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**Heathrow Airport Limited
2009-10 Pricing to Table 6-3 Variance Analysis**

Introduction

The CAA forecast for specified activities lists the revenue that is forecast to be generated by Heathrow Airport (i.e. third party revenue) for the fifth quinquennium (Q5). This forecast is based on certain assumptions and any derivation from this forecast is required to be explained and justified to users and the CAA.

This report provides users with explanations of variances between figures utilised when setting prices to those included within the CAA forecast for activities identified as 'Specified Activities' within Table 6-3 of the 'Economic Regulation of Heathrow and Gatwick Airports 2008-2013' CAA decision dated 11th March 2008' for the year ending 31st March 2010.

The specified activities are:

- Check-in desks
- Other desks
- Staff car parking
- Airside licenses
- Gas
- Water and sewerage
- Electricity
- Security ID passes
- Fixed electrical ground power
- Bus and coach services
- Heating and ventilation

The variance analysis has been made against third party elements of the pricing predictions for the period 1st April 2009 to 31st March 2010'. The pricing exercise was undertaken using constructive engagement through the Non Regulated Charges Group and resulted in the General Notice being issued on 25th March 2009.

The analysis shows variances for those specified activities where certain cost assumptions are used to set prices. For example all specified activities are forecast on cost assumptions for the relevant year, with exception of bus and coach services and heating and ventilation.

The following explains why these two specified activities have a different approach to price setting:

- Bus and coach service pricing is derived using commercial contracts based on usage.
- Heating and ventilation is priced using the AOC rents group and charges are levied as an occupancy charge.

This paper includes Table 6-3 for Q5 and an update showing this table uplifted to nominal prices using RPI for 2008/09 from Office of National Statistics (ONS) and Oxford Economic Forecast (OEF) for future years.

The RPI uplift is applied to provide a consistent comparison between CAA forecast and actuals in nominal prices.

The variances are explained on the following sheets.

RPI Index	Breakdown Table 6.3 in 07/08p					Breakdown Table 6.3 in Outturn					Pricing 09/10	Variance
	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13		
						2.97%	-0.68%	1.48%	1.85%	2.65%		
						1.030	1.023	1.038	1.057	1.085		
Baggage & Check-in												
Income	89 08	86 72	87 72	87 36	89 47	91 73	88 69	91 04	92 34	97 08	117 84	(29 14)
Direct Cost	82 3	79 1	79 4	78 3	79 8	84 70	80 93	82 39	82 80	86 57	104 61	(23 68)
Annuity	0	0	0	0	0	-	-	-	-	-	0 00	0 00
Allocated Costs	6 8	7 6	8 3	9 0	9 7	7 02	7 76	8 65	9 55	10 52	8 42	(0 65)
2008/09 Bfwd											7 68	(7 68)
2009/10 Deferred (Allocated Costs)											(1 44)	1 44
2009/10 Possible W/O											(1 44)	1 44
Total	89 081	86 720	87 721	87 361	89 472	91 727	88 693	91 040	92 344	97 081	117 84	(29 14)
Net Over (Under) Recovery											0.00	
Staff Car Parking												
Income	19 510	19 570	19 550	19 530	19 500	20 089	20 015	20 290	20 644	21 158	24 17	(4 15)
Direct Costs	7 853	7 871	7 857	7 843	7 826	8 086	8 050	8 154	8 291	8 491	11 37	(3 32)
Annuity	7 453	7 480	7 476	7 472	7 464	7 674	7 650	7 759	7 898	8 099	8 60	(0 95)
Allocated Costs	4 204	4 219	4 217	4 215	4 210	4 329	4 315	4 377	4 455	4 568	4 09	0 23
2008/09 Bfwd											0 11	(0 11)
Total	19 510	19 570	19 550	19 530	19 500	20 089	20 015	20 290	20 644	21 158	24 17	(4 15)
Net Over (Under) Recovery											(0.00)	
Airside Licences												
Income	0 780	0 780	0 780	0 780	0 780	0 803	0 798	0 810	0 824	0 846	0 92	(0 12)
Direct Costs	0 378	0 378	0 378	0 378	0 378	0 390	0 387	0 393	0 400	0 411	0 92	(0 12)
Annuity	0 041	0 041	0 041	0 041	0 041	0 042	0 042	0 042	0 043	0 044		
Allocated Costs	0 361	0 361	0 361	0 361	0 361	0 371	0 369	0 374	0 381	0 391		
Total	0 780	0 780	0 780	0 780	0 780	0 803	0 798	0 810	0 824	0 846	0 92	(0 12)
Net Over (Under) Recovery											(0.00)	
Water & Sewerage												
Income	0 950	0 930	0 930	0 930	0 930	0 978	0 955	0 963	0 980	1 005	1 96	(1 00)
Direct Costs	0 598	0 597	0 600	0 605	0 610	0 616	0 610	0 623	0 639	0 662	0 76	(0 15)
Annuity	0 163	0 156	0 152	0 149	0 146	0 167	0 159	0 158	0 157	0 159	1 17	(1 01)
Allocated Costs	0 189	0 181	0 176	0 173	0 170	0 195	0 185	0 183	0 183	0 184	0 34	(0 16)
2008/09 Bfwd											(0 31)	0 31
Total	0 950	0 934	0 928	0 927	0 926	0 978	0 955	0 963	0 980	1 005	1 96	(1 00)
Net Over (Under) Recovery											0.00	
Electricity												
Income	29 490	28 750	28 420	27 920	28 970	30 369	29 404	29 495	29 512	31 434	30 44	(1 03)
Direct Costs	22 212	21 478	21 375	20 957	21 754	22 871	21 966	22 184	22 153	23 604	16 27	5 69
Annuity	4 771	4 764	4 618	4 565	4 727	4 913	4 872	4 793	4 826	5 129	10 66	(5 79)
Allocated Costs	2 510	2 507	2 430	2 402	2 487	2 585	2 564	2 522	2 539	2 699	1 84	0 73
2008/09 Bfwd											1 66	(1 66)
Total	29 493	28 749	28 422	27 925	28 968	30 369	29 403	29 498	29 517	31 432	30 44	(1 03)
Net Over (Under) Recovery											0.00	
Security ID												
Income	2 730	2 750	2 780	2 800	2 730	2 811	2 813	2 885	2 960	2 962	2 46	0 35
Direct Costs	1 327	1 337	1 351	1 361	1 327	1 366	1 367	1 402	1 438	1 440	0 83	0 53
Annuity	0 079	0 080	0 081	0 081	0 079	0 081	0 081	0 084	0 086	0 086	0 05	0 03
Allocated Costs	1 324	1 334	1 348	1 358	1 324	1 363	1 364	1 399	1 436	1 437	1 32	0 04
2008/09 Bfwd											0 50	(0 50)
2009/10 Deferred (Allocated Costs)											(0 25)	0 25
Total	2 730	2 750	2 780	2 800	2 730	2 811	2 813	2 885	2 960	2 962	2 46	0 35
Net Over (Under) Recovery											0.00	
Fixed Electrical Ground Power												
Income	7 180	7 160	7 120	7 090	7 060	7 393	7 323	7 389	7 494	7 660	7 29	0 04
Direct Costs	3 094	3 085	3 055	3 042	3 038	3 186	3 155	3 170	3 215	3 296	2 99	0 17
Annuity	2 078	2 072	2 089	2 079	2 054	2 140	2 119	2 168	2 197	2 228	2 41	(0 29)
Allocated Costs	2 008	2 003	1 977	1 969	1 968	2 067	2 049	2 051	2 082	2 136	2 45	(0 40)
2008/09 Bfwd											(0 56)	0 56
Total	7 180	7 160	7 120	7 090	7 060	7 393	7 323	7 389	7 494	7 660	7 29	0 04
Net Over (Under) Recovery											0.00	
Bus and Coach												
Income	1 390	1 390	1 390	1 390	1 390	1 431	1 422	1 443	1 469	1 508		
Direct Costs	0 109	0 109	0 109	0 109	0 109	0 113	0 112	0 113	0 116	0 119		
Annuity	0 783	0 783	0 783	0 783	0 783	0 806	0 801	0 813	0 828	0 850		
Allocated Costs	2 523	2 523	2 523	2 523	2 523	2 598	2 580	2 618	2 667	2 737		
2008/09 Bfwd												
Total	3 415	3 415	3 415	3 415	3 415	3 517	3 493	3 544	3 610	3 706		
Net Over (Under) Recovery						- 2 08535	- 2 07128	- 2 10183	- 2 14071	- 2 19744		
Total											0.00	
Heating and Ventilation & Gas												
Income	0 980	0 950	0 930	0 910	0 890	1 009	0 972	0 965	0 962	0 965		
Direct Costs	0 702	0 681	0 666	0 652	0 638	0 723	0 696	0 692	0 689	0 692		
Annuity	0 565	0 548	0 536	0 525	0 513	0 582	0 560	0 557	0 555	0 557		
Allocated Costs	0 299	0 290	0 284	0 278	0 272	0 308	0 297	0 295	0 294	0 295		
2008/09 Bfwd												
Total	1 567	1 519	1 487	1 455	1 423	1 613	1 553	1 543	1 538	1 544		
Net Over (Under) Recovery						- 0 60410	- 0 58165	- 0 57781	- 0 57584	- 0 57811		
Total											0.00	

Recovered using commercial contracts, that reflect market rates and HAL's policy to encourage public

Priced using AOC rents group and recovered as an occupancy charge

Baggage: Check-in & CUSS 2009-10

£m

3rd Party Element only

Pricing Variance to 6-3

(29.14)

Revenue

Pricing adjusted to reflected the below cost push items

Direct Costs

Check-in & CUSS

CUSS Costs

Check-in Desks Agreed Capital Charge

Check-in Site Fee

3.66

1.49

1.17

1.31

3.97

Terminal 1 - Terminal 4 Baggage tunnel (6-3 based on Conveyor system, actual system used Carts)

T1 OOG assumed closed

Terminal 4 Ancillary Baggage Facility additional scope

Terminal 1 & Terminal 4 work previously undertaken by B^A

Terminal 5 IT Costs

Terminal 5 Transfers & Arrivals scope

Building 560 - Baggage contingency building

Road Based Connectivity

Other Inflation vs Supplier contract uplifts and various small change;

2.50

0.20

0.81

1.80

4.50

4.66

2.10

1.40

1.73

Total Direct Cost Variance

23.68

Allocated Costs

Note - The full cost was known to be greater than that planned to be recovered. Subsequent discussions have recommended fixing at table 6-3 level:

Pricing agreed value of Allocated Costs

Table 6-3 plus RPI

8.42

7.76

Total Allocated Cost Variance

0.65

2008-09 Bfwd

Nov 08 estimated under recovery from prior year not included within Table 6-3

7.68

Deferral 2009-10 to 2010-11

Agreed to defer into following year

(1.44)

Possible W/O 2009/10

Agreed to W/O subject to certain criteria relating to CUSS

(1.44)

Total Baggage Check-in and CUSS Cost Variance

29.14

Staff Car Parking 2009-10

£ 000's

3rd Party Element only	Pricing Variance to 6-3	Comment
Revenue		
Pricing adjusted to reflected the below cost push items		
Change in 3rd party share 0.86%	(3,893)	Pricing forecasted share 79.84 % Table 6-3 forecast 80.70%.
	(261)	
Total Revenue Variance	<u>(4,154)</u>	
Direct Costs		
Staff	102	Negative Inflation Vs increased salaries
Coaching & Fuel	2,222	Additional frequencies/schedules and higher fuel costs
Management Fee/Security	132	Negative inflation Vs increased costs
Rates	509	Rating increase above negative inflation
Rent	(35)	Cost reduction re consolidation and move to perimeter area
Maintenance	395	Increased cost of re additional spaces and negative inflation
Passenger Transport Levy	(3)	
Total Direct Cost Variance	<u>3,323</u>	
Annuity		
Note - Subsequent discussions have recommended fixing at table 6-3 levels.		
Pricing agreed value of Annuity	8,599	
Table 6-3 plus RPI	7,650	
Total Annuity Variance	<u>949</u>	
Allocated Costs		
Note - Subsequent discussions have recommended fixing at table 6-3 levels		
Pricing agreed value of Allocated Costs	4,086	
Table 6-3 plus RPI	4,315	
Total Allocated Cost Variance	<u>(229)</u>	
2008-09 Bfwd		
Nov 08 estimated under recovery from prior year not included within Table 6-3	<u>112</u>	
Total Staff Car Parking Cost Variance	<u>4,154</u>	

Airside Licences 2009-10

£ 000's

3rd Party Element only

Pricing Variance to 6-3

Comment

Revenue

Pricing adjusted to reflected the below cost push items

(119)

Costs

119

Inc costs agreed at Airport User Committee re increase in safety work

Total Cost Variance

119

Water & Sewerage 2009-10

£ 000's

<u>3rd Party Element only</u>	Pricing Variance to 6-3	Comment
Revenue		
Pricing adjusted to reflected the below cost push items	(2,004)	
Change in 3rd party share 6.77%	1,004	Pricing forecasted share 23 % Table 6-3 forecast 16.23%.
Total Revenue Variance	<u>(1,000)</u>	
Direct Costs		
Staff	48	
Raw Materials	90	Additional costs re maintenance of T5 water assets
Maintenance	(9)	Negative inflation Vs increased costs
General	25	
Roundings	(2)	Negative inflation Vs increased costs
Total Direct Cost Variance	<u>152</u>	
Annuity		
Note - Subsequent discussions have recommended fixing at table 6-3 levels.		
Pricing agreed value of Annuity	1,168	
Table 6-3 plus RPI	159	
Total Annuity Variance	<u>1,009</u>	
Allocated Costs		
Note - Subsequent discussions have recommended fixing at table 6-3 levels.		
Pricing agreed value of Allocated Costs	340	
Table 6-3 plus RPI	185	
Total Allocated Cost Variance	<u>155</u>	
2008-09 Bfwd		
Nov 08 estimated under recovery from prior year not included within Table 6-3	<u>(315)</u>	
Total Staff Car Parking Cost Variance	<u>1,000</u>	

£ 000's		
<u>3rd Party Element only</u>	Pricing Variance to 6-3	Comment
Revenue		
Pricing adjusted to reflected the below cost push items	6,105	
Change in 3rd party share 7.74%	(7,137)	Pricing forecasted share 33 % Table 6-3 forecast 40.74%.
Total Revenue Variance	<u>(1,032)</u>	
Direct Costs		
Raw Materials	(5,829)	Reduction in costs re percentage change and lower forecast consumption
Maintenance	147	Negative inflation Vs increased costs
Roundings	(12)	
Total Direct Cost Variance	<u>(5,694)</u>	
Annuity		
Note - Subsequent discussions have recommended fixing at table 6-3 levels.		
Pricing agreed value of Annuity	10,665	
Table 6-3 plus RPI	4,872	
Total Annuity Variance	<u>5,792</u>	
Allocated Costs		
Note - Subsequent discussions have recommended fixing at table 6-3 levels		
Pricing agreed value of Allocated Costs	1,838	
Table 6-3 plus RPI	2,564	
Total Allocated Cost Variance	<u>(725)</u>	
2008-09 Bfwd	<u>1,659</u>	
Nov 08 estimated under recovery from prior year not included within Table 6-3		
Total Staff Car Parking Cost Variance	<u>1,032</u>	

Security ID's 2009-10

£ 000's

3rd Party Element only	Pricing Variance to 6-3	Comment
Revenue		
Pricing adjusted to reflected the below cost push items	934	
Change in 3rd party share 5.19%	(580)	Pricing forecasted share 79.8% Table 6-3 forecast 84.99%.
Total Revenue Variance	<u>354</u>	
Direct Costs		
Staff	(696)	
Property Related	(46)	
Maintenance and Equipment	227	
General	46	
Indirect Charges	(66)	
Total Direct Cost Variance	<u>(533)</u>	Net effect of all changes to process and occupation agreed with AOC.
Annuity		
Note - Subsequent discussions have recommended fixing at table 6-3 levels.		
Pricing agreed value of Annuity	51	
Table 6-3 plus RPI	81	
Total Annuity Variance	<u>(30)</u>	
Allocated Costs		
Note - Subsequent discussions have recommended fixing at table 6-3 levels.		
Pricing agreed value of Allocated Costs	1,324	
Table 6-3 plus RPI	1,364	
Total Allocated Cost Variance	<u>(40)</u>	
2008-09 Bfwd	<u>499</u>	
Nov 08 estimated under recovery from prior year not included within Table 6-3		
Agreed to defer to 2010-11	<u>(250)</u>	
Total Staff Car Parking Cost Variance	<u>(354)</u>	

Fixed Electrical Ground Power 2009-10

£ 000's

<u>3rd Party Element only</u>	Pricing Variance to 6-3	Comment
Revenue		
Pricing adjusted to reflected the below cost push items	<u>36</u>	
Direct Costs		
Raw Materials	(375)	Reduced cost of electric
Maintenance	206	Add maintenance and negative inflation vs increased costs
Roundings	2	
Total Direct Cost Variance	(166)	
Annuity		
Note - Subsequent discussions have recommended fixing at table 6-3 levels.		
Pricing agreed value of Annuity	2,410	
Table 6-3 plus RPI	2,119	
Total Annuity Variance	291	
Allocated Costs		
Note - Subsequent discussions have recommended fixing at table 6-3 levels.		
Pricing agreed value of Allocated Costs	2,449	
Table 6-3 plus RPI	2,049	
Total Allocated Cost Variance	400	
2008-09 Bfwd	(561)	
Nov 08 estimated under recovery from prior year not included within Table 6-3		
Total Staff Car Parking Cost Variance	(36)	