

Strategic themes for the review of Heathrow Airport Limited's charges ("H7")

Technical Appendices

CAP 1383a



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Enquiries regarding the content of this publication should be addressed to:

Consumers and Markets Group, CAA, 4th Floor, CAA House, 45-59 Kingsway, London WC2B 6TE.

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APPENDIX 1

Introduction

Structure of Appendices

- 1.1 The CAA is beginning the formal process to review the price control condition(s) and associated regulatory arrangements for Heathrow Airport Limited (HAL). The present Q6 arrangements run from 1 April 2014 until 31 December 2018. A new price control must be in place on 1 January 2019 with the key regulatory decisions made by late summer 2018.
- 1.2 The Technical Appendices contained in this document describe in further detail the context, process, timetable and key issues around the regulatory framework that should apply in the 7th regulatory period for HAL (referred to as the 'H7' review). These Appendices can be read alongside the main document.¹
- 1.3 This Appendix document is structured as follows:
- Appendix 2 sets out more details of how our assessment of market power has shaped our thinking to date.
 - Appendix 3 includes details of the context within which the review will take place.
 - Appendix 4 discusses our initial views on how to manage the H7 price review within the context of a future government decision on capacity expansion.
 - Appendix 5 sets out a discussion of the options for engaging consumers more directly in the price review process.
 - Appendix 6 discusses a move towards more outcome-based regulation including options for improving resilience.
 - Appendix 7 considers the overall approach (or form) of regulation.
 - Appendix 8 discusses the key policy and technical issues to ensure efficiency and financeability.

¹ Strategic themes for the review of Heathrow Airport Limited's charges ("H7"): A discussion document; www.caa.co.uk/CAP1383

- Appendix 9 considers the options for engaging industry stakeholders in the process through Constructive Engagement (CE).
- Appendix 10 sets out the timetable for the review and next steps.

1.4 The Annexes summarise our statutory duties under the Act and set out more detailed market trends. A list of abbreviations used in the document is also supplied.

Our duties

1.5 We economically regulate HAL under the Civil Aviation Act 2012 (the Act). The Act gives us a single primary duty to further the interests of users of air transport services. The scope of this duty concerns the range, availability, continuity, cost and quality of airport operation services. The CAA must, where appropriate, carry out this duty in a manner which it considers will promote competition in the provision of airport operation services.

1.6 In discharging our primary duty, we must also have regard to a range of other matters as set out in Annex A. Under the Act, users of air transport services are defined as present and future passengers and cargo owners (those with a right in property carried by the service).²

1.7 For the sake of simplicity, we use the term 'consumers' to mean present and future passengers and cargo owners.

1.8 We also have concurrent powers with the Competition and Markets Authority (CMA) to enforce the UK and European Community competition law prohibitions in relation to the provision of the supply of airport operation services and air traffic services. We are required to consider whether it would be more appropriate to use these powers prior to any regulatory action against a holder of a licence granted under the Act or air traffic services provider for example in relation to a licence condition breach. We may not take such licence enforcement action to the extent that we consider it would be more appropriate to proceed under the competition prohibitions.

² Given that over 95% of cargo at Heathrow travels in the bellyhold of passenger aircraft, we consider that the interests of cargo owners will in many ways be aligned with those of passengers (although as part of the H7 review, we propose to better understand the needs of all users including cargo owners).

Views invited

- 1.9 If you have any views on the issues raised in these Technical Appendices, please email them to economicregulation@caa.co.uk. Responses to this consultation are due by **noon on Friday 29 April 2016**. We cannot commit to take into account representations after this date.
- 1.10 We expect to make submissions available on our website for other interested parties to read as soon as practicable after the period for responding expires. Any material that is regarded as confidential should be clearly marked as such. Please note that we have powers and duties with respect to information under Section 59 of the Act and the Freedom of Information Act 2000.
- 1.11 If you would like to discuss any aspect of this document, please contact Stephen Gifford (stephen.gifford@caa.co.uk) or Rob Toal (robert.toal@caa.co.uk).

Next steps

- 1.12 We will be holding two workshops in March 2016 to discuss the issues raised in this document with industry and other interested stakeholders.
- 1.13 The key workshop will be held on **Thursday 10 March 13:00 – 16:00**.
- 1.14 The workshop will be run again on Thursday 17 March 13:30 – 16:30 to ensure as many stakeholders as possible have the option to attend. Both workshops will take place at Heathrow's Compass Centre, Nelson Road, Hounslow, Middlesex TW6 2GW.
- 1.15 To register your attendance, please email Beth Corbould (beth.corbould@caa.co.uk).
- 1.16 Our response to the issues raised in this discussion document will be set out in a policy update on the approach to conducting the H7 review in autumn 2016.

APPENDIX 2

Market power

Introduction

- 2.1 The Act prohibits an operator of an airport area at a dominant airport from levying charges for airport operation services unless it has a licence granted by the CAA. The CAA determines that an airport is dominant and that an airport operator requires such a licence if that airport operator meets the Market Power Test (MPT) specified in the Act in relation to an airport area. MPT comprises:
- Test A: the relevant operator has, or is likely to acquire, substantial market power (SMP) in a market, either alone or taken with such other persons as we consider appropriate;
 - Test B: that competition law does not provide sufficient protection against the risk that the relevant operator may engage in conduct that amounts to an abuse of that SMP; and
 - Test C: that, for users of air transport services, the benefits of regulating the relevant operator by means of a licence are likely to outweigh the adverse effects.
- 2.2 We recently consulted stakeholders on updated guidance on how we conduct market power determinations (MPDs) under the Act (CAP 1354).³

HAL 2014 Market power determination

- 2.3 We conducted an MPD for HAL in relation to HAL which concluded in January 2014 and found that HAL had SMP in the relevant market and that this was expected to persist over the period April 2014 – December 2018 (Q6).⁴

³ Draft guidance on the application of the Market Power Test under the Civil Aviation Act 2012: Consultation:
<http://www.caa.co.uk/Our-work/Consultations/Closed/2016/Draft-guidance-on-the-application-of-the-Market-Power-Test-under-the-Civil-Aviation-Act/>.

⁴ Market power determination in relation to Heathrow Airport – statement of reasons, available from:

2.4 We arrived at this conclusion on the basis that:

- The most likely source of any SMP that HAL has stems from its position as the operator of the UK's only hub airport and the combined package that Heathrow offers of strong demand, including premium passengers, cargo and connecting passengers. This makes Heathrow attractive for both UK and overseas airlines.
- The airline network effects available at Heathrow mean that very few airlines would be able and willing to switch sufficient capacity to constrain HAL from increasing its charges.
- HAL's good surface access options, the inherent attractiveness of the London market, and its strategic importance to airlines combined with the capacity constraints in the London system act to reduce the available alternatives to airlines.
- The strength of airline demand to operate from Heathrow means that HAL would be effectively insulated from the effects of any switching away as a result of higher airport charges.

2.5 In addition, we considered that any change in Government policy after the release of the Airports Commission's final report would take some time to be implemented and that any significant capacity expansion would not be expected until at least 2025. Over the Q6 period, due to improving economic conditions and the lack of significant capacity expansion, we considered that HAL's SMP would endure.

2.6 We also determined that the other elements of MPT were fulfilled. We considered that as a result of SMP there was the risk that HAL would be likely to increase prices and/or to reduce service quality and that an 'ex post' competition law approach would not be well adapted to pre-empting such conduct. Furthermore, taking account of the interests of consumers, particularly their demands in terms of stable supply of high quality airport services at reasonable cost, we concluded that the benefits of licence regulation would outweigh any adverse effects.

2.7 In light of this finding, the CAA issued HAL with an economic licence that came into force on 1 April 2014.

www.caa.co.uk/CAP1133.

Initiating an MPD for H7

- 2.8 We have discretion to conduct an MPD when we consider it is appropriate to do so. This means that we can initiate an MPD at any time.
- 2.9 We are, in addition, required to make an MPD and therefore apply the MPT⁵ where the following factors are met:
- we are asked to do so either by the operator of the airport area or other person whose interests are likely to be materially affected by the determination;
 - the area is located at an airport that has over 5 million passengers⁶ at the time the request is made; and
 - the area consists of or includes all or part of the core area of the airport.⁷
- 2.10 However, if we have previously made an MPD we have some discretion, even if the above factors are met. In particular, we do not need to carry out a further MPD if we do not consider that there has been a material change of circumstances since the previous MPD.⁸

Material change of circumstances

- 2.11 Material change of circumstances (MCC) is not defined in the legislation. It is a matter of regulatory judgement as to whether there has been an MCC. In making such a judgement, we will refer to decisions made by other UK competition authorities where they have assessed whether an MCC has occurred in other circumstances.
- 2.12 Our view is that a change of circumstances needs to be material in areas that are likely to be relevant to Tests A to C. However, circumstances could be considered in aggregate and several relevant changes could be considered together with pre-existing circumstances when determining whether or not a new MPD should be completed.⁹

⁵ Section 7(2) the Act.

⁶ Sections 7(4) of the Act which states that an airport is a large airport during a calendar year if, in the previous calendar year, the number of passenger movements at the airport exceeded 5 million.

⁷ Section 7(2)-(4) of the Act.

⁸ Section 7(5) of the Act.

⁹ In our paper 'Discussion paper on the regulatory treatment of issues associated with airport capacity expansion', CAP 1195, published in June 2014, we considered some capacity expansion related

Summary: is a new MPD for HAL needed before H7?

- 2.13 Our initial view is that the reasons underpinning the conclusions of the 2014 MPD are likely to remain applicable throughout H7, as they relate to stable characteristics of the airport, the business models of the airlines that use Heathrow (and their inability to switch away from it) and the capacity constraints at Heathrow and in the South East of England more generally. We consider that these factors are unlikely to change during the period covered by H7.
- 2.14 Our assessment is therefore that there has not been or likely to be an MCC during H7 and therefore a new MPD is not required.
- 2.15 Although we are not expecting to carry out a new MPD, there may be some aspects of the market conditions in which HAL operates which we may still review as part of H7. We would expect to do some work of this type in order to support our decisions on the nature of the licence conditions we would include in the H7 period.

events that could, at first glance, suggest a material change of circumstances may have occurred. This is available from: www.caa.co.uk/CAP1195.

APPENDIX 3

Context for the H7 review

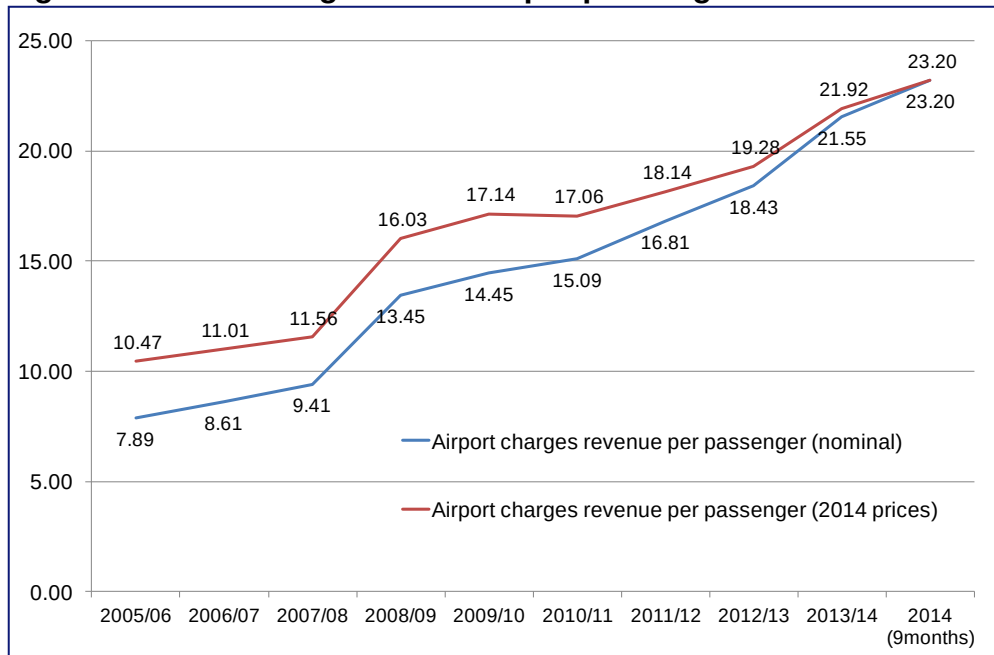
Introduction

- 3.1. This Appendix describes some of the key features of the market in which HAL operates. In particular, we examine:
- trends in key regulatory indicators such as airport charges, passenger numbers and investment levels;
 - HAL's financial performance relative to the Q6 regulatory assumptions;
 - HAL's service quality performance; and
 - wider aviation market trends.
- 3.2. A more detailed assessment of market trends including changes in the ownership of UK airports, passenger and cargo trends and the composition of airlines at Heathrow is set out in Annex B.

Key regulatory indicators

Airport charges

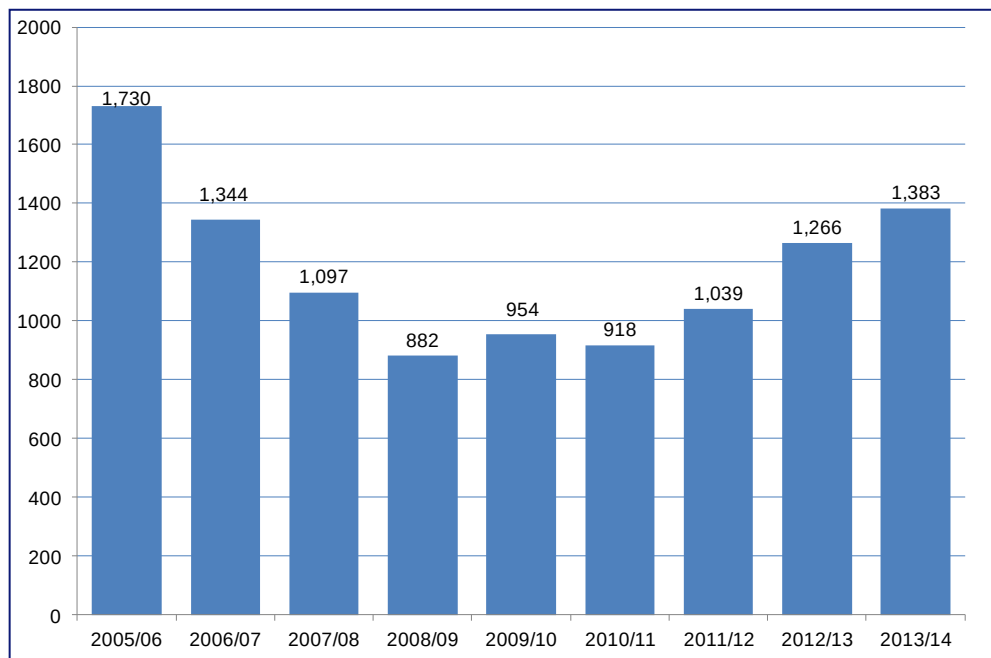
- 3.3. Over the last decade, airport revenue per passenger has increased significantly at Heathrow from just under £8 per passenger in 2005 to just over £23 per passenger in 2014. The figure below shows the trajectory of charges over the last ten years.

Figure 3.1: HAL charge revenue £ per passenger

Source: HAL regulatory accounts

Investment

- 3.4. The increases in charges over this time have largely been driven by the extensive investment programme at Heathrow which includes the construction of the new terminals 5 and 2 as well as major upgrades to terminals 3 and 4 and a number of other significant capital projects. The figure below provides details of capital invested during this period. In total, HAL has invested over £11 billion (2014 prices) in the airport during this period. This is set to continue during Q6 with around £3 billion of capital expenditure forecast to be spent between 2014 and 2018.

Figure 3.2: HAL capital expenditure, £ million 2014 prices

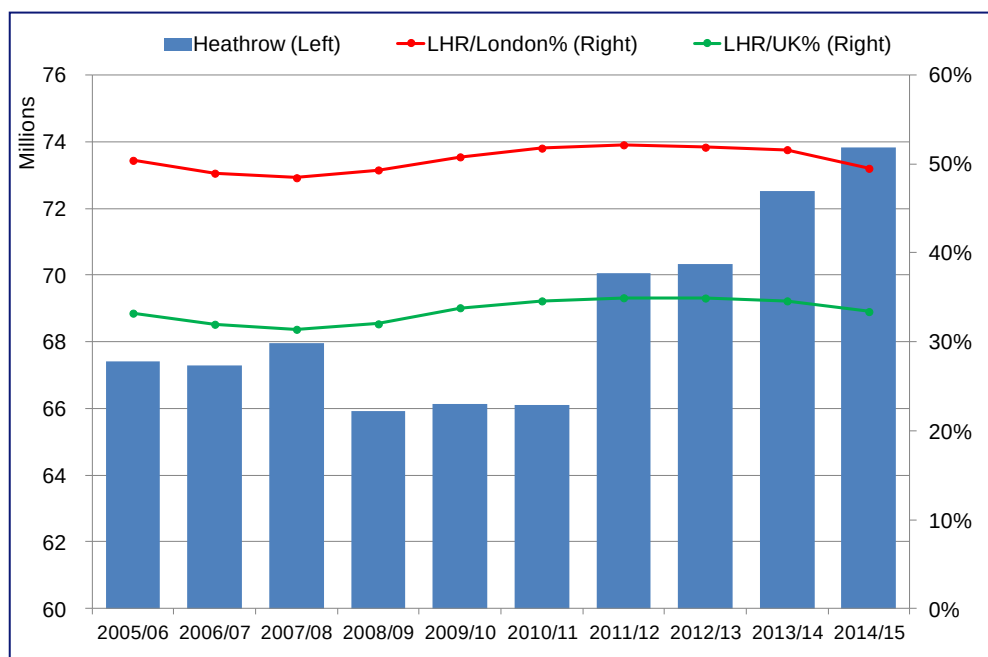
Source: HAL regulatory accounts

Passenger growth

- 3.5. Heathrow is by far the largest UK airport. It accounts for around 30 per cent of total passengers handled by UK airports and half of the passengers served by airports in the London area.¹⁰
- 3.6. Passenger numbers at Heathrow have also shown significant growth in recent years, following a downturn between 2008/09 and 2010/11. 2014/15 was Heathrow's busiest year with over 73 million passengers using the airport.

¹⁰ Airports serving the London area are Heathrow, Gatwick, Stansted, Luton, London City and Southend. It should be noted that over a third of Heathrow's passengers are transferring between flights at the airport.

Figure 3.3: Heathrow, London market and UK passenger numbers, millions



Source: CAA

HAL's financial against regulatory assumptions

- 3.7. HAL's financial performance is strongly influenced by previous price controls set by the CAA. For Q6, the CAA's price control is the equivalent to a maximum increase in average airport charges of RPI-1.5% per year for the four years and nine months duration of the period as set out in the table below.

Figure 3.4: HAL's Q6 price control, 2014 prices

£ per passenger	9 mo. 2014	2015	2016	2017	2018
Profiled yield per passenger	£22.00	£21.72	£21.42	£20.99	£20.60

Source: CAA

- 3.8. Outturn performance against the regulatory assumptions is also a direct driver of the return earned by HAL e.g. a saving on operating costs against the determination will be retained by HAL, permitting it to earn a higher return on capital than that forecast when the price control was set. Key indicators of HAL's performance in the first 9 months of Q6 are as follows:

- Expenditure on operating expenditure (opex) (£877 million) has been slightly higher than the level we assumed it would be (£871 million).

- This is offset by higher than expected 'other revenues' which were £763 million compared to the regulatory assumption of £753 million.
- Capital expenditure of £392 million was 17% lower than the level assumed in the determination £475 million.
- Airport charge revenue of £1.3 billion was 9% higher than our assumption of £1.2 billion.
- Passenger volumes were 4% higher than projected.
- Overall, HAL made a regulatory operating profit in the 9 months of 2014 of £710 million, which was 19% higher than the level assumed in the determination (£598 million).

3.9. Further details of performance against the determination on each of the main regulatory building blocks are set out in HAL's regulatory accounts.¹¹

Service quality performance

3.10. HAL is subject to service quality regulation that sets out, among other things, the service standards, the rebates payable to the airlines when service standards are not met and the bonuses that could be earned by HAL for exceptionally good performance. The objective of service quality regulation is to safeguard the minimum level of service to be delivered for consumers' benefit. HAL is responsible for recording and reporting its service performance, but we monitor performance scores, rebate payments and bonus earned. We also undertake periodic audits to ensure that the reported performance is an accurate reflection of services provided at the terminals and airfield.

3.11. There are five broad areas in the service quality scheme:

- passenger satisfaction with cleanliness, departure lounge seating, flight information and way-finding;
- security, which includes queuing time standards for central search, transfer search, staff search and control posts;
- passenger operational elements, which measures the availability of passenger-facing equipment in terminals such as lifts and escalators;

¹¹ <http://www.heathrow.com/company/investor-centre/regulation/regulatory-accounts>.

- airline operational elements, which measures availability of airline-facing equipment such as stands, jetties and ground power; and
- the aerodrome congestion term, which measures the number of delayed air traffic movements due to material events in the airfield.

3.12. In general, service performance at Heathrow showed improvements over the course of Q5 (2008/09 – 2013/14). As demonstrated in the table below, the total number of service failures across all the terminals and the campus has decreased, and the percentage of failure dropped from 10.3 per cent in 2008/09 to 4.4 per cent in 2013/14. Over the nine months April – December 2014, HAL paid £1.5 million in service quality rebates.

Figure 3.5: Standards and service failures over Q5

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Total no. of standards	972	928	840	840	840	840
Total no. of failures	100	52	37	25	45	37
Failure %	10.3%	5.6%	4.4%	3.0%	5.4%	4.4%

Source: CAA analysis of HAL data

3.13. We made changes to service quality regulation at the start of Q6 in order to 'lock-in' improvements made during Q5, in particular raising certain service standards. Additionally, we also reduced the number of areas in which bonuses can be earned from six to four, and raised the minimum performance levels that qualify for bonuses. We also rationalised the way performance should be measured in certain areas. Because of these changes, with similar service levels in these bonus areas, HAL earned bonuses in Q5, but has not started earning bonuses since the beginning of Q6.

Wider market trends

3.14. Annex B of this document sets out a detailed assessment of the market context within which HAL operates. In particular, it examines features such as changes in the ownership of UK airports, passenger and cargo traffic trends and the composition of airlines at Heathrow. The key points arising from this analysis are that:

- the ownership of UK airports has changed significantly in the past decade. In 2005, BAA was the operator of seven UK airports accounting for 63 per cent of passengers at UK airports and 92 per cent of passengers at London airports. Subsequent divestment of airports means that Heathrow Airport Holdings Limited (HAHL)¹² is now focused solely on the operation of Heathrow in the UK.
- Heathrow remains by far the largest UK airport. It accounts for around 30 per cent of total passengers handled by UK airports and half of the passengers served at airports in the London area.
- Heathrow is also the largest air cargo hub in the UK, despite serving very few cargo-only (freighter) flights. Heathrow alone, accounts for 63 per cent of cargo handled at UK airports, a share that has been increasing gradually for example in 2006 it accounted for 53 per cent.
- Heathrow is exceptionally highly utilised. Runway utilisation above 95 per cent has been a consistent feature of the airport for the past 15 years.
- As a consequence, slot productivity has been improving as airlines have gradually been utilising larger aircraft on longer flights.
- The airline base at Heathrow is almost entirely full-service airlines, contrasting with a mix of full service, charter and low cost airlines at Gatwick and an almost entirely low cost airline base at Stansted and Luton.
- Airlines at Heathrow, in particular British Airways, serve a large number of passengers connecting at Heathrow, with about 36 per cent of its passengers connecting there. This compares with about 8 per cent at Gatwick and 4 per cent at Stansted.

3.15. British Airways is the largest airline at Heathrow. In 2015, it accounted for 51 per cent of flights and 49 per cent of the airport's passengers. British Airways is part of the International Airlines Group (IAG), which also includes Iberia, Vueling and, since July 2015, Aer Lingus. In 2015, IAG accounted for 56 per cent of flights and 52 per cent of passengers at the airport.

3.16. Airline competition plays an important role in making sure that the benefits of economic regulation are passed on to consumers. Capacity constraints

¹² HAHL is the holding company that owns Heathrow Airport Limited.

influence the level of airline competition present at the airport as new entrant airlines need to acquire slots. We have also noted that, as a result of airline consolidation and cooperation in recent years, IAG has been increasing the proportion of slots it controls at the airport and this is something we will take account of in the H7 review including our objective to focus more closely on consumers.

APPENDIX 4

Interaction with potential new runway capacity

Introduction

- 4.1. The H7 review takes place against the backdrop of the Government's announcement that it will undertake a package of further work related to capacity expansion which it expects to conclude in the summer of 2016.
- 4.2. This announcement follows the recommendations of the independent Airports Commission which reported in July 2015. The Commission favoured a new northwest runway at Heathrow alongside a package of measures to mitigate the impact of the new runway on the environment and the local community.
- 4.3. We have argued for some time that, without building another runway in the South East of England, consumers will suffer from higher prices, reduced choice and lower service quality.

Key principles

- 4.4. Our March 2015 statement¹³ on this issue set out three principles that would underpin our future regulatory decisions in relation to new runway capacity:
 - risk should be allocated to those parties who can best manage it;
 - commercial negotiations should be encouraged; and
 - capacity can be paid for before and/or after it opens.
- 4.5. While one of our three principles highlighted the opportunity for commercial negotiations between the airport operator and individual airlines to lead to an outcome that better meets their needs than a regulatory approach, we recognise the challenges associated with agreeing commercial terms. We are therefore developing our approach to regulation of new runway capacity

¹³ Economic regulation of new runway capacity, CAP 1279, available at http://publicapps.caa.co.uk/docs/33/CAP1279%20Economicregulationofnewrunwaycapacitynon_confidential.pdf

irrespective of whether or not progress of commercial negotiations is being made.

- 4.6. On the regulatory regime, our policy update in September 2015¹⁴ outlined our plans to publish future consultation documents to help ensure that the regulatory regime is clear and robust and to support the timely delivery of new capacity. The document gave a brief outline of some of the approaches that we might consider adopting in certain key areas (including planning costs, reflecting the long term nature of capacity expansion, risk premiums, surface access, promoting delivery and compensation to third parties) and that would be developed more fully in the subsequent consultation document(s).

Priority new runway capacity regulation issues

- 4.7. Of the issues set out above, we are of the view that two areas will need to be prioritised and dealt with as early in the H7 process as possible. These are the regulatory treatment of planning costs and the long term nature of capacity expansion. These issues are explored in greater detail below, followed by a brief summary of other major issues in the section after.

The treatment of Category B (or planning) costs

- 4.8. In our March and September 2015 publications we set out two principles in relation to Category B costs. The first was that we see planning as a cost which consumers can reasonably be expected to carry in full or in part. The second was that the airport operator and its airline customers should, in the first instance, look to agree risk-sharing agreements for planning costs dealing with the associated risks.
- 4.9. We also defined two categories for the recovery of Category B costs:
- costs up to £10 million per annum will be automatically recoverable by an airport operator; and
 - costs over £10 million per annum may be recovered by an airport operator, subject to them being efficient and there being risk-sharing arrangements in place.
- 4.10. We also stated that the treatment of Category B costs needed to be addressed separately and more quickly than that of the overall economic regulation framework. Early clarity on the regulatory treatment of

¹⁴ Economic regulation of new runway capacity – Update, CAP 1332, available at <http://publicapps.caa.co.uk/docs/33/CAP1332%20Economic%20regulation%20of%20new%20runway%20capacity%2015-09-15.pdf>.

Category B costs will reduce the uncertainty faced by the airport operator and its investors, and will act in the interests of consumers by encouraging investment to proceed in a timely way.

- 4.11. As previously indicated in our policy, we believe that the airport operator and its airline customers should, in the first instance, look to agree risk-sharing agreements around planning costs. Allowing space for commercial discussions, negotiations and agreements between the airport operator and its airline customers could result in innovative solutions being developed that can be good for consumers.
- 4.12. To aid and facilitate the process around planning, we published a document in February 2016 setting out the sort of issues and risks that we would expect the airport operator to explore with its airline customers around the treatment of planning costs.¹⁵

The long term nature of capacity expansion

- 4.13. Given the long term nature of capacity expansion, we recognise that it may be helpful to provide greater certainty to stakeholders. We will consider the advantages and disadvantages of options such as setting longer price controls or accepting longer term pricing commitments; 'locking in' some elements over several price control periods; or other options for providing greater long term certainty about our regulatory policies. We will also consider the arguments for and against pre-funding of new capacity.
- 4.14. As well as the long timescale, any airport expansion project would be likely to lead to changes in HAL's risk profile. We will need to consider the additional risks that result from capacity expansion, how these should be reflected in the weighted average cost of capital (WACC) and its components; and whether our current approach to ensuring financial sustainability needs to be reviewed in the light of a very large long-term investment programme.

Other major regulatory issues

- 4.15. There are a whole host of other regulatory issues relating to new runway capacity, including the treatment of surface access costs, the compensation

¹⁵ Recovery of costs associated with obtaining planning permission for new runway capacity: policy update, CAP 1372, available at:
<https://publicapps.caa.co.uk/docs/33/NRC%201372%20Final%2028-01.pdf>.

to third parties for noise and blight and incentives around large capital investment projects.

4.16. The importance and cost of surface access to airport expansion at Heathrow is likely to be substantial. To include costs in the regulatory asset base (RAB), or for these costs to be taken into account in the setting of any pricing restrictions or commitments, we would expect the airport operator to provide robust evidence on how the investments would meet the following criteria:

- the extent to which surface access investment by the airport operator is in the long term interests of consumers (rather than third parties);
- the investment delivers positive benefits to consumers (rather than third parties);
- costs have been efficiently incurred and the scope of the project minimised;
- surface access users (and third parties) would contribute to the cost where appropriate, for example, through the payment of fares; and
- the costs added to the RAB are proportionate to the benefits to consumers.

4.17. Another consideration for allowing costs into the RAB, would be whether there are specific surface access schemes which are required as part of gaining planning consent.

4.18. We would consider mechanisms to promote cost efficient and timely delivery of new capacity, including capital expenditure (capex) triggers, similar incentives linked to delivery milestones, our overall approach to reviewing capex and adding expenditure to the RAB, and the possible role of the licence.

4.19. Noise, blight or other compensation paid to local communities will need to be explored. Where expenditure is mandatory (for example where the airport operator has no discretion as part of the "price" for airport expansion), our starting point is that this should normally be added to the RAB. Where expenditure goes beyond mandated expenditure (or where expenditure is required but there is discretion as to how this obligation can be met) our current approach is that it would only be added to the RAB if it can be demonstrated to be in consumers' interests and to be efficiently incurred.

Summary

- 4.20. We are currently planning to maintain the H7 proposed timeline with new price control conditions in HAL's licence in place for January 2019. Starting the H7 process early in 2016 (with priority runway regulatory policy issues highlighted) gives us and stakeholders sufficient time to design a suitable regime for Heathrow for consumers' benefit beyond Q6.
- 4.21. In short, our objective is to manage the H7 review in a flexible way so that the priority and other elements of regulation of new runway capacity can be brought within the H7 process if necessary or handled in a separate process if the timetable for a Government decision slips further.

APPENDIX 5

Empowering consumers and furthering their interests

Introduction

- 5.1. We are firmly committed to increasing consumer engagement across all of our regulatory functions. We have already set up a Consumer Panel to act as a “critical friend” and to advise us on consumer issues. In terms of the economic regulation of airports, we see this commitment as key to fulfilling our primary duty in the Act and we are designing the price control framework in a way that ensures much greater consumer participation in the H7 decision-making process.
- 5.2. While we consider that our existing regulatory framework has delivered significant benefits in this area we believe there is no room for complacency and we wish to build on the successes to date. In this Appendix we provide a reminder of our approach to furthering the interests of consumers as part of the Q6 review before considering our initial thoughts on how consumer participation should be enhanced for H7.

Engaging consumers in the Q6 review

- 5.3. As part of the Q6 price review, we made a firm commitment to put consumers at the heart of airport economic regulation.¹⁶ We undertook a number of tasks to improve our understanding of consumers’ priorities in order to develop more proportionate and effective regulatory arrangements than in previous price reviews. This was done in three main ways:
- the process of CE between HAL and the airlines;
 - independent passenger research commissioned by the CAA; and
 - challenge by our Consumer Panel.

¹⁶ See for example page 6 of the Q6 initial proposals for HAL, available from: www.caa.co.uk/CAP1027.