Mr Mark Clifton
Civil Aviation Authority
Westferry Circus
Canary Wharf
London EH14 4HD
By email: economicregulation@caa.co.uk

27 January 2025

Dear Mr. Clifton,

Re: IBERIA response to the CAA review on the Terminal Drop Off Charge (TDOC)

We appreciate the opportunity to respond to the CAA's review of TDOC revenue allowances for the H7 price control period by Heathrow Airport Limited (HAL).

We fully support the response being made by IAG on this issue and we are submitting this letter as IBERIA airlines.

Our response focuses on three key areas:

1. The TDOC risk sharing mechanism
2. The impact of TDOC on HAL's other commercial revenues
3. The potential treatment of future TDOC revenues

TDOC Risk Sharing Mechanism

We support the CAA's intended application of the TDOC risk sharing mechanism as per Condition C1.19 of the licence (TDOt factor) and we fundamentally disagree with the way that HAL has incorrectly applied this mechanism in its 2025 charges. To be clear, we are not seeking to reopen the H7 price control which HAL sought and failed to do during the Final Issues consultation. Instead, we are asking for the rectification of an undue financial adjustment being levied on airlines and subsequently consumers, which HAL, in this instance, are not entitled to do.

The TDO_t factor, as per the H7 Final Proposals[1] and the CAA's decision on H7 Final Issues[2], addresses two specific risks:

[1] CAP2365, H7 Final Proposals, June 2022, paragraphs 5.16, 5.74 and 5.77.
[2] CAP3001, Decision H7 Final Issues, July 2024, paragraphs 7.27-7.31.

- Protection from legislative changes having the effect of removing or reducing TDOC charges
- Preventing HAL from retaining excessive profits through significant charge increases

The risk in the first point, in favour of HAL, has not materialised to date. HAL retains the ability to charge TDOC and has in fact decided to increase the charge by 20% as of January 2025 (from £5 to £6 per vehicle).

In order to address the risk on excessive profits, the CAA has rightly *"built […] a 65%/35% risk sharing arrangement so that, if the revenue from this charge were to be greater than forecast, airport charges would reduce by approximately two thirds of the difference"*. The CAA went on to clarify that *"the approach set out in the [H7] Final Decision was designed to address the risk of revenues from TDOC being higher than forecast, not lower as has turned out to be the case".*[3]

We therefore conclude that HAL has inappropriately and incorrectly sought to make up for a TDOC revenue shortfall of £3.8 million for 2025 (65% of a total shortfall of £5.9 million) through the Maximum Allowable Yield by levying an additional £0.05. This move clearly contravenes the intention and spirit of the risk sharing mechanism put in place by the CAA to address excess profits, not shortfalls, in TDOC revenues.

We also submit the following considerations:

- **HAL's decision to not reprice TDOC sooner is a commercial choice**

While HAL has had the ability to amend its pricing sooner, HAL unilaterally decided not to do so. We can assume that this has been for wider strategic reasons that has yielded benefits elsewhere.

- **Consumers should not bear liability for HAL's revenue forecasting errors**

Consumers should therefore not be retrospectively liable for HAL's own commercial decisions and for any forecasting errors, and as argued above, we are firmly of the view that HAL is not entitled to recover shortfalls under the TDOC risk sharing mechanism, as designed by the CAA.

- **The TDOC's primary objective is to reduce terminal forecourt car usage**

HAL's justification for increasing TDOC from £5 to £6 as of January 2025 is that revenues have been decreasing due to a shift to other modes of transport, including public transport. However, the purpose of the introduction of the TDOC in the first place was to incentivise this shift and discourage cars from using the terminal forecourts as much as possible. The intention of the mechanism should therefore not be to provide HAL with a revenue guarantee when HAL is actively trying to curb the use of the same service. It could be argued that HAL's strategy is achieving its ultimate benefits sooner than expected and it is therefore unwarranted that recompense is sought from consumers.

In view of the above, we recommend the CAA:

- Reiterates that revenue shortfalls in TDOC are not covered by the 65/35 risk sharing mechanism;
- Confirms that HAL is unable to claim such shortfalls under the H7 licence;
- Instructs HAL to return the £0.05 incorrectly levied on the Maximum Allowed Yield in 2025.

[3] CAP3001, paragraph 7.30.

We are open to exploring ways of returning the unfair and undue levy but recommend this be addressed either through the charges for 2026 or through a credit note. Given the issue relates to an incorrect application of the relevant condition of the license, and not the licensing requirement itself, we do not believe this refund requires any modification to the current licence.

Future TDOC Revenues and Commercial impact

We recommend that any assessment for the future treatment of TDOC takes place in the H8 price control for which the Constructive Engagement process was launched in October 2024. If the TDOC is eventually deemed to be part of HAL's other commercial revenues, we note that the same efficiency targets would apply and that there should still be no revenue guarantee.

Public transport revenues

We agree with the CAA intending to evaluate the extent to which HAL is generating and benefitting from increased commercial revenues thanks to the introduction of TDOC. Given HAL's claim that the TDOC has resulted in a shift to other modes of transport, focus should be made on public transport and car park revenues.

We remain at the CAA's disposal should more information be required on this issue and would welcome further engagement as the CAA develops its review on TDOC.

Yours sincerely,

Jaime García Blázquez
Manager Aeropolitical Affairs
IBERIA Airlines