

Regulatory Year Alignment

CAA-Q6-98

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Prepared by: Heathrow Airport Limited

Status: Non Confidential

Introduction

Heathrow has requested the CAA change the price control period from year end 31 March, to 31 December in order to align Heathrow's year end statutory reporting period with the regulatory cycle. This change would result in the price control period changing in the initial year of Q6 to a nine month period, meaning that Q6 would be composed of an initial nine month period (1 April to 31 December 2014) followed by four years to 31 December 2018.

The CAA is minded to implement this new policy in its Final Decision, provided that the required financial modelling and changes to the licence conditions can be implemented in time. This paper sets out Heathrow's view of the changes required to the licence conditions ensuring the effective implementation of a nine month period to take effect on 1 April 2014 and the subsequent four year period ending 31 December. In doing so, Heathrow has commissioned an external party to conduct the assessment of the likely changes required to the licence conditions and this assessment forms part of this paper.

Structure of paper

The structure of this paper is as follows:

- Appendix A** Matrix setting out the amendments to the licence conditions (page reference refers to the CAA's Final Proposals word document);
- Appendix B** Licence Conditions in CAA's Final Proposals with the amendments;
- Appendix C** CAA's Final Proposals word document (for reference).

Other issues

Amendments to the licence conditions have identified further areas for consideration:

1. Actual use of average 2011/12 index (237.3) as the base year to uplift triggers, development capex etc. to nominal, using the preceding August RPI, appears to be inconsistent. This is because the average for the full year is applied to a single month. The amended licence conditions sets out a proposal to address this. This also requires consideration in "*Table 6: Aerodrome congestion term rebates*" and Section "3.12", both issues have been highlighted in Appendix B.
2. The definition of Ot described in Heathrow's response to the CAA's Final Proposals has been included in the licence conditions.
3. The definition of Ut and rates formula described in Heathrow's response to the CAA's Final Proposals has been included in the licence conditions.

Scope of work

This paper only addresses the licence conditions, and given the short timescales, this paper should not be viewed as a comprehensive list of all changes. However, the changes identified provide a substantive assessment that the CAA can use to develop the amended licence conditions to take effect the new policy in its Final Decision.

Furthermore, Heathrow has not reviewed the required financial modelling, including the amendments to the CAA's proposed efficiencies to reflect the price control period ending 31 December.

Any reference to this paper to third parties must be agreed with Heathrow.