

Mr Richard Moriarty
Group Director of Consumers & Markets
Civil Aviation Authority
K5, CAA House
45-59 Kingsway
London C2B 6TE

6th January 2017

Dear Richard,

Modification to HAL's Licence & Proposals for the Treatment of Planning Costs, second submission CAP1469

We are concerned by the changes to HAL's economic licence, announced by the CAA on 21st December 2016. These confirm its earlier proposals to allow HAL to pass onto customers £10mpa in costs – and fail to define limits or set criteria against which HAL may pass through further costs.

In its notice setting out the changes to HAL's licence, the CAA lists and dismisses a number of legitimate concerns raised by airlines – however we believe:

- the CAA cannot avoid setting a precedent in this ruling;
- it cannot be in the interests of consumers to issue guarantees to HAL that are not linked to defined efficiency criteria;
- there is no requirement to incentivise capacity investment at LHR; and
- HAL is not being **required** to develop new capacity and so the CAA's assertion that it has a duty to *'have regard for the need for HAL to fund its obligations'* is misplaced.

We note that the CAA is shortly to publish a further decision on its proposals for the treatment of planning costs. We are concerned that if a similar philosophy to the one applied in the case of HAL's economic licence is applied here, the implications for consumers would be extremely damaging. In particular, the CAA proposes to:

- treat the DCO as an asset and allow HAL to charge costs back to consumers, who derive no benefit;

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- transfer risks from HAL to consumers, through an arrangement misleadingly described as a '*risk-sharing mechanism*';
- allow HAL to charge returns to consumers, against investment risk, which the CAA has transferred from HAL to consumers;
- neglect to define the role consumers will play in governance; and
- allow HAL to recover NPS costs from consumers.

These concerns are detailed in our submission of 6th December 2016 to both CAP1469 and CAP1470.

In our submission, we also disagreed with the CAA's assertion that the majority of costs would be borne by future users and provided a detailed explanation as to the reason. We asked for a copy of the CAA's modelling; however, in listing airlines' representations, the CAA makes no mention of this fundamental point. We would still very much like to understand the CAA's model.

Whilst we are at a loss to understand how the CAA could have taken the positions it has, we would be happy to have further discussions, if the CAA considers it would be useful. At the same time, we are, of course, happy to take the CAA through our modelling of how the majority of costs would not be borne by future users.

We are starting to engage bilaterally with HAL regarding a number of options for development, but remain committed to ensuring that any development does not lead to an increase to today's charges. We remain concerned that the outcome of the planning costs debate is potentially damaging to consumers and so are considering what steps might be available in order to ensure fair and balanced regulatory treatment of development at LHR.

Yours sincerely,



Ian Clayton
Global Head of Regulation & Network Development

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