

Heathrow Airport Limited

2012-13 Pricing to Table 6-3 Variance Analysis

Year ended 31 March 2013

Introduction

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 2013.

The CAA forecast for Specified Activities lists the revenue that is forecast to be generated by Heathrow Airport (ie. 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.

The specified activities are:

- Baggage, Check-in desks and Common Use Self Service Machines (CUSS)
- Other Desk Licences
- Staff Car Parking
- Airside Licences
- Electricity
- Fixed Electrical Ground Power (FEGP)
- Heating and Ventilation
- Water and Sewerage
- Security Documentation
- Bus and Coach Services

The variance analysis has been made against third party elements of the prices set for the period 1st April 2012 to 31st March 2013. The pricing exercise was undertaken using constructive engagement through the Non-Regulated Charges Group and the General Notice was issued on 9th December 2011.

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 the exception of other desk licences, heating and ventilation and bus and coach services. These three specified activities have different approaches to price setting:

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

This paper includes Table 6-3 for Q5 and an update showing this table uplifted to nominal prices using RPI for 2012/13 from The Office for 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 (ie. current year prices). These variances are explained on the following sheets.

As charges for Passengers with Reduced Mobility (PRMs) were not included in the Q5 Settlement they have not been analysed in this report.

**Baggage, Check-In & CUSS
2012-13**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>121,024</u>	<u>105,566</u>	<u>15,458</u>	Pricing adjusted to reflect cost increases	<u>15,458</u>
				Additional scope - ITO operation (5T, assumed T1-T3-T5 Tunnel and therefore reduce	(7,500)
				Additional scope - T1 - T4 Tunnel operating at fuller capacity than previously assume	(400)
				Additional scope - T1 OOG assumed closed	(100)
				Additional scope - T1 prolongation	(100)
				Additional scope - Terminal 4 Ancilliary Baggage Facility	(800)
				Additional scope- T4 following transfer of responsibilities from BA	(1,600)
				Additional scope - T4IB	(1,500)
				Additional scope - T4 OOG	(100)
				Under estimated T5 O&M costs, now based on actuals and reflecting extended scop	(4,000)
				Additional scope- Building 560/Baggage Recovery Facility	(900)
				PT5TBS O&M costs, now based on actuals	(1,200)
				Check-in & CUSS - check-in under estimated and CUSS fully recovered	(3,300)
				Olympics Check in Costs	(900)
Direct Expenditure	<u>116,530</u>	<u>94,131</u>	<u>(22,400)</u>		<u>(22,400)</u>
Allocated costs	8,215	11,435	3,221	Agreed with NRCG to exclude stepped increase in allocated costs within Table 6.3	
Prior year under / (over) recovery	(3,721)		3,721	Forecasted prior year over-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2013	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>(0)</u></u>		

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit.

**Staff Car Parking
2012-13**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>19,389</u>	<u>23,008</u>	<u>(3,619)</u>	Pricing adjusted to reflect cost increases and prior year over-recovery Decrease in 3rd party share from 81% per Table 6-3 to 74% per Pricing	(1,631) (1,988) <u>(3,619)</u>
Direct Expenditure	<u>10,271</u>	<u>9,234</u>	<u>(1,037)</u>	Additional staffing, maintenance costs, general expenses and indirect charges Coaching & Fuel - additional schedules and increased fuel costs. Rent & Rates, including revised Pionair lease Passenger Transport Levy Decrease in 3rd party share from 81% per Table 6-3 to 74% per Pricing Gainshare on Rent Negotiation	(243) (1,130) (102) (28) 798 (333) <u>(1,037)</u>
Allocated costs and Annuity	11,327	13,774	2,447	Release of spaces in multi-storey car parks therefore reduction in annuity charge.	
Prior year under / (over) recovery	(2,209)	0	2,209	Forecasted prior year over-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2013	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>		

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

**Airside Licences
2012-13**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>1,649</u>	<u>920</u>	<u>729</u>	Pricing adjusted to reflect cost increases and prior year under-recovery	<u>729</u>
Direct Expenditure	<u>811</u>	<u>447</u>	<u>(364)</u>	Increase in safety work costs - agreed with Airport User Committee	<u>(364)</u>
Allocated costs and Annuity	474	474	0		
Prior year under / (over) recovery	365	0	(365)	Forecasted prior year under-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2013	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>		

At the time of publication the 2012-13 pricing for Airside Licences was still under consultation, therefore the above numbers are indicative only and subject to final approval.

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

**Electricity
2012-13**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>25,638</u>	<u>34,180</u>	<u>(8,542)</u>		
				Pricing adjusted to reflect cost decreases	(1,097)
				Decrease in 3rd party share from 40.4% per Table 6-3 to 31.6% per Pricing	<u>(7,445)</u>
					(8,542)
Direct Expenditure	<u>15,217</u>	<u>25,668</u>	<u>10,452</u>		
				Reduced consumption and costs	4,860
				Decrease in 3rd party share from 40.4% per Table 6-3 to 31.6% per Pricing	<u>5,591</u>
					10,452
Allocated costs and Annuity	8,512	8,512	0		
Prior year under / (over) recovery	1,909		(1,909)	Forecasted prior year under-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2013	<u><u>(0)</u></u>	<u><u>(0)</u></u>	<u><u>0</u></u>		

**Fixed Electrical Ground Power (FEGP)
2012-13**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>9,884</u>	<u>8,330</u>	<u>1,554</u>	Pricing adjusted to reflect cost increases and PY under recovery	<u>1,554</u>
				Higher electricity usage	(1,169)
				Reduced maintenance costs	371
				Disruption rebate	168
				Rounding	1
Direct Expenditure	<u>4,214</u>	<u>3,584</u>	<u>(629)</u>		<u>(629)</u>
Allocated costs and Annuity	4,746	4,746	0		
Prior year under / (over) recovery	1,847	0	(1,847)	Forecasted prior year under-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2013	<u>(922)</u>	<u>0</u>	<u>(922)</u>	Agreement with NRCG to spread under recovery over a two year period	

Income is charged per qtr hour periods, whereas Electricity costs represents the actual cost of the electricity supplied.

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

**Water & Sewerage
2012-13**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>1,499</u>	<u>1,094</u>	<u>405</u>		
				Pricing adjusted to reflect cost decreases	(74)
				Increase in 3rd party share from 15.3% per Table 6-3 to 22% per Pricing	<u>479</u>
					405
Direct Expenditure	<u>732</u>	<u>721</u>	<u>(11)</u>		
				Decrease in costs	305
				Increase in 3rd party share from 15.3% per Table 6-3 to 22% per Pricing	<u>(316)</u>
					(11)
Allocated costs and Annuity	373	373	(0)		
Prior year under / (over) recovery	657		(657)	Forecasted prior year under-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2012	<u><u>(263)</u></u>	<u><u>(0)</u></u>	<u><u>(263)</u></u>	Agreement with NRCG to spread under recovery over a two year period	

**Security Documentation
2012-13**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>2,121</u>	<u>3,221</u>	<u>(1,100)</u>	Pricing adjusted to reflect prior year over-recovery	<u>(1,100)</u>
				Staff savings	416
				Property	75
				Purchase of cards, card holders, lanyards etc	(176)
				HAL Gain Share	<u>(96)</u>
Direct Expenditure	<u>1,346</u>	<u>1,565</u>	<u>219</u>		<u>219</u>
Allocated costs and Annuity	1,656	1,656	0		
Prior year under / (over) recovery	(1,309)	0	1,309	Forecasted prior year under-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2013	<u><u>429</u></u>	<u><u>0</u></u>	<u><u>429</u></u>	Agreement with NRCG to spread over recovery over a two year period	

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

