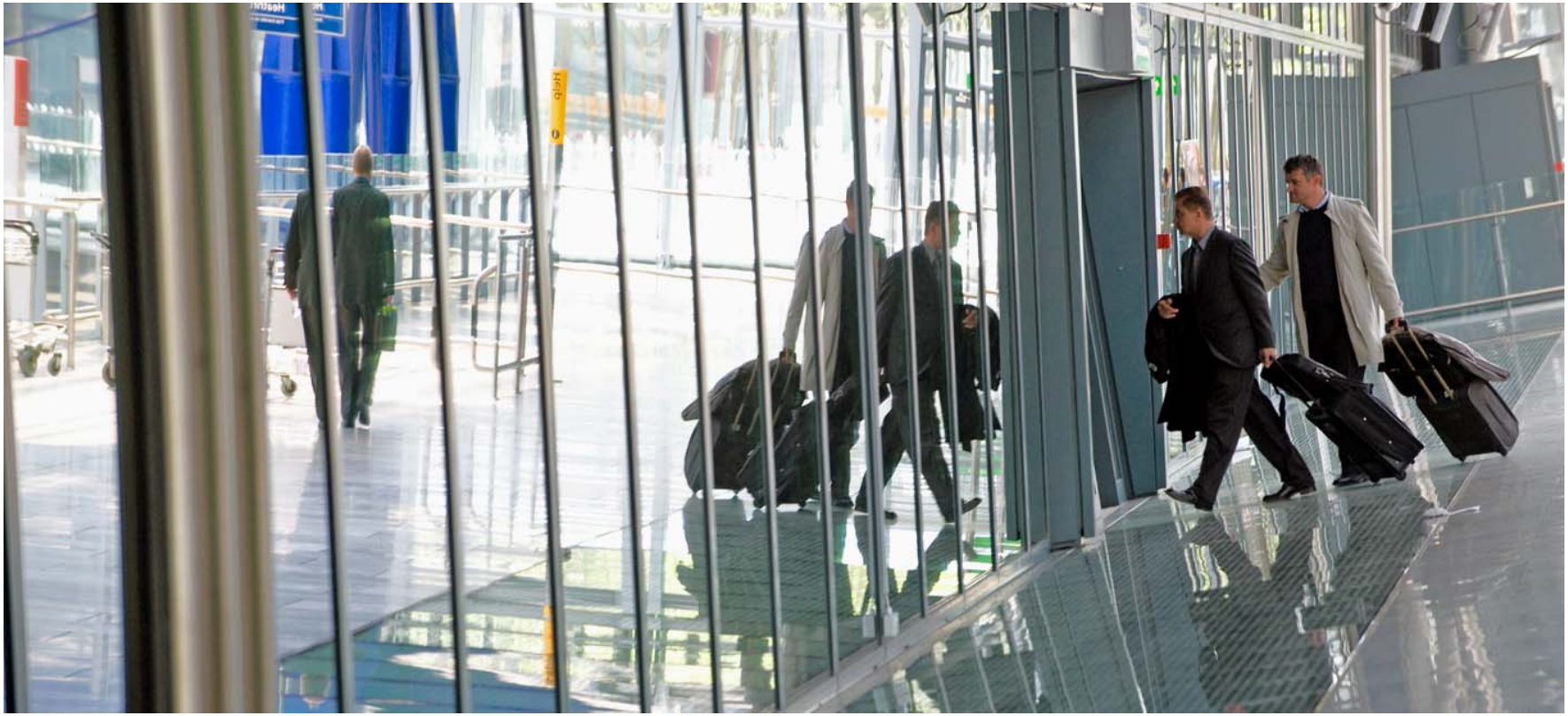

Q5 Extension: CAA Stakeholder Seminar

15th Feb 2011

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Heathrow

Making every journey better

Agenda

- Rationale for an Extension
- Process and Timelines
- Issues to consider

Rationale for an Extension: Heathrow's perspective

Pros

- An extension will retain the option for the AER Bill
  - More agile regime, evidence based assessment of remedies
  - Prioritising the interest of passengers
  - Removing the dual regulator model
  - Ensuring the CAA has regard to the financeability of price proposals
  - Promotion of competition between airports
  - An opportunity to move towards a fresh approach

Cons

- Without an extension the AER Bill will be lost
- No guarantee the Bill will be tabled or proceed in the current form, e.g. ringfencing conditions
- An extended period of uncertainty
- Risk of changes to the terms of the Q5+1 price control, e.g. triggers

A High-level view of Process and Timescales

w/c	Mon	Tue	Wed	Thu	Fri
Feb 7	• CAA consultation on Price Control Extension (establishes framework) • Initial meet with airlines -11th Feb • Agree a timetable, key issues to address, consultative process				
Feb 14	• CAA Stakeholder workshop – 15th Feb • Further meet with airline community – BAA and Airlines to set out high-level proposition (roll-over, Capex, triggers, SQR etc.) - 18th Feb?				
Feb 21	• CIP WG - 24th Feb • SQR WG - ? • Inform/update CAA				
Feb 28	• Meet with airline community – BAA and Airlines to refine proposition • Iteration of proposition and on-going discussion				
Mar 7	• JST to attempt to agree proposition • Closure of CAA's consultation period ('extension' to consultation period being sought to March 10/11)				
Mar 14	• Iteration of final draft proposition and completion of discussions • DfT announcement on AER timing?				
Mar 21/28	• CAA publish final Statement				

Issues to consider

- The basic building blocks: Working assumption: X factor of 7.5% and 6.2% WACC
- Passengers: Working assumption < 74m (Q5 simple average?)
- Capex: 1 year or 6 year view?
- SQR: Opportunity to rebalance (within the 7% / 2%)?
- Public Interest Conditions: Working assumption status quo
- S factor: Roll-over or new threshold?
- PSDH: Purely a numerical exercise?
- Reconciliation ("true-up"): 1 or 6 year view? Forward-looking or historic view?
- Price !