



Strategic themes for the review of Heathrow Airport's Charges (H7)

Industry workshop

10 March 2016

Agenda

Time	Item	Lead
1pm - 1:10pm	Welcome	Stephen Gifford / Rob Toal
1:10pm - 1:40pm	Overview of CAA document and Q&A	
1:40pm - 1:50pm	HAL's priorities for the review	HAL
1:50pm – 2:00pm	Airline priorities for the review	Simon Arthur
2:00pm - 2:10pm	A consumer perspective	Sarah Chambers, CAA Consumer Panel
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3:50pm - 4:00pm	Round up and Next steps	Stephen Gifford

Overview of CAA consultation document

Content

- Background and context
- Interaction with new runway capacity
- Overview of Heathrow Airport
- Strategic Themes for H7
- Constructive engagement
- H7 Timetable

Background

Cap due to
expire

The current regulatory controls are due to expire on 31 December 2018

New
arrangements
required

The H7 review will consider the regulatory arrangements that should be put in place from then

Governed by
the law

The Civil Aviation Act 12 requires us regulate if we determine that the Market Power Test (MPT) has been met

Market
power

In 2014 we concluded that HAL had met the MPT in relation to Heathrow Airport

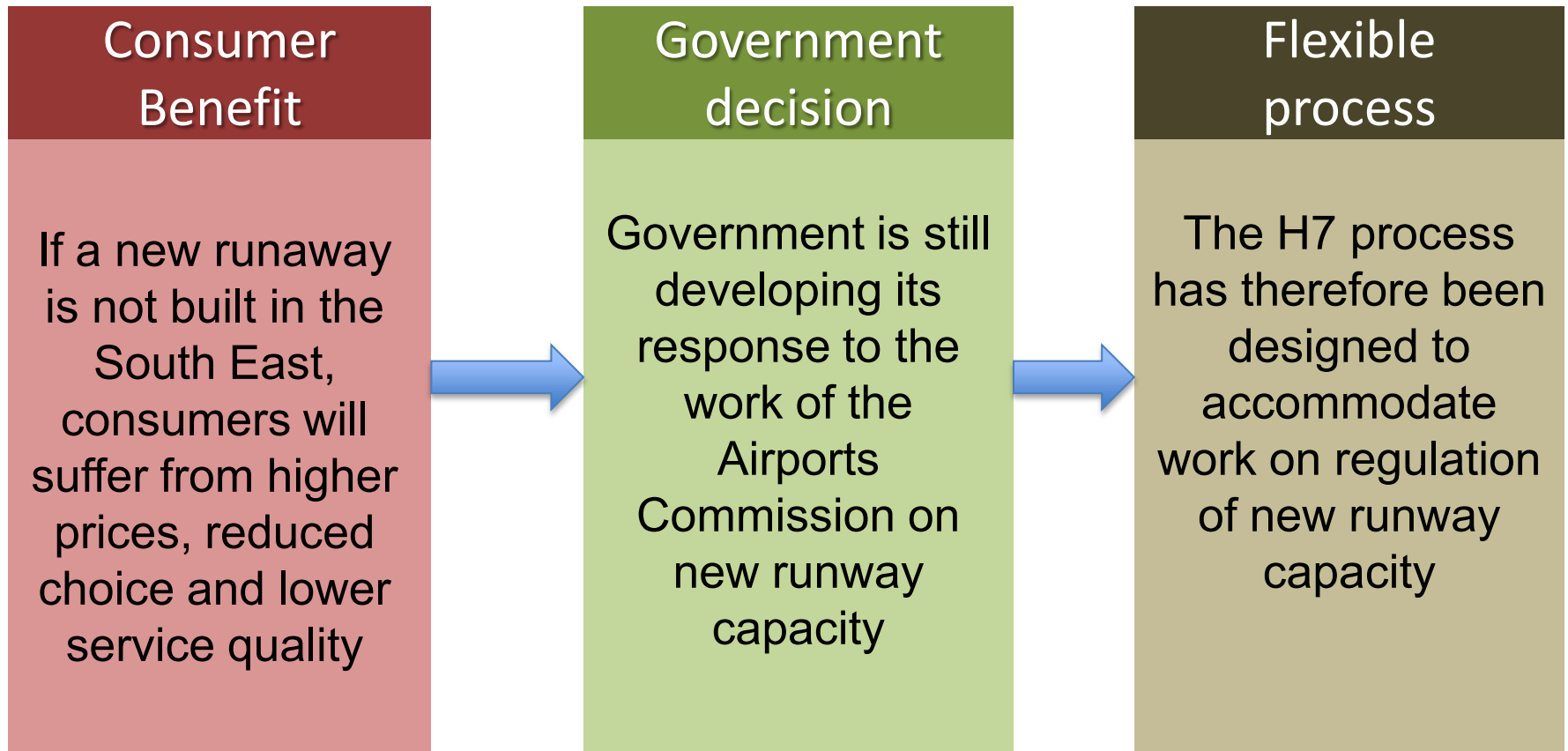
No change of
circumstances

In our view there has not been a material change of circumstances and a new MPD is not required

Context for the H7 review



The H7 review will need to proceed with caution given uncertainty on location of new runway capacity



Despite uncertainty it is important that interested parties engage at an early stage on the H7 process

Our approach to carrying out the review will be shaped by our duties under the Civil Aviation Act 2012



The Act gives us a single primary duty to further the interests of users of air transport services

Users of air transport services are defined as present and future passengers and those with a right in property carried by the service i.e. cargo owners

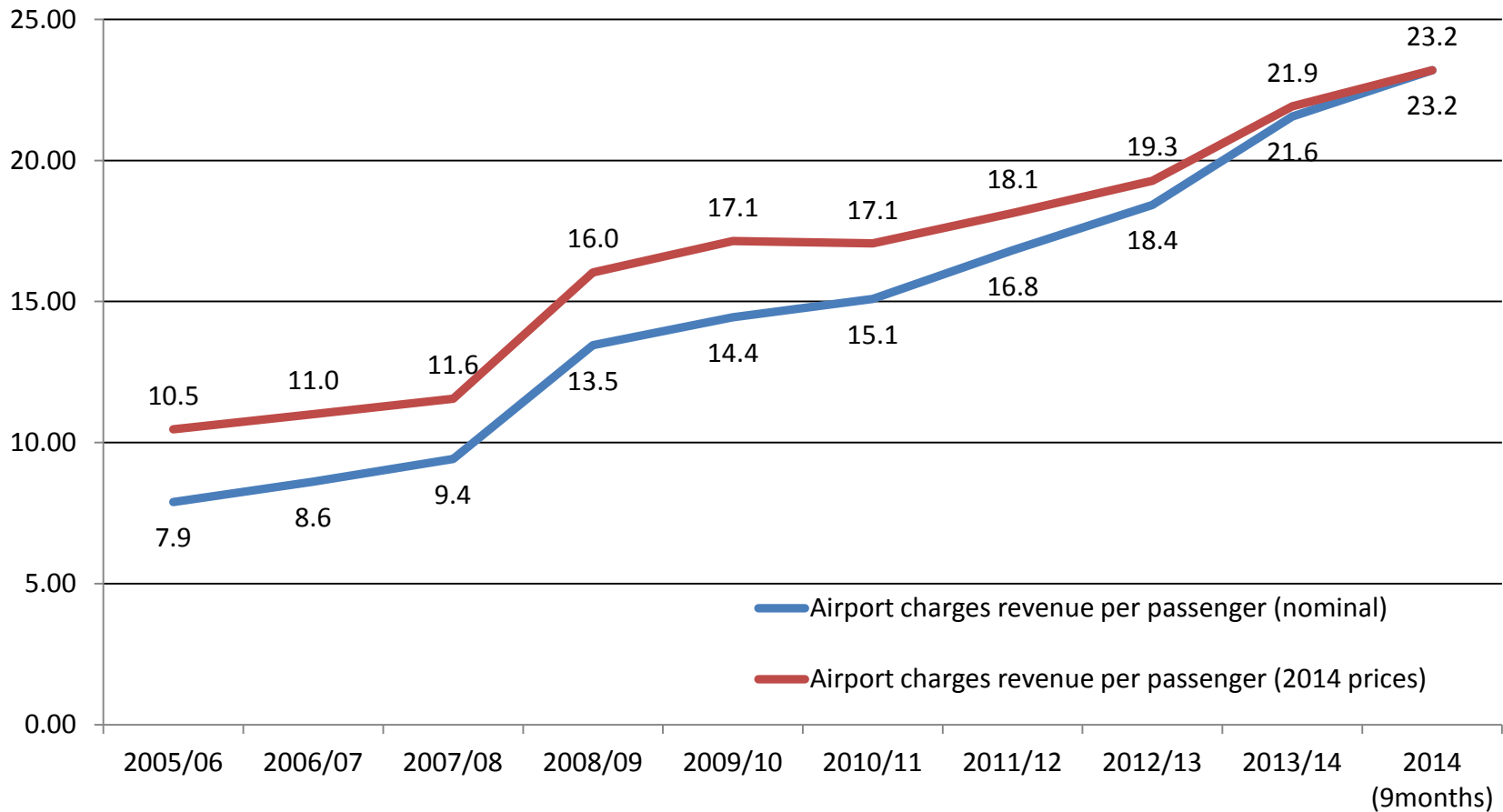
For simplicity we use the term 'consumers' to mean both present and future passengers and cargo owners

The scope of our primary duty concerns the range, availability, continuity, cost and quality of airport operation services

We must carry out our functions, where appropriate, in a manner that will promote competition in the provision of airport operation services

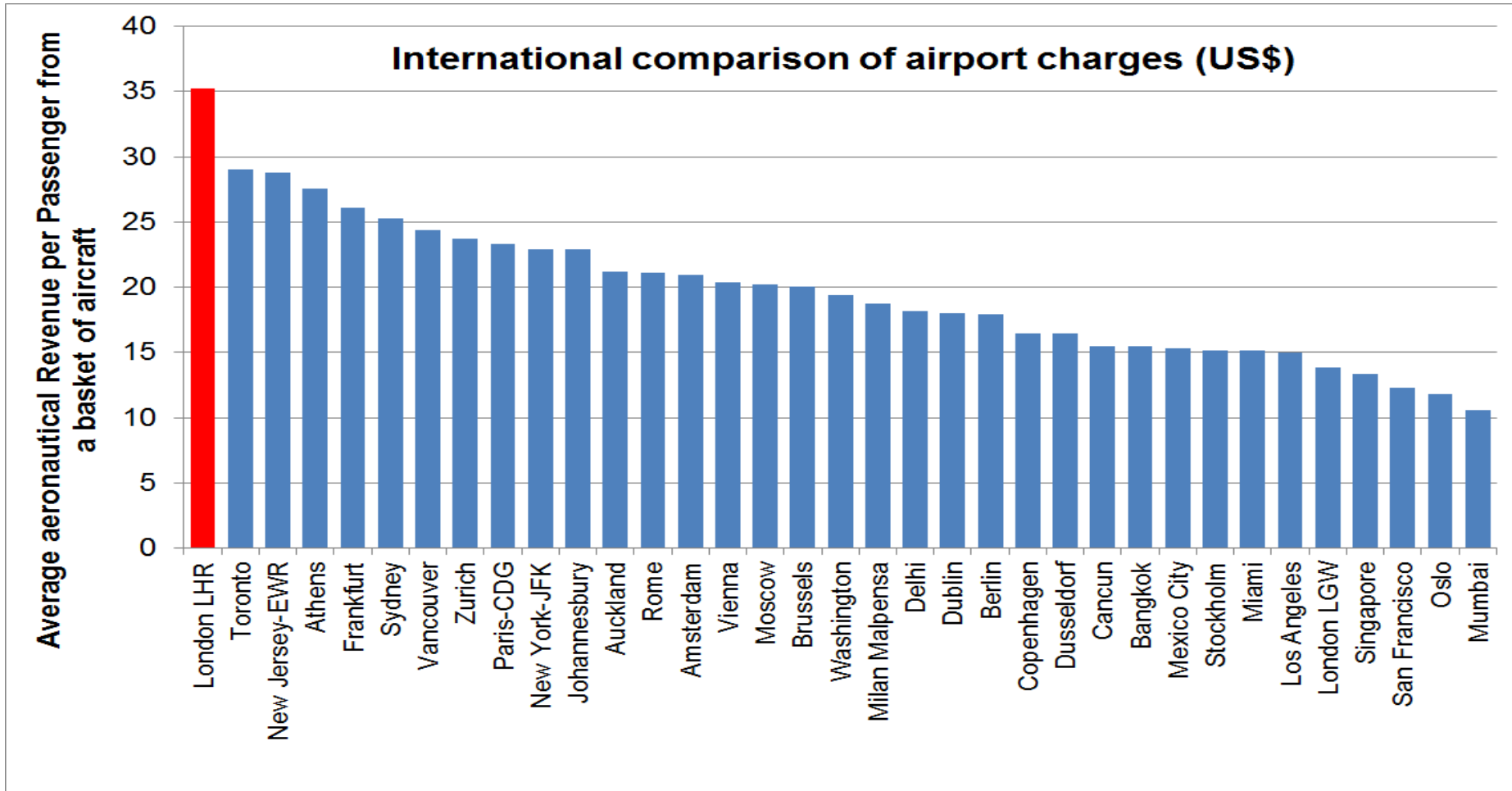
Overview of Heathrow Airport

Charges have risen in the last decade in both real and nominal terms



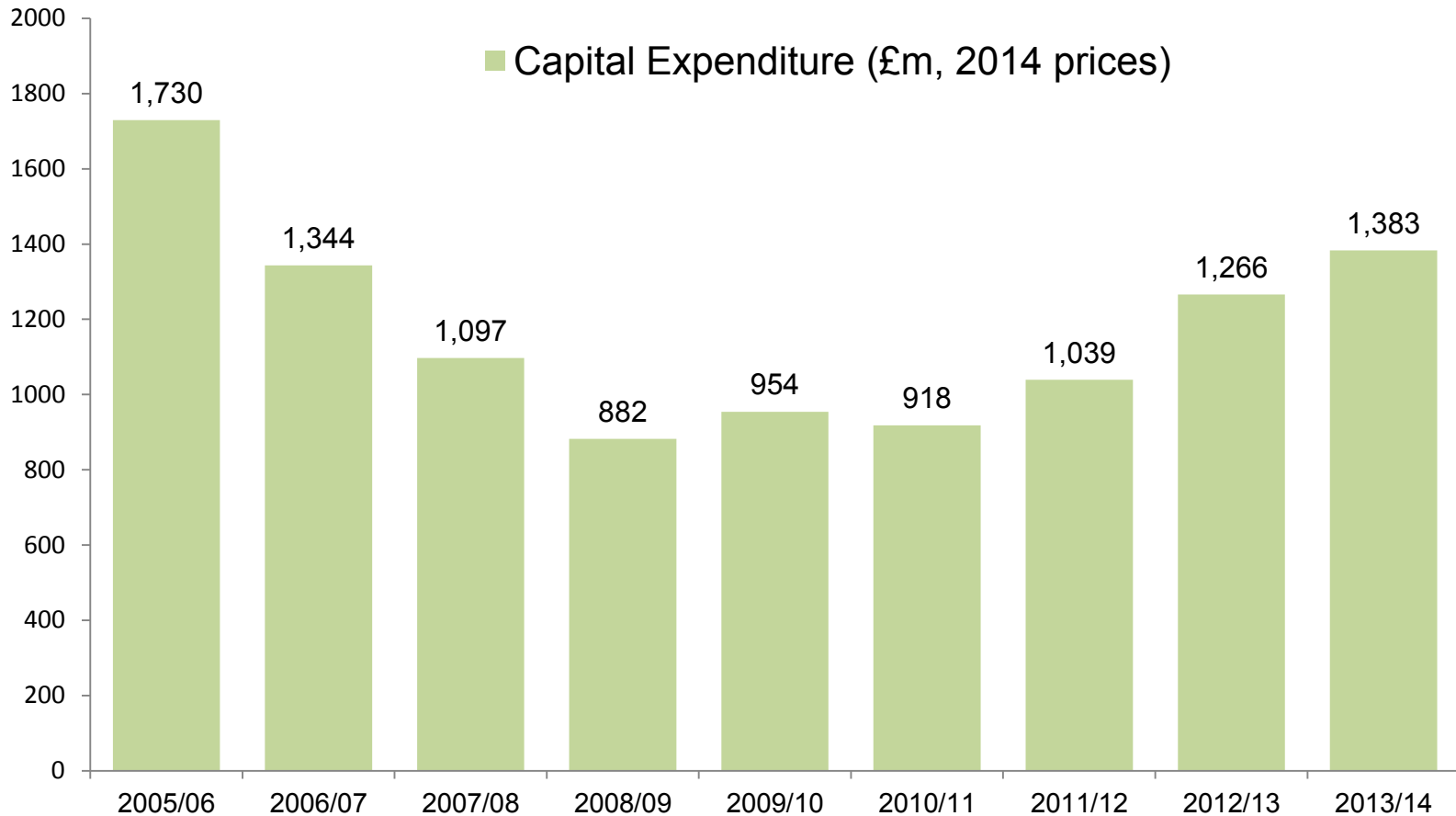
Source: HAL regulatory accounts

Heathrow's charges to airlines are high by international standards



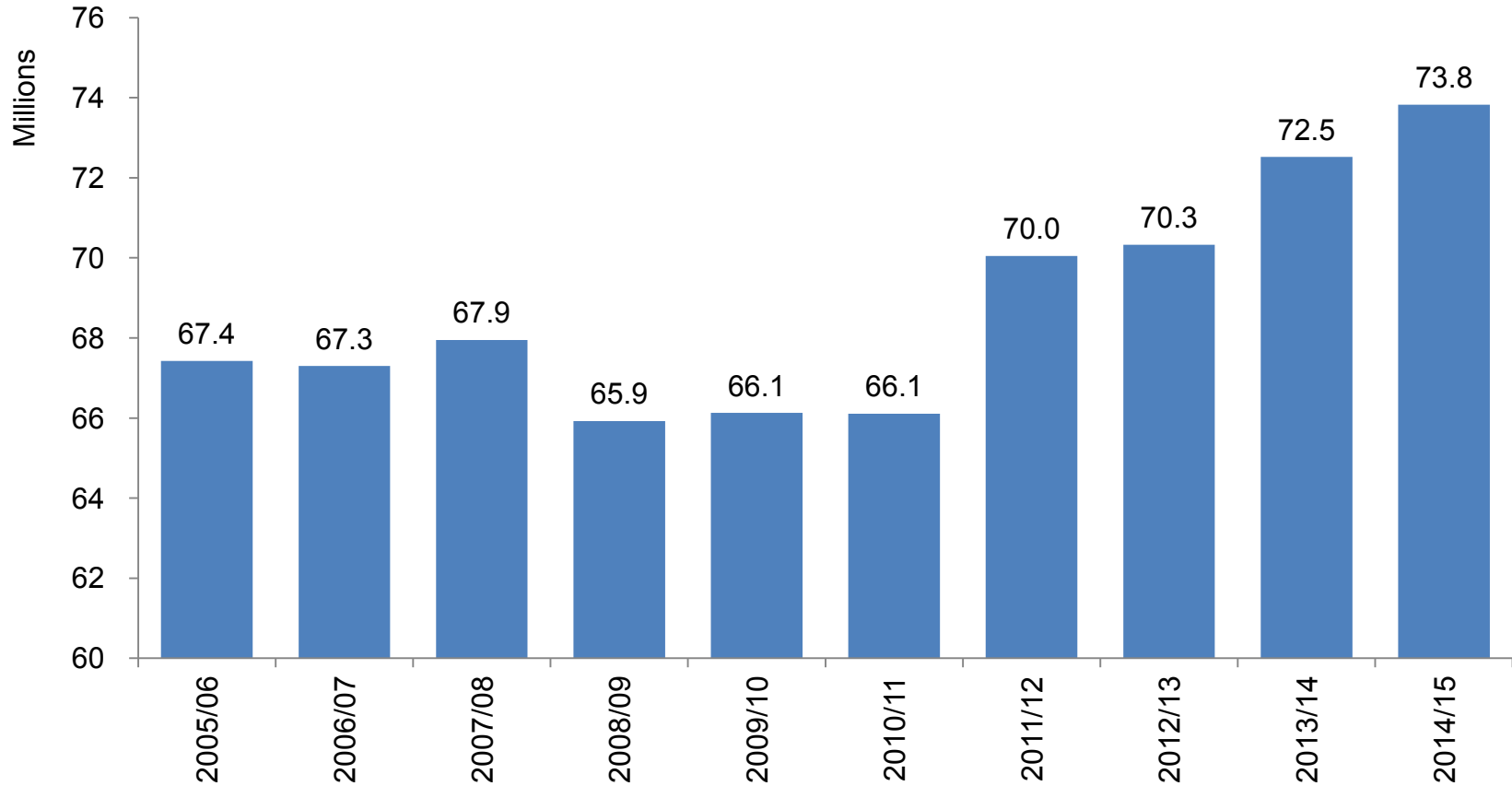
Source: ICF analysis with data derived from Leigh Fisher reports; CAA analysis

Increases in charges have partly been driven by the investment programme



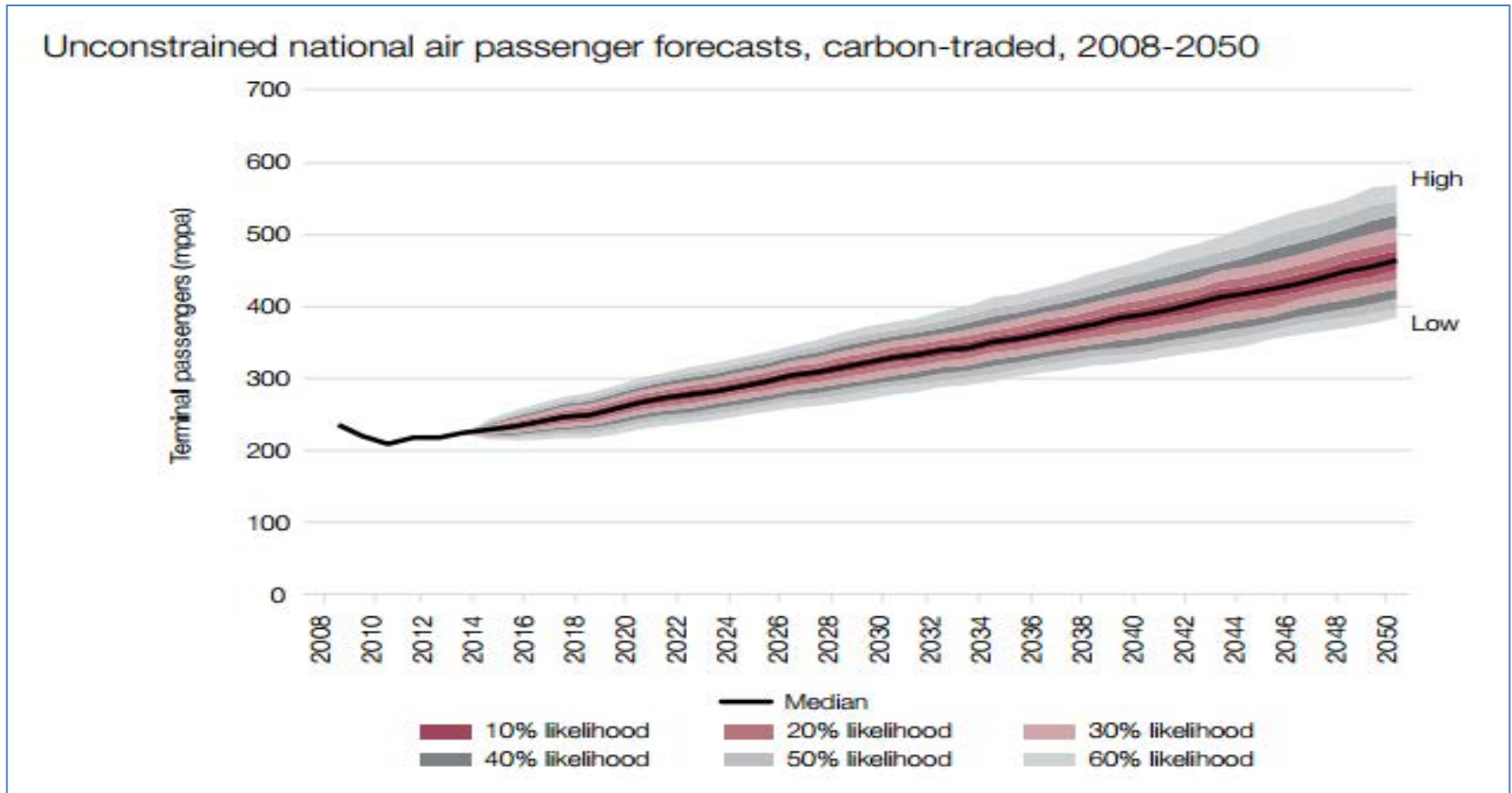
Source: HAL regulatory accounts

Passenger numbers have grown in recent years following a downturn in 08/09



Source: CAA data

Growth is forecast to continue, placing further pressure on runway capacity



Source: Airports Commission Final Report

Strategic Themes for H7

Following initial engagement with stakeholders, we propose to adopt 4 strategic themes to help shape the H7 review



Constructive engagement (CE)

We remain committed to CE but think the process can be improved

We would like to see a settlement agreed with assurance that it represents a good deal for consumers



Experience suggests this may be unattainable given inherent conflicting commercial tensions



Thus our main objective for CE is to provide a platform for discussion

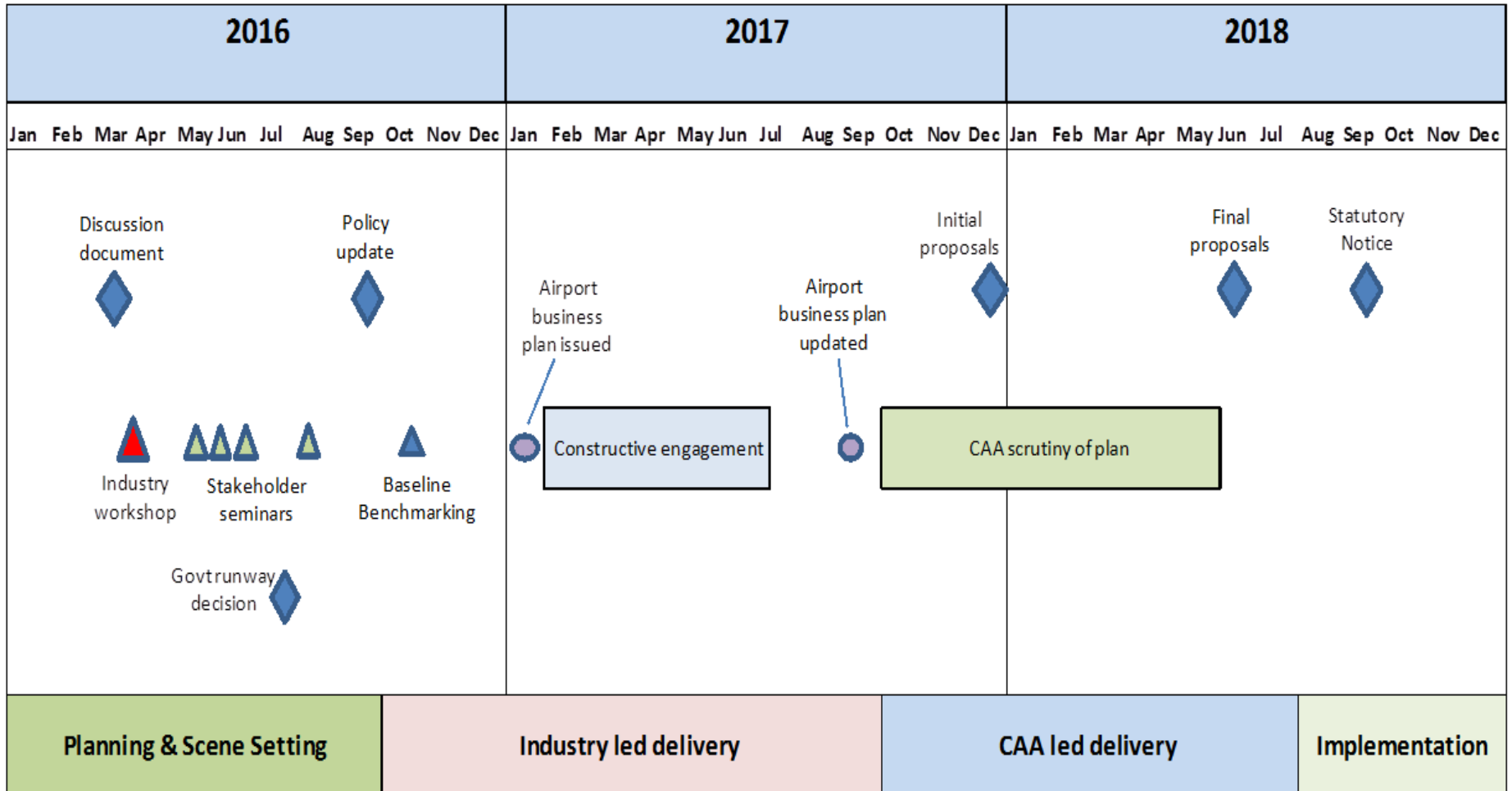


Where agreement cannot be reached parties should be able to provide informed views



H7 timetable

We will keep the timetable under review pending runway decisions & feedback on how best to structure CE



Selected questions from our discussion document

How best can we proceed with H7 given uncertainty about new runway capacity?

Should we extend the current Q6 arrangements?

Do you agree with the proposed strategic themes for H7?

How can consumer engagement be improved?

Do you agree in principle with the continued use of Constructive Engagement?

Do you agree with the proposed timetable for the review?

Are there any other issues you consider material to the H7 review?

HAL's priorities for the review



H7 Strategic Themes Heathrow's Priorities

March 2016

Heathrow
Making every journey better

The current period is improving service and cutting prices

ASQ Passenger Survey Scores



Best Airport in Western Europe 2015



World's Best Airport Shopping
2010, 2011, 2012, 2013, 2014, 2015



Terminal 5 – World's Best Airport Terminal
2012, 2013, 2014, 2015



2015 Europe's Best Airport (over 25 million)

-7.4%

(in real terms)

Heathrow
Making every journey better

Heathrow aims to give passengers the best airport service in the world

Vision	To give passengers the best airport service in the world					
Purpose	Making every journey better					
Priorities	 Mojo	 Transform customer service	 Beat the plan			
		 Win support for expansion				
Values	 Keeping everyone safe	 Treating everyone with respect	 Giving excellent service	 Working together	 Doing the right thing	 Improving every day

Our priorities broadly align with the CAA's

HEATHROW'S PRIORITIES FOR H7 REVIEW

- Ensure regulation enables us to deliver the best airport service in the world
 - i.e. regulation serves passengers, airlines and the airport – not the other way round
- Fostering investment with a predictable return
- Reducing the burden of the regulatory process to all parties
- Shift towards a more commercial relationship with airlines

Consumer focus is the right approach for everyone

Vision	To give passengers the best airport service in the world					
Purpose	Making every journey better					
Priorities	 Mojo	 Transform customer service	 Beat the plan			
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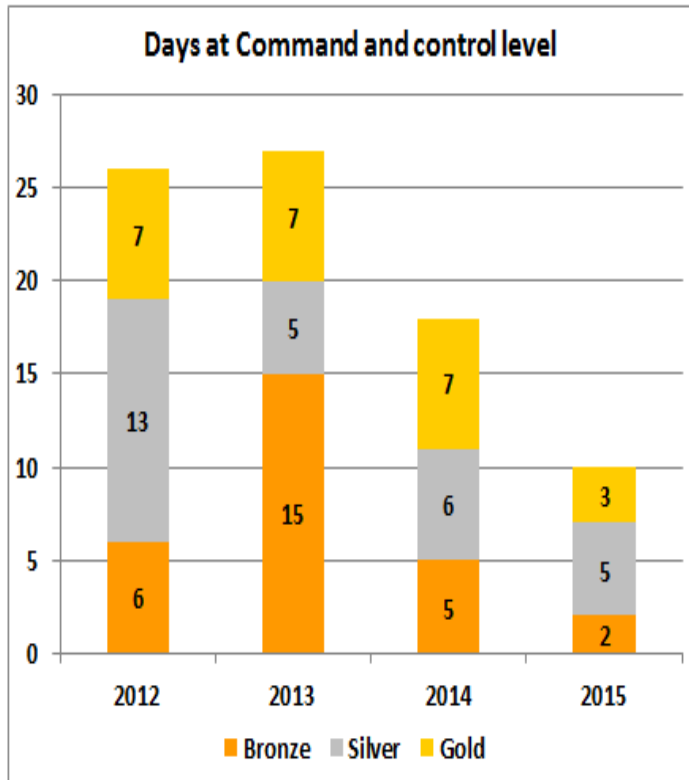
- Empowering consumers is the right thing to do, aligned with:
 - **Interests of passengers**
 - **Airline businesses**
 - **Heathrow's vision and commercial incentives**
 - **CAA's statutory duties**
- We support the creation of a credible, mutually acceptable Consumer Consultation Group
- More can be done than is being proposed – water and energy have shown that it works when done well

Incentives for outcomes are also a positive step

- Outcomes will better represent what consumers actually want
- Lots of high quality passenger insight exists – more is emerging with new consumer tools
- We can work together to agree a great set of consumer and airline outcomes
 - e.g. FIDS vs. ease of wayfinding
 - e.g. 'one size fits all' security queue vs. satisfaction with security journey
- Consumer Challenge Group and airlines will provide assurance that we have the right outcomes



Increasing operational resilience is important but needs collaboration, not more regulatory intervention



- Operational resilience is critical to the success of the airport and all stakeholders
- Resilience continues to improve thanks to collaborative working on initiatives including; APOC, A-CDM, winter resilience, baggage resilience review, Demand & Capacity Cell, airspace and airfield redesign
- This should not be done through licence conditions or restrictions on airlines' slots through a reduced movement cap
- Airspace redesign is the silver bullet and needs real CAA focus

Cost efficiency and financeability are critical to H7 success

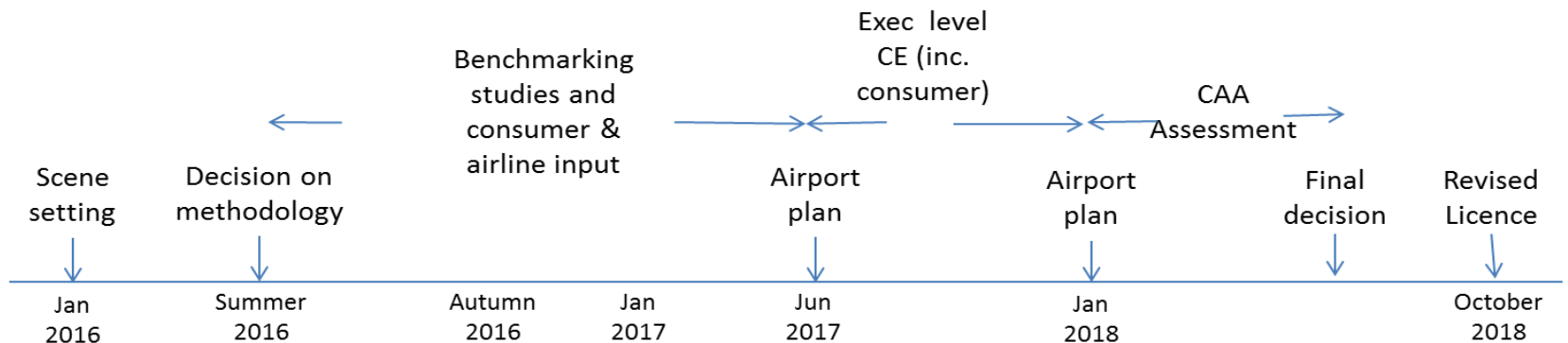


- We want to deliver a high quality business plan first time
 - Timetable may need some adjustment to optimise the process
 - Flexibility with regard to expansion is critical
 - Continual drive for efficiency is a given
- Important that benchmarking is timely, appropriate and accurate
- RAB / WACC model works well
- We welcome discussions on issues like debt indexation and CPI

We support a reformed Constructive Engagement alongside an updated timeline

- CE worked well in Q6 for topics including Capex and Forecasting
 - Some other areas were too detailed, too long and too combative
- Desire for a more focused, higher level, shorter engagement
 - Exec level kick-off and periodic review, short working periods, 3 months total duration
 - Upfront guidance from CAA will help form high quality initial plans
 - Consumers should be involved to ensure representation throughout

A revised timetable would accommodate these changes



Heathrow

Making every journey better

Airline priorities for the review

Simon Arthur
Managing Director, Heathrow AOC

Heathrow Airport Price Control Review

Airline Priorities

Service For Our Passengers



The Services That We Provide



However, Our Service Is Reliant On Airports



Constant Need For Safety And Security



Focus on
Four
Priorities

For Our Passengers



Which Enable Delivery of Our Service Aspirations



Demonstrable to Passengers and Airlines



Joint Passenger Experience Board Vision

Passengers to travel
with their bags,
on time,
every time.

Heathrow Airport Price Control Review

Airline Priorities

A consumer perspective

Sarah Chambers, CAA Consumer Panel

Q&A on issues raised

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Empowering consumers

James Tallack

Key propositions

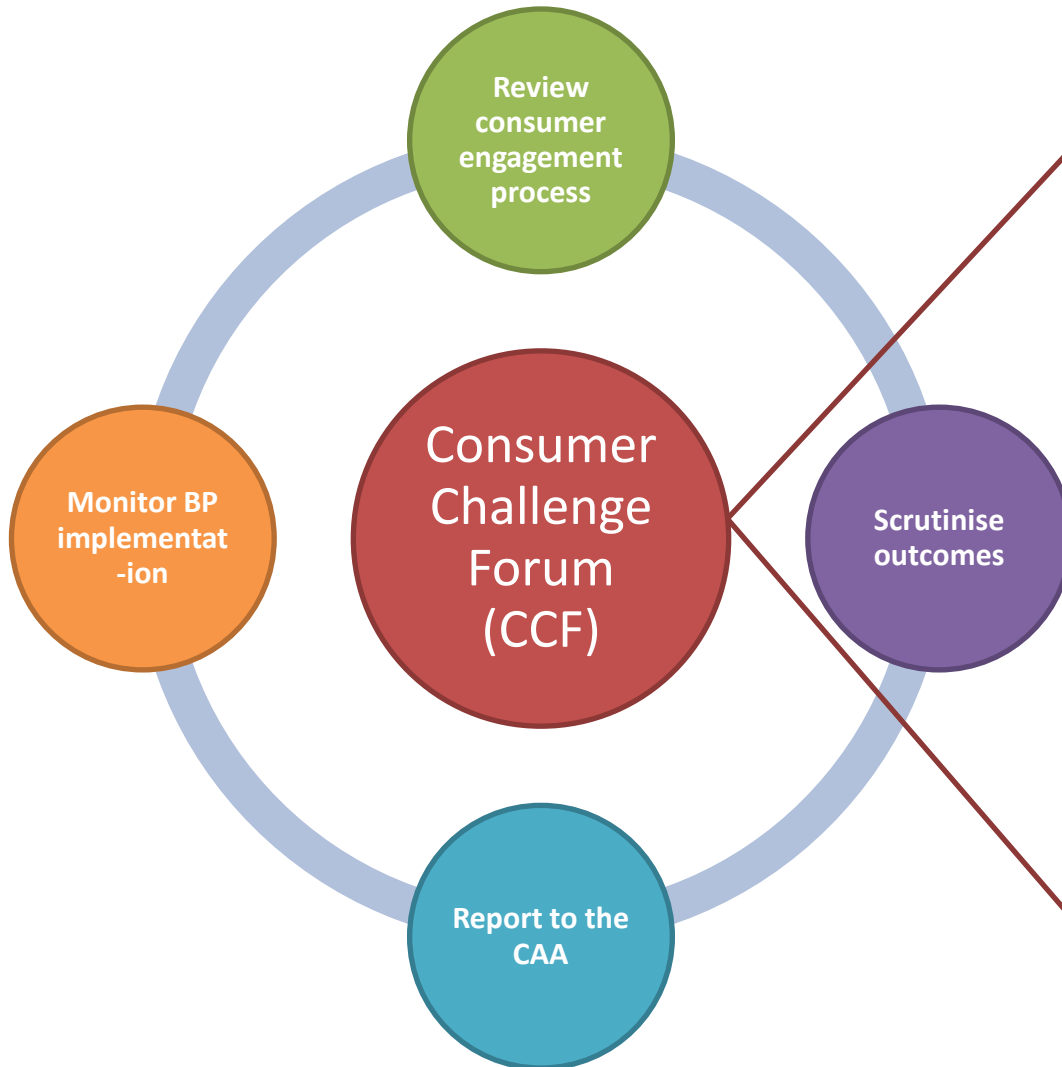
The interests of “air transport users” in H7 are best represented through effective engagement with relevant consumers (passengers and cargo users) to understand their needs and preferences

HAL and the Heathrow airlines are better placed than the CAA to understand consumers’ needs and preferences and generate insight

The CAA should focus on assurance – i.e. consumer engagement has been carried out to a standard that can be relied on and the findings have been translated appropriately into HAL’s business plan

The CAA should take the final decision on price limits, but in that decision should place considerable weight on views and perspectives that flow from robust and credible consumer engagement

How might we do this?



- Independent
- Sits within HAL – ongoing challenge
- Clear, robust governance
- 5-6 people (inc. 1 from CAA Consumer Panel)
- Understanding of economic regulation
- Deep understanding of consumer engagement and research
- High level of integrity
- Ability to emphasise with needs of end users
- Willingness to ask ‘difficult’ questions
- Track record in translation of research evidence into policy or business strategy

CCF – proposed role

Review..

HAL's engagement process and the evidence emerging from it to ensure consumers' views are considered as HAL develops and refines its business plan

Scrutinise..

the development of a consumer-focused outcomes framework by providing assurance that outcomes are rooted in evidence of the actual needs and priorities of consumers

Report..

to the CAA on whether there is a clear line of sight between the consumer outcomes identified at the outset of business planning and the final, agreed plan

Monitor..

the delivery phase of the business plan, including providing challenge, advice and scrutiny of HAL's consumer engagement in preparation for future reviews

What we could ask the CCF to tell us

Has the CCF been able to fulfil its role objectively and independently?

Has HAL carried out engagement of sufficient quality to understand consumers' expectations and priorities?

How well evidenced is HAL's assessment of consumers' expectations and the outcomes it has developed in response?

Are the outcome delivery incentives appropriate and are the targets sufficiently challenging?

Is HAL's proposed level of performance and approach to delivery against its outcomes aligned with consumers' priorities?

Overall, has HAL's plan responded to consumers' expectations and priorities?

Governance – roles and responsibilities



- Final say on CCF guidance and ToRs
- Set reporting requirements
- Remuneration of CCF Chair and Members

Tripartite process to appoint CCF Chair and Members?

- Secretariat/admin support
- Process for engagement with CCF
- Review CCF guidance document and ToRs

- Review CCF guidance document and ToRs

Heathrow
Our company

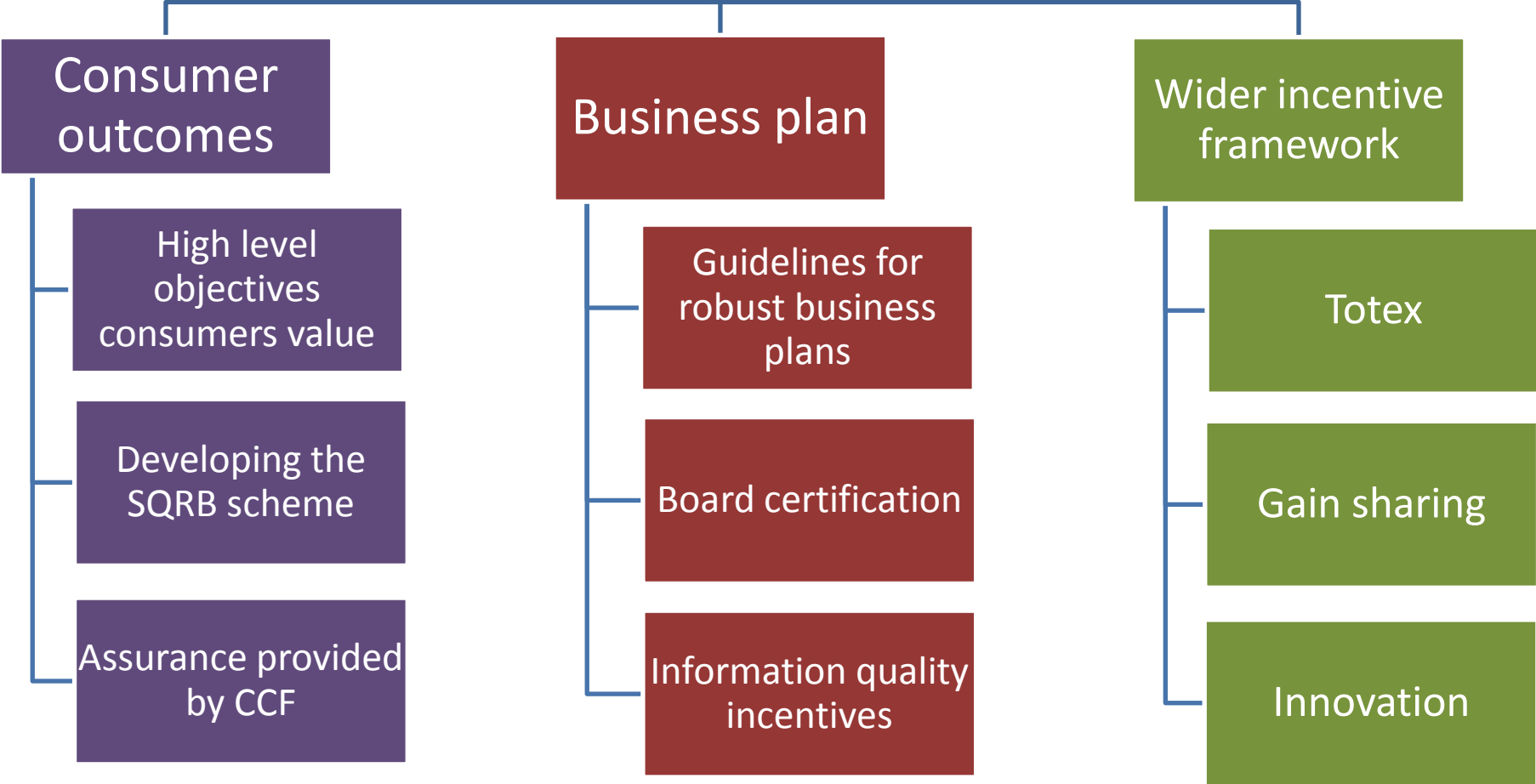


Incentivising the right consumer outcomes and increasing airport resilience

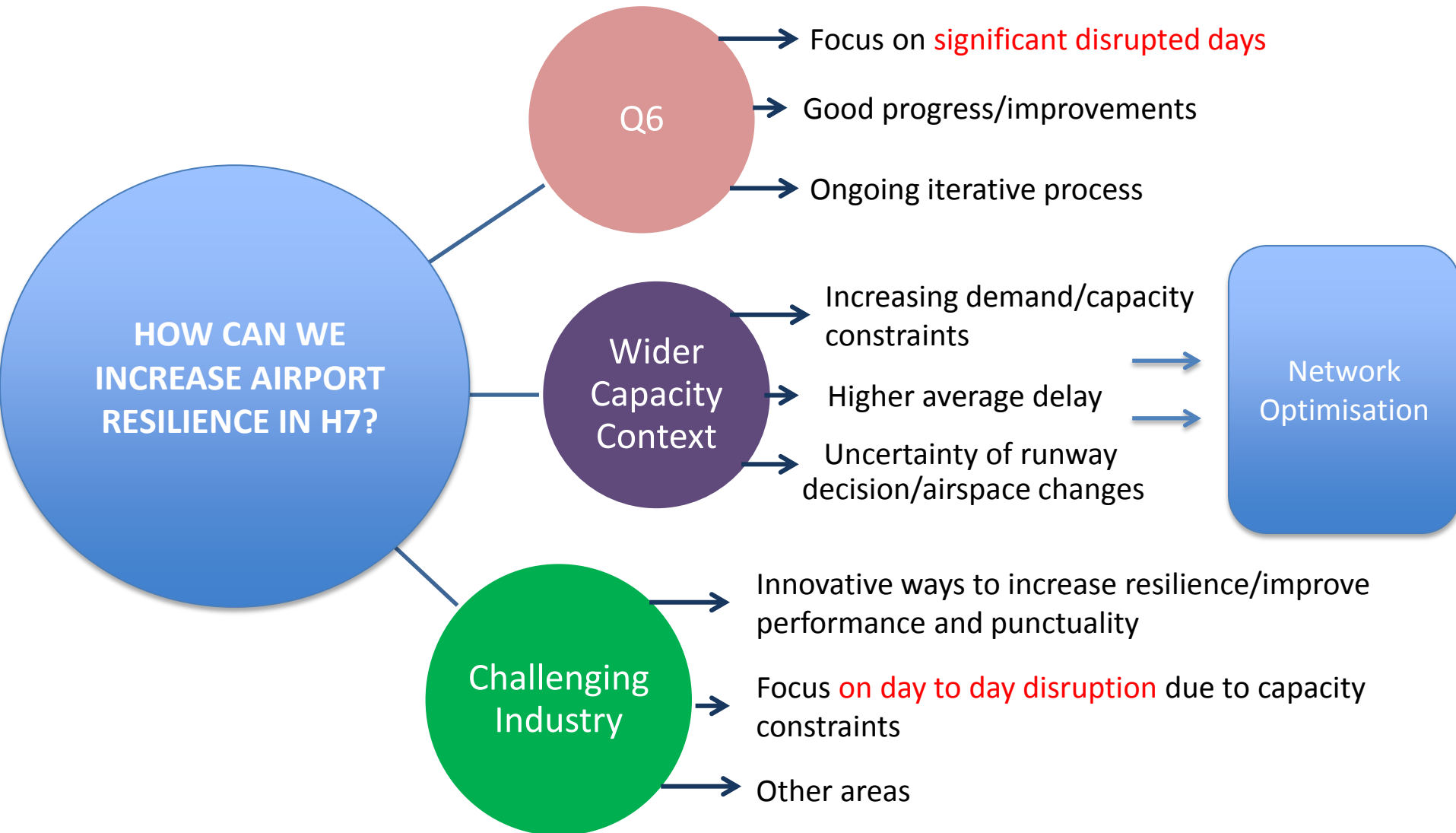
Beth Corbould and Freya Whiteman

How can we improve the incentives on HAL through the regulatory process?

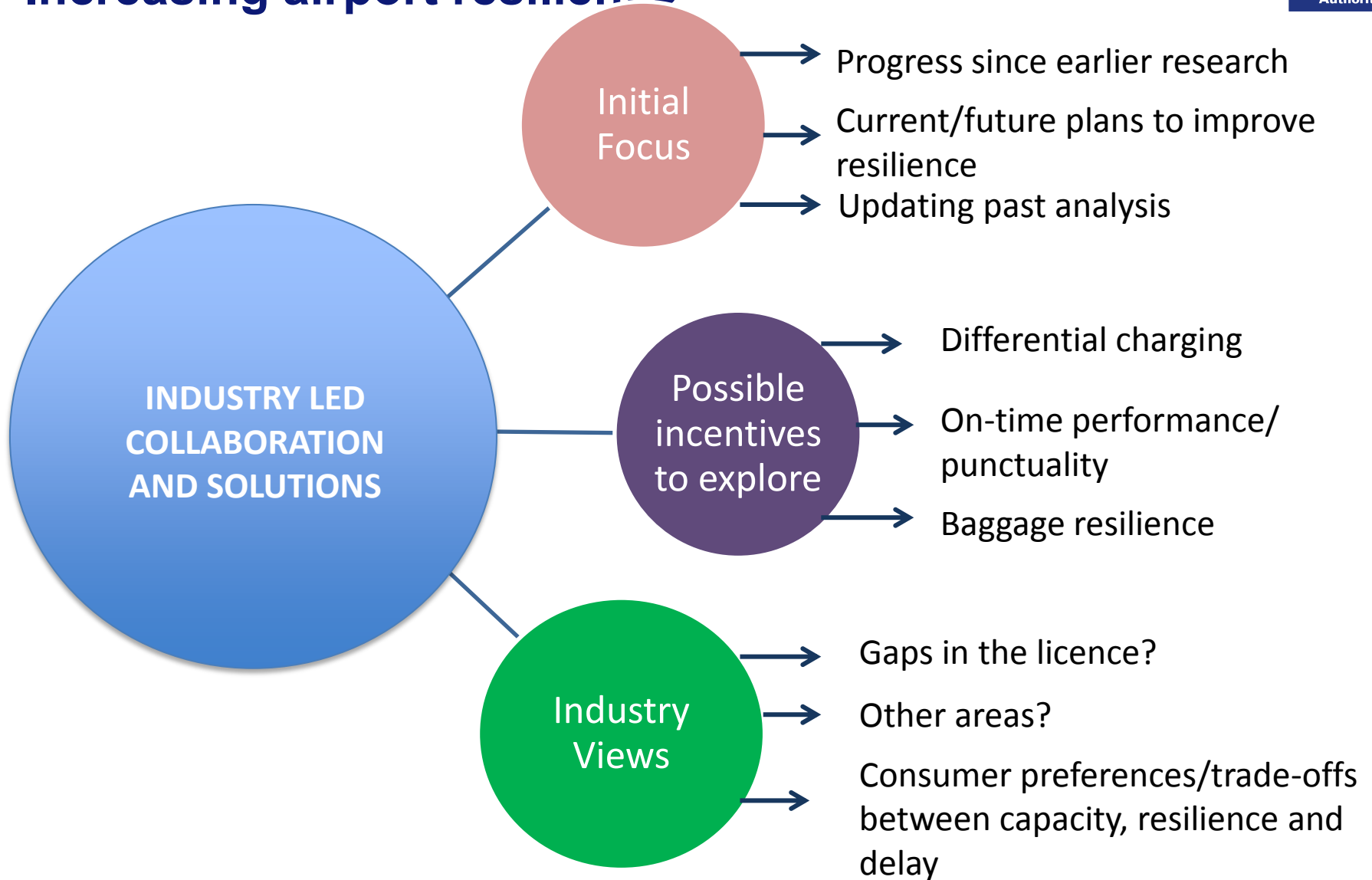
We have marshalled our thinking in this area in to 3 broad categories



Increasing airport resilience



Increasing airport resilience



Ensuring efficiency and financeability

Comparative analysis of efficient costs and revenues will continue to be an important part of the framework



Strong incentives on efficiency

- We aim to retain the focus on delivering cost efficiency through detailed benchmarking, Constructive Engagement and exploring possible gain-share mechanisms

High quality business plans

- We plan to explore new areas around helping to ensure that the airport produces a high quality business plan

It needs to be financeable

- The overall package of regulatory policies needs to be financeable and we propose to retain the current model of RAB/WACC based on a single till approach

Two stages of benchmarking studies

- We are contemplating splitting the benchmarking phase into two parts: **initial baseline analyses** to inform the early stage of the process, and **an update** towards the end of H7
- We provisionally intend to commission priority studies in late spring with a view to receiving the results in the autumn
- We expect the findings of these studies to form a basis for ongoing stakeholder engagement prior to HAL issuing its business plan in 2017
- These issues will be considered in more detail through one of the seminars.

Next steps

Next steps

- We will be repeating this workshop next Thursday 17 March 2016 for those who were unable to attend today.
- The slides and a record of the discussion from both sessions will be made available on our website in due course.
- The deadline for responding to the consultation is 29 April 2016.
- We will be hosting more detailed seminars on the key topics over the next few months.
- Our 'policy update' document will be published in early autumn 2016.