parties views on:
 - Methodology of cost allocation
 - The level of the proposed charge
 - Implementation of the proposal

We can then take into account their views when making our decision.

Economic Regulation

- 1.3. The Civil Aviation Authority (CAA) is responsible for the administration of the Airports Act 1986 and is required to set the maximum amount of airport charges that may be levied by HAL during five-year periods, known as quinquennia.
- 1.4. The current quinquennium (known as Q5) runs from 1st April 2008 to 31 March 2014, (including a one year extension).
- 1.5. Within the CAA's economic regulation of HAL and specifically Q5, a number of activities have been classified as Specified Activities. These include the provision of bus and coach facilities. The costs associated with these activities are generally recovered on a cost recovery basis.

Consultation Programme

- 1.6. HAL will be consulting on the Heathrow Bus and Coach Movement charge and the methodology HAL is proposing to allocate costs between the two main user groups of the facility, coach and local bus users. The final decision of the proposals will be announced 8th August 2011.
- 1.7. The publication of this consultation document on 19th May 2011 is the start of our consultation for the review of the movement charges.
- 1.8. The consultation programme is as follows:

Table 1

Date	Milestone
19 May 2011	HAL publication of the consultation document.
26 May 2011	Formal consultation meeting
10 June 2011	Follow up workshop
8 July 2011	Deadline for Interested parties written responses
8 August 2011	HAL announcement of final decision
1 October 2011	New price effective

- 1.9. HAL will be holding a formal consultation meeting on 26th May 2011 to give the interested parties the opportunity to comment on the proposals set out in this document. Please let us know if you would like to attend the consultation meeting using the contact details in the “how to respond” section.

Date: Thursday 26th May 2011

Time: 13:00 – 15:00

Location: Heathrow Academy
Newall Road
Hayes
Middlesex
UB3 5AP
UK

How to Respond

- 1.10. We will be holding a consultation meeting, details as above where interested parties can comment on the proposals.
- 1.11. We also invite interested parties to submit written responses to the proposal set out in this document by the 8th July 2011. Responses should be sent to: Steve_bogg@baa.com
- 1.12. Alternatively, comments may be posted to:

Stephen Bogg
The Compass Centre
Nelson Road
Hounslow
Middlesex
TW6 2GW
UK

Or, if you have any questions on the consultation document please contact Steve Bogg on the above e-mail address.

Chapter 2

2. Methodology of cost allocation

Objective

- 2.1 HAL wishes to find an equitable and transparent framework to attribute cost between the coach and local bus operations.

Proposal:

- 2.2 HAL proposes to introduce two separate cost allocation models that take into account the different base of direct and indirect costs.
- 2.3 Direct costs - HAL proposes to introduce a cost allocation method that is based on guidance from the Central Bus Station (CBS) operator. Based on this information HAL have attributed the cost of the CBS management contract on the following basis: 66% of the contract costs for coach users and 34% for local bus operators.
- 2.4 Indirect costs – HAL proposes to introduce a cost allocation method that is based on the current usage of infrastructure. The infrastructure in this activity is the usage of bus/coach bays within the CBS. This allocation method also recognises the usage of layover bays within the CBS and the usage of the CBS departure lounge. The departure lounge usage is again based on the theory of coach bays but with an additional metric of passenger usage of facility. This data is derived from HAL Quality Service Monitor (QSM) passenger survey data 2008-09.
- 2.5 Usage of coach and bus bays within the CBS and its satellite operations in T4 & T5:

Coach & Bus bay usage at CBS and satellite operations at T4 & T5		
	Coach	Bus
CBS bays	17	5
CBS layover bays	0	10
T4 bays	2	2
T5 bays	7	9
Total bays	26	26

- 2.6 Allocation of space of CBS departure lounge based on usage of facility as bay equivalent.

CBS departure lounge space allocation		
CBS departure lounge space	600 sqm	
Nero floor space	62 sqm	
Adjusted floor space	538 sqm	
Coach bay size	39 sqm	
Bay equivalent (bay size / floor space)	13.79 bays	
QSM data usage of facility	Coach	Bus
	94%	6%
QSM usage / bays = bay allocation	Coach	Bus
	12.97	0.83

- 2.7 Quality Service Monitor (QSM) is a Computer Assisted Personal interview with bus station customers. This data clearly shows that coach passengers use this central bus station departure lounge far more than bus customers. QSM 2008 – 2009 is the last set of annual data as HAL ceased this activity within the CBS. HAL has recently started conducting this QSM survey again and the results are still consistent.

	Month		Quarter		MAT	
	Feb-09		Dec 08 - Feb 09		Mar 08 - Feb 09	
	% rated	Sample	% rated	Sample	% rated	Sample
QSM 2009						
Method of transport to leave Airport						
Express Coach - national destinations	91.4	223	90.8	688	86.5	2824
Express Coach - other Airports	4.1	10	4	30	5.6	184
First in Berkshire' Services (74-76/50/90)	0.8	2	0.8	6	0.6	21
A2 Airbus			0.1	1	0.3	10
London local buses	2.5	6	2.2	17	3.6	116
OxfordLink 'The Airline'			0.9	7	1.3	41
Airport free travel zone					0.3	10
Other bus	1.2	3	1.2	9	1.8	59
Coach total	96.3	235	96.6	732	94.3	3080
Bus total	3.7	9	3.4	26	5.7	185
						3265

QSM2011	Quarter		MAT	
	January - March 2011		April 2010 - March 2011	
	% Rated	Sample	% Rated	Sample
Method of transport to leave the airport				
<i>Coach</i>	93.9%	325		
<i>Local Bus</i>	6.1%	21		
<i>Other</i>	0.0%	0		
Total		346		

2.8 The result of this methodology of attributing costs between coach and bus is that we propose a 59 % Coach: 41% local Bus allocation for all indirect costs.

Coach & Bus bay usage at CBS and satellite operations at T4 & T5		
	Coach	Bus
CBS bays	17	5
CBS layover bays	0	10
T4 bays	2	2
T5 bays	7	9
Total bays	26	26
CBS departure lounge bay equivalent	12.97	0.83
Total	38.97	26.83
% of total bays	59%	41%

2.9 In summary HAL propose to allocate costs on the following basis:

1. Direct costs – CBS contract 66% to coach and 34% to local bus
2. Indirect costs – 59% to coach and 41% to local bus.

Chapter 3

3. Costs attributed to the Central Bus Station and the T4 & T5 bus and coach facilities.

Current Practice

- 3.1 The current tariff is inadequate compared to the costs incurred. HAL wishes to move to a more appropriate level of cost recovery.

Objectives

- 3.2 HAL wishes to recover an appropriate level of costs that can be attributed to the CBS and the T4 and T5 Bus and Coach Facilities. HAL will not seek to recovery any previous under recovery.

What the costs are

- 3.3 The costs can be broken down in two distinct categories.
1. Direct costs
 2. Indirect costs
- 3.4 Direct costs are those that are a direct result of the operation of the CBS and the T4 & T5 Bus and Coach facilities.

3.4.1 2011/12 Direct Costs

CBS Direct Costs	2011/2012
CBS Ops contract cost	£980,000
Utilities	£39,912
Facilities Mgmt (incl cleaning)	£233,240
Rent	£56,500
Total	£1,309,652

- 3.5 Indirect costs are those that are attributed indirectly to the operation and the facility of the CBS and the T4 & T5 bus and coach facilities. These can be broken down into two distinct categories –

1. Annuity
2. Allocated costs

- 3.5.1 Annuity – represents annualised costs derived from annuity calculations relating to Capital expenditure which is reasonably attributable to the service. Annuity calculations are based on an assumed asset life and are calculated using a rate of 8% for assets and 6% for land.

- 3.5.2 Allocated costs – costs incurred by HAL which are not directly related to delivery of the Service, but where a proportion is allocated by methodology set out in HAL's Transparency Statement.

3.6 2011/12 Indirect costs

In direct costs	2011/12
Annuity	£966,818
Allocated Costs	£1,673,728
Total	£2,640,546

3.7 Therefore the total costs attributed to the CBS and the T4 & T5 bus and coach facilities are as detailed below.

CBS Total Costs	2011/2012
CBS Ops contract cost	£980,000
Utilities	£39,912
Facilities Mgmt (incl cleaning)	£233,240
Rent	£56,500
Annuity	£966,818
Allocated costs	£1,673,728
Total costs	£3,950,198

3.8 These costs will vary year to year and therefore on an annual basis HAL will consult with interested stakeholders to consider the impact of cost changes and other variables into account when setting the new departure charge.

3.9 All costs and charges mentioned within this document are exclusive of VAT.

Chapter 4

4.Heathrow Bus and Coach Movements – Level of Charge.

Current Practice

4.1 The current Heathrow Bus and Coach Movement charge is £2.40.

Proposal

4.2 In creating the two cost allocation methods as detailed in chapter 2, HAL are now able to propose the following cost recovery models. As detailed below:

Central Bus Station Costs 2011/2012					
Activity	Total cost	Coach attributed cost £	Coach attributed cost %	Local Bus attributed cost £	Local Bus attributed cost %
CBS Ops contract cost	£980,000	646,800	66%	£333,200	34%
Utilities	£39,912	23,548	59%	£16,364	41%
Facilities Mgmt (incl cleaning)	£233,240	137,612	59%	£95,628	41%
Rent	£56,500	33,335	59%	£23,165	41%
Annuity	£966,818	570,423	59%	£396,395	41%
Allocated costs	£1,673,728	987,500	59%	£686,228	41%
Total costs	£3,950,198	2,399,217	61%	£1,550,981	39%

- 4.3 It is then possible to create the movement charge by using the number of movements per activity divided by the cost.
- 4.4 The movement charge for operators will be calculated by dividing the cost by the appropriate number of movements in accordance of the cost recovery metrics as detailed section 4.2.
- 4.5 Movements are based upon the declared 2009 numbers from the operating companies. Variation in the number of movements will have an effect on subsequent year's departure charge. Increased bus and coach movements through Heathrow could reduce the per departure charge.

Heathrow Bus and Coach Movement Charge 2011/2012		
Activity	Coach	Bus
Movements	154,890	292,396
Costs	£2,399,127	£1,550,981
Movement Charge	£15.49	£5.30

4.6 HAL is not to looking to recover costs that are attributed to local bus operations.

Chapter 5

5.Implementation of Proposal

Options

- 5.1 HAL has developed two options to consider when introducing the new Heathrow Bus and Coach Movement charge:
1. Price increase from 1st October 2011 to £15.49
 2. A phased approach to pricing changes with the initial price increase from 1st October 2011 to £10.00. A second increase would then be introduced on 1st April 2012. Following both phases, HAL would expect to move to recover the full allowable costs associated with the activity. The level of charge associated with the second phase increase will be calculated on the same basis of the 2011/12 charge of £15.49 but is subject to variables such as coach movement changes and RPI and cost fluctuations.

Proposal

- 5.2 HAL recognises that this price change represents a significant change to the status quo. In applying the principle of gradualism, HAL therefore proposes the price change is introduced on a phased approach as per option 2 as set out in the chart below -

Heathrow Bus and Coach Movement Charge 2011/2012 - Phasing	
Date	Movement charge
Today until 30/09/2011	£2.40
01/10/ 2011 to 31/03/2012	£10.00
1st April 2012	£15.49*

*This figure is indicative only noting that the actual charge will be calculated using the same methodologies as 2011/12 (£15.49) but is subject to variables such as movements / costs and RPI

Chapter 6

6.Next Steps

6.1 The timetable for consultation is as described in Chapter 1. In summary:

- The Consultation Launch will be 19th May 2011;
- There is a formal consultation meeting scheduled for 26th May 2011;
- There is a follow up workshop week ending 10th June 2011
- Written Submissions are due by 8th July 2011; and
- The final decision is due to be announced 8th August 2011.

6.2 If you would like any further information on this consultation, please contact Retail Travel Services (steve_bogg@baa.com) or via telephone on +44 (0) 7787 152758.

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