

Q6 Heathrow - other regulated charges – e-mail to Heathrow Airport Limited, LACC Heathrow, British Airways and Virgin Atlantic

Dear Emma, Mark, David and Amelia

There were a few points mentioned in your responses to our final proposals about the possible treatment of other regulated charges (ORCs) at Heathrow which need some further consideration. These are mentioned below.

Transparency of numbers in final proposals

The LACC, Heathrow AOC and British Airways asked for transparency on the ORC figures included in the final proposals. The CAA's workings are shown in the [attached] spreadsheet. [Available on CAA website].

The starting point for the forecasts was a breakdown of costs for the ORCs into different cost categories provided by HAL that was consistent with its Alternative Business Plan (ABP). (No breakdown was provided for heating as HAL said there was agreement with airlines that heating would move from ORCs to commercial revenues. Pending confirmation of this change we assumed that all the heating costs will be opex.)

The cost categories were treated in the following ways:

- Capex – HAL numbers were used (they are shown as annuity in the spreadsheet).
- Opex - HAL numbers were adjusted downwards by an efficiency factor that is the 3.8% difference between the opex in CAA final proposals and the ABP.
- Allocated costs - these are a percentage of the sum of capex and opex. The percentage figures were provided by HAL.

Bus and coach forecasts

HAL said that the forecast bus and coach revenue in the ABP did not reflect a change in methodology from bay allocations to a total movement basis that was agreed with the operators at the Bus and Coach Q6 consultation meeting on 7 July 2013. This reduced the third party share from 88% to 60% leading to an overstatement of revenue (in 2011/12 prices) of about £1m per year. HAL requested that the figures be corrected in the final decision.

Please can HAL provide a copy of the minutes of the meeting showing this agreement.

Staff car parking

LACC, Heathrow AOC and British Airways asked about a definitive response on the intended price of a staff car parking pass in a CTA car park. They did not believe that any adjustment had been made to commercial revenues or ORCs to reflect this change. Attached is HAL's explanation to the CAA of how this issue had been addressed.

Revenue from baggage projects

LACC, Heathrow AOC and British Airways asked about revenue from baggage projects. They did not believe that any revenue had been included in ORC forecasts. Attached is HAL's explanation to the CAA of how this was addressed.

Since its response to the Final Proposals HAL has revisited the impact of the baggage business cases to baggage ORCs and identified that the associated revenue (B004, B005, B006 and B029) was misallocated to property revenue. This essentially means that ORCs for baggage was originally overstated by ~£1m per annum.

In addition, HAL identified a further ~£14m of Q6 cost saving associated to business case 63 (baggage operations and maintenance strategy), which was again, misallocated.

Activities included in transparency condition

HAL suggested that the list of specified activities included in the Transparency Condition should be replaced by the list of ORCs in the final proposals. A table comparing the list of specified activities and list of ORCs is attached.

Please can airlines comment on this suggestion.

The responses to our Heathrow Q6 final proposals are on our website at <http://www.caa.co.uk/default.aspx?catid=78&pagetype=90&pageid=15407>.

Please can you send me any comments on these issues by **close on Tuesday 3 December**.

Kind regards

Rod

Rod Gander
Regulatory Policy Adviser, Regulatory Policy Group
Civil Aviation Authority

Question 3:

LACC and BA said that although the ORCG had agreed that CTA staff car parking charges should be charged at a commercial price, your Full Business Plan (FBP) only included the revenue at current levels, which is cost pass through. The LACC believed this difference was approximately £4m pa, which is the difference between £8,000 and £3,750 per pass. If I read your Revised Business Plan correctly you have omitted this CTA revenue from your ORC projections. Please can you confirm whether my understanding is right and, if so, whether this revenue appears elsewhere in the Business Plan.

Response:

The Revised Business Plan correctly accounts for CTA staff car parking. This revenue is not included in the other regulated charges as this is moving to a commercial price, which is accounted for in commercial revenues under car parking income.

As per paragraph 8.6.2 of the Revised Business Plan, the value of income included in commercial revenues is broadly the same as that currently generated through other regulated charges. Total income is a combination of a commercial annual unit pass price and a forecast of the number of passes in issue. No decision has yet been made about an appropriate commercial price, however it is assumed that the additional revenue from any increase in price is offset by a reduction in the number of CTA staff passes on issue. This assumption is based on the evidence from Q5 where price increases have significantly reduced the number of passes in issue, for example, in 2010/11 there were ~2,000 passes in issue at a price of £1,900 and this has fallen in the current year to ~1,100 passes in issue at a price of £3,700. Income from passengers generated by the CTA spaces released is included within the overall Q6 car park income projections.

In their submission, the LACC and BA have incorrectly assumed that a hypothetical CTA pass price of £8,000 would not result in any reduction in the number of passes on issue. This price is significantly below current commercial rates for these car parks and is not a figure that has been proposed by Heathrow.

Question 4:

LACC and BA also mentioned that several projects where capex spend was included in the FBP but there was no associated revenue for them. These projects were:

- B004 – baggage asset replacement
- B005 – baggage standard 3
- B006 – improved baggage capacity
- B029 – automation of the passenger journey.

Please could you comment on this.

Response:

Heathrow confirms that there is revenue associated to all these projects within the Full Business Plan, as follows:

Business Case Name (£000s Real Prices)	P&L Line	2014-15	2015-16	2016-17	2017-18	2018-19	Total Q6
B004 - Baggage Asset Replacement	ORC Income	44	84	166	8	105	407
B004 - Baggage Asset Replacement	Expenditure	(44)	(84)	(166)	(8)	(105)	(407)
B005 - Baggage Standard 3 Hold Baggage Screening	ORC Income			345	1,796	2,304	4,445
B005 - Baggage Standard 3 Hold Baggage Screening	Expenditure		(51)	(396)	(1,796)	(2,304)	(4,547)
B006 - Improved baggage capacity and resilience	ORC Income	88	223	380	636	776	2,103
B006 - Improved baggage capacity and resilience	Expenditure	(88)	(223)	(380)	(636)	(776)	(2,103)
B029 - Automation of the Passenger Journey	ORC Income	44	288	288	308	320	1,248
B029 - Automation of the Passenger Journey	Expenditure	(44)	(329)	(334)	(354)	(366)	(1,427)