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Dear Stephen,

I am writing in response to the second consultation by the CAA on the economic regulation of Heathrow airport in the context of expansion, building on my response in March to your initial consultation. It remains important that the interests of Londoners are represented, as passengers, taxpayers and local residents. The provision of new capacity in any location must be environmentally sustainable – and we are deeply concerned as to whether Heathrow, given its location, could ever achieve this – and must also be financially sustainable.

In making their case for Heathrow expansion, there have been clear statements of principle from both airport and Government about its delivery, notably that this will take place without significant increase in aeronautical charges and without recourse to taxpayer subsidy (which should be taken to include risk guarantees). If expansion is to be taken forward, it can only be within those parameters. The response of Heathrow Airport Limited to the first consultation listed a number of risks, some more credible than others – but their consideration should not be allowed to detract from the principles already set out. Certainly, it is not for the CAA, in drawing up a new regulatory framework, to ease the terms under which Heathrow expansion has hitherto been proposed.

The environmental impacts of Heathrow expansion – in particular the severe consequences for noise and air quality - remain uppermost in the concerns of hundreds of thousands of Londoners. The CAA should take this opportunity to ensure that the environmental impacts are captured, including through the incentives applied to the airport operator. The regulatory framework should also enable a comprehensive package of measures to mitigate the environmental impacts on local communities.

Funding of surface access to enable expansion remains a fundamental concern. The draft proposals risk drawing the scope too narrowly and preventing HAL from making the requisite investment in surface access.

Heathrow expansion could only proceed on the basis of a surface access package which in particular delivered:

- No increase in highway traffic – including passengers, staff and freight
- No worsening of air quality or exceedence of legal limits
- An attractive public transport offer (including connectivity, capacity and fares) able to drive sufficient mode shift
- Sufficient public transport capacity to accommodate increased airport demand alongside non-airport background flows

The regulatory framework must take a holistic view of the surface access proposition and what it needs to achieve if expansion is to be workable, as well as considering the infrastructure intervention specifically required to unlock the benefits to the airport. When a particular surface access scheme is deemed essential to meet these objectives, it would be unacceptable for the regulatory framework to seek to restrict the airport contribution on the basis that, for example, non-airport users were also benefitting.

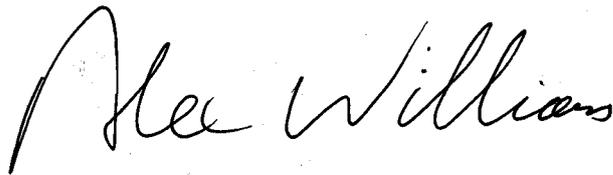
In concrete terms, taking the example of Western Rail Access, it will additionally offer some benefits to non-airport users (rail schemes are characterised by joint costs) but these alone would be insufficient to merit prioritisation of the scheme for funding in the wider regional rail investment programme. Moreover, the vast majority of the scheme's costs are incurred in plugging the airport into the national rail network and so securing the benefit to the airport. When, in this context, it is deemed essential to deliver Western Rail Access for an expanded Heathrow in terms of meeting the aforementioned objectives, then responsibility for funding the lion's share of the scheme cost should lie with the expansion project and the regulatory framework should not seek to focus on narrow calculations of relative user benefits.

This key issue could partly be addressed by a better framed regulatory approach. Nonetheless, it would also benefit from a more collaborative approach. Rather than discussions about the surface access provision and funding between airport, transport authorities and Government taking place in isolation from the CAA's regulatory review, these processes should be more integrated. The CAA should become involved in the discussions around the requisite surface access at an earlier stage, while the transport authorities should have the opportunity to engage in meaningful dialogue with the CAA when it is evaluating what expansion requires and the corresponding funding contribution from the airport.

To achieve the surface access objectives – and in particular prevent increases in highway traffic and worsening of air quality – it has also become clear that the airport will need to introduce some form of road user charging scheme. It would be sensible for the CAA to set out how this would be incorporated into the regulatory framework.

The Mayor remains seriously concerned about the fundamental impacts of an expanded Heathrow with regard to noise, air quality and surface access in particular. Any regulatory regime must not exacerbate these and, indeed, could play a useful role in helping address these impacts. There are important challenges to address but we hope to be able to work with the CAA as it develops this framework.

Yours sincerely

A handwritten signature in black ink that reads "Alex Williams". The signature is written in a cursive style with a large initial 'A'.

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