EXTENSION TO Q5:

CONSULTATION

CAA Roundtable

15 February 2011

Outline

0930-0935	Introduction	Iain Osborne
0935-1015	AER bill and timetable	Jonathan Moor & DfT team
1015-1045	Overview of CAA consultation	Richard Moriarty & CAA team
1045-1100	Initial view from Airlines	BATA
1100-1120	Initial view from Airports	Heathrow, Gatwick
1120-1130	Final Q&A and discussion	

OVERVIEW OF
CAA CONSULTATION

Basic Consultation Question

- **Should CAA extend the current price controls at Heathrow and Gatwick Airports by one year?**
  - **Or, how do we best manage uncertainty about the legislative framework for Q6 given increasing likelihood of second session Bill?**
- **Under existing legislation, CAA needs to launch Q6 in April 2011 if implementation is in March 2013 – but:**
  - **Risks to stakeholders of launching under present legislation (high/low)?**
  - **Opportunities for stakeholders of aligning Q6 with the likely Government timing for its new AER legislation (high/low)?**

Assessment of CAA Options

1. **Launch Q6 under Airports Act 1986**
   - Known process (aim for reference to CC in Mar 12)
   - Costs to stakeholders of moving goalposts
   - Risks losing benefits for Q6 of new legislation

2. **Launch as if new legislation were certain**
   - Q6 takes into account new duties and powers
   - Risk legislation does not materialise or delayed
   - Role of CC
   - CAA must always have default option under present legislation

3. **Extend current price controls**
   - Although not a guarantee, it may help align Q6 with new legislation, whilst giving a viable fall back to present legislation
   - Another year of Q5

CAA Proposal

- **Extend price formula for one year until April 2014?**
  - **Heathrow RPI+7.5%**
  - **Gatwick RPI+2%**

- **Consequential changes?**
  - **Service Quality Regime**
  - **Public Interest Conditions**
  - **Capital expenditure triggers**

- **Further issues relevant to an extension?**
  - **Different treatment for Heathrow and Gatwick**
  - **Under/over-recovery mechanism**
  - **"True up"**

Consequential Changes

- **Service Quality Regime**
  - **SQR is separate from the price control, could be rolled forward in current form or amended. Merit in avoiding changes in cash sums at stake**
- **Security cost pass through ("S-term")**
  - **Merit in retaining 90 percent pass through with same thresholds**
- **Public Interest Conditions**
  - **Merit in extending for a further year**
- **Capex triggers**
  - **Merit in triggers rolling on for uncompleted projects.**
  - **Triggers where projects cancelled or scope fundamentally changed?**

"True Up" mechanism

- **If introduced, aim would be to ensure no party (airport or airlines) is worse off from an extension compared to a counterfactual**
  - **Reconciliation could be to the counterfactual of implementing Q6 in April 2013**

- **Possible approaches:**
  - **Estimate what the CAA would have assumed *ex-ante* i.e a 2013/14 'shadow ' review**
  - **Carry out an *ex-post* reconciliation**

- **Benefit of equitable risk share from extension**

- **Downsides include difficulties in computation, consistency with non-RAB price controls, no precedent in airports**

Next Steps

- **CAA consultation closes** — **7 March**
- **CAA Board decision** — **end March**
- **If CAA extends:**
  - **Decision on Public Interest Conditions** — **April**
  - **"Setting the Scene for Q6" consultation** — **July**
- **If CAA does not extend:**
  - **Launch Q6** — **April**