

Mr. David Milford, Civil Aviation Authority
To: economicregulation@caa.co.uk

28th November 2023

Consultation on: Draft Terms of Reference for the Independent Review of Heathrow Airport Limited's cost allocation methodology for Other Regulated Charges

Dear David,

The Heathrow Airline Operator's Committee (AOC) welcomes the opportunity to respond to the consultation by the Civil Aviation Authority (CAA) on the Draft Terms of Reference for the Independent Review of Heathrow Airport Limited's cost allocation methodology for Other Regulated Charges. Please find below our response:

The Airline community strongly support the "Differentiated pricing" approach taken by the CAA in the May 2023 Licence decision. As such we also strongly support the commissioning of an independent review of HAL's cost allocation methodology for Other Regulated Charges (ORCs). This will ensure that the ORCs are allocated between airlines and non-airline users in a fair and equitable manner and importantly demonstrate that to all ORC users.

In general we are in complete agreement with the draft Terms of Reference as set out by the CAA, we do have some additional comments – which are shared below:

1. It will be important for the Independent Reviewer to also determine whether the decision criteria HAL have chosen to use to differentiate between Airlines and Non-Airlines is appropriate, fit for purpose and will withstand legal scrutiny. Note: The Airlines believe that airline Ground Handlers directly involved in the provision of airline support as defined below, should also qualify for Differentiated pricing.

Qualifying Ground Handlers provide the following services – as specified in the IATA SGHA:

Annex A - Ground Handling Services - Section 2 – Passenger Services

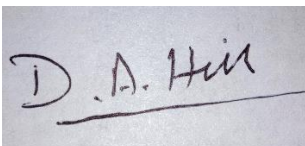
and

Annex A Sections 3.1 through to 3.9 – Ramp Services.

2. The Draft lists that the independent reviewer's report is submitted to the CAA and ORC users by End May 2024. The Draft should also make explicit the statement in the Heathrow Licence (Condition C2.4) that the Independent Reviewer should report to the CAA and not HAL.

3. We would recommend that additional Independent Reviews be conducted every two years to ensure that the cost allocation methodology remains consistent with the intentions of Heathrow's Licence and adapts to any significant changes in the structure of ORC's or of the Airline and Non-Airlines shares of ORC's.
4. We note that Item 2, of the Terms of Reference states that the Independent reviewer should " *Assess HAL's approach to the allocation of costs to each Specified Facility for which it charges ORCs*". We would add to this section that the assessment should include whether there are proper financial controls in place to ensure that the allocation of costs is completed in a consistent and accurate manner.
5. The airlines' and the CAA's position is that the airlines and non-airlines pay their fair share of the total ORC overheads and annuities over a control period (with the airlines paying their share via Aero charges). Given this and that there has been three years of non collection of the Non Airlines share of these costs (due to HAL delaying the implementation of "differentiated pricing"). The Independent Review should ensure that the resolution of this issue in a manner that is fair to all parties, whilst reflecting the intentions of the CAA's Final Determination for H7.
6. The review should also take into account the timescales by which the ORC costs should be recovered (given there has been three years of non-collection of the Non Airlines share of these costs).

Yours sincerely,



David Hill,

AOC Head of Regulation and Strategy