

# Stansted Airport “Mid Q5 Review”

## Terms of Reference

### **Objectives**

- A. To provide for the first two years of Q5 (2009/10 and 2010/11) a transparent and independent assessment of Stansted’s performance in relation to:
- (i) the Q5 regulatory settlement as contained in the CAA’s March 2009 decision and the Competition Commission report;
  - (ii) its consultation with users on airport development and investment; and
  - (iii) the drivers for how its operating costs have evolved, with a particular focus on the relationship with traffic volume and intra BAA Group charges, taking into account comparisons with other airports.
- B. To provide a transparent account of the opening Q5 Regulatory Asset Base (RAB) value<sup>1</sup> and value at 31 March 2011 by broad asset class.
- C. The purpose of the mid-Q5 review is gain a clear understanding of these matters to inform the development of Constructive Engagement and Q6. The review is not aimed at reopening or rehearing the Q5 settlement<sup>2</sup>. The CAA is currently assessing Stansted airport’s market power and, based on this assessment, will be considering the appropriate regulatory model for the airport going forward.

### **Detailed scope**

1. Airport consultation.
  - Assess the Airport’s consultation performance<sup>3</sup> against its agreement on information disclosure and consultation (Annex D to the March 2009 price control decision document).<sup>4</sup>
  - Develop recommendations to enable constructive engagement discussions and the Q6 process more generally.

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<sup>1</sup> The CAA did not establish an opening RAB value for Stansted in Q5, and the only value for an opening RAB at Stansted in Q5 is provided by the Competition Commission’s final report on the Stansted Q5 price control.

<sup>2</sup> This is consistent with the mid-Q reviews undertaken for Heathrow and Gatwick.

<sup>3</sup> Where relevant this will also take into account any obligations placed on airlines in Annex D.

<sup>4</sup> This part of the review will be similar to the review of consultation carried out at Heathrow and Gatwick in 2010.

## 2. Operating costs.

- Assess the principal drivers of the changes in the Airport's operating costs in Q5, which for context will look at trends between 2006/07 and 2010/11. Where possible assess the contribution from broad drivers such as passenger traffic volume, government security requirements, the SQR regime and input prices.
- Undertake where appropriate the analysis by broad cost function (e.g. security costs, BAA intra-group charges, etc) and/or cost type (e.g. staff and utility costs, etc).
- A review of the level and changes in operating costs and their relationship to traffic and, where possible, other factors such as government security requirements and input prices during the same time period at a few selected "comparator" airports (e.g. Manchester, Luton and Birmingham).
- Where appropriate the CAA may look at changes in operating costs and the relationship with traffic and other factors at a few selected comparator airports. However, the scope of the mid-Q review will not include full operating cost benchmarking work as this is an issue best addressed in the course of Q6.
- Develop recommendations to enable constructive engagement discussions and the Q6 process more generally.

## 3. RAB.

- Prepare an analysis of the Stansted Regulatory Asset base (RAB) at 31 March 2009 and 31 March 2011 by broad asset class<sup>5</sup>, showing the indexed cost and accumulated depreciation.
- Ask the Airport to reconcile to a broad approximation the RAB value with the net book value in the audited regulatory accounts.
- Develop recommendations to enable constructive engagement discussions and the Q6 process more generally.

## **Process**

4. Timing. Given the interest of all parties to conclude the mid-Q assessment as soon as possible to inform the development of Q6 the CAA aims to publish its report in April 2012.

5. Output. The report will take the form of an extended presentation pack. This will be shared with the SACC and Airport under embargo shortly before publication.

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<sup>5</sup> The broad classification of assets could be

- assets whose primary purpose is to generate revenues classified as aeronautical revenues in the regulatory accounts; e.g. terminals, airfield;
- assets whose primary purpose is to generate revenues classified as non-aeronautical revenues in the regulatory accounts; e.g. retail, car parking and other surface access;
- assets which could be described as incidental to the operation of the airport in its broad current form (ie assets which are unlikely to be used within the next 5 years at the airport) eg residential properties purchased for the aborted SG2;
- assets in the course of construction.

6. Stakeholder engagement and the CAA's process.

- Following recent requests from Ryanair, Stansted has prepared an information pack in relation to A(ii) that will be shared with the SACC shortly.
- Similar to the Heathrow and Gatwick mid Q reviews the CAA will kick off the review with a stakeholder meeting to outline the CAA's approach, timetable and seek initial feedback (this will include presentations from any consultants appointed to assist the review). The CAA will also host a workshop towards the end of the process to present findings and recommendations.

7. Cooperation. The CAA welcomes the commitment shown by all parties to date in defining the scope of this review. The overall success of the Mid Q review will depend on parties co-operating with the CAA (and any consultants it employs) and providing requested data on a timely basis. Protection must be given to confidential information that is released in the course of this review. The CAA reserves the right to use its formal powers to request information.