

Regulatory treatment of issues associated with airport capacity expansion

Updated information

Introduction

1. The CAA is currently looking to provide clarity on its expected approach to the economic regulation of any new capacity expansion of London airports and any associated costs that may be incurred during the sixth price review period (Q6) and subsequently. The plan for this workstream involves a stakeholder workshop (May 2014), a discussion paper (June 2014) and a draft policy statement around September 2014. The aim is to produce a final policy position by the end of the year.

Terms of reference

2. This workstream will:
 - a. consider the appropriate regulatory treatment of any capacity expansion at the London airports
 - b. manage the CAA's economic regulation input to the deliberations of the Airports Commission
 - c. determine the treatment of costs related to capacity expansion likely to fall during Q6
 - d. identify where the CAA may require further industry consultation.
3. To achieve this, the workstream will set out what the issues are, and what considerations might apply in addressing the seven following major issues:
 - a. **Statutory purpose of regulation.** Offering advice to the Airports Commission about how the regulator's statutory duties might influence the delivery of airport capacity expansion. (However, drafting of the CAA policy will assume the current statutory remit.)
 - b. **Competition and market power issues.** What is the function of economic regulation once extra capacity is delivered? How might market power change with the building of extra capacity?
 - c. **Risk.** What are the sources of risk for an investor and to what extent does regulation help with them? What are the sources of risk to consumers?
 - d. **Intergenerational transfers.** How might considerations of equity influence the sharing of resources between generations of consumers? To what extent are the transfers between generations best done through charges to airlines?
 - e. **Regulatory treatment of Q6 costs.** How should Heathrow and Gatwick finance those costs which are likely to fall during Q6?
 - f. **Regulatory treatment of after Q6.** How should Heathrow and Gatwick finance those costs which are likely to be incurred after the end of Q6?
 - g. **Financial issues.** What financial structure might be adopted by the companies in undertaking capacity expansion? Does the choice of structure have any impact on the form of economic regulation?
4. Other issues may arise during the project. These will be considered as they develop.

Updated project plan

5. An outline project plan for June onwards is shown below. This plan currently envisages the project concluding at the end of December. Depending on the policy finally adopted by the CAA, amendments to airport operator licences may be required. The production of a discussion and a draft policy statement within the timelines outlined below will enable the CAA to feed into the Airports Commission's Phase 2 appraisal framework process.

	June	July	August	September	October	November	December
Economic Regulation							
Discussion paper - consultation	■						
Draft policy statement - consultation				■			
Final policy statement - publication							■