SPECIFICATION

Comparing and capping airport charges at regulated airports

Terms of Reference

Objectives

A. To identify domestic, European or possibly worldwide airport comparators for airport charges at Heathrow, Gatwick and Stansted
B. To assess the scope for capping airport charges at Gatwick or Stansted airports based on charges at comparator airports.

Detailed scope

1. Identify airport comparators for Heathrow, Gatwick and Stansted airports
    - Develop a framework for identifying suitable comparators for airport charges at Heathrow, Gatwick and Stansted airports. Criteria should be developed to identify suitable comparator airports that would provide an indication of the level of airport charges at Heathrow, Gatwick and Stansted in a reasonably competitive market. Potential criteria could include airport size, catchment, surface access, service offering, facilities, regulatory structure, traffic mix, airport objectives, availability of capacity and degree of competition. Where possible this should identify airports with and without comparable capacity constraints.
    - The framework should identify the criteria which will be used to identify the competitiveness of comparator airports.
    - Using this framework identify suitable comparators airports to Heathrow, Gatwick and Stansted airports. In each case at least four, and ideally significantly more, comparator airports should be identified. This should focus on airports that operate in a reasonably competitive market which may or may not compete directly with Heathrow, Gatwick or Stansted[1]. Where comparable competitive airports cannot be identified then suitable

[1] The CAA's initial views on the competitive constraints faced by Heathrow, Gatwick and Stansted are set out in its market power assessment. This can be accessed at: http://www.caa.co.uk/default.aspx?catid=78&pagetype=90&pageid=12275

regulated airports should be used. The regulatory environment should be taken into account when selecting comparators.

- For these comparators develop a time series of average annual airport charges and charges for a range of typical aircraft, ideally over the last ten years. Where possible and appropriate this should identify differences between published and actual charges, peak and off-peak and the destination of the flight (domestic, EU, non-EU). The time series should be adjusted to allow charges to be normalised to take account of differences in the scope of charges across airports.

2. <u>Assess the scope for capping tariffs at Gatwick and Stansted airport to those at comparator airports</u>.
    - Identify issues and appropriate mitigating measures in the development of a basket of comparator airport charges for capping charges at Gatwick and Stansted[2]. A cap could apply to the overall level of charges and/or the changes to the level of charges.
    - Where possible identify historic profile for this basket compared to changes in charges at Gatwick and Stansted airports.
    - Identify any issues with using the basket of comparator airport charges to cap future charges at Gatwick and Stansted airports.
    - Identify any complementary regulatory measures that would need to be introduced if comparator airport charge caps were introduced.
    - Identify the issues related to using charges at comparator airports to inform other potential regulatory approaches such as price monitoring and backstop price caps.
    - Identify the pros and cons of capping charges based on charges at comparator airports compared to other approaches such as capping charges in constant real or nominal prices or RAB-based regulation.

[2] This work should build on the high level analysis set out in: Alternative approaches to price cap regulation to minimise distortions to competition and investment incentives, Europe Economics, July 2010. This document can be accessed at: http://www.caa.co.uk/docs/5/ergdocs/20100708AlternativeReg.pdf