

Heathrow Airport Limited

2011-12 Pricing to Table 6-3 Variance Analysis

Year ended 31 March 2012

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 2012.

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 2011 to 31st March 2012. The pricing exercise was undertaken using constructive engagement through the Non-Regulated Charges Group and the General Notice was issued on 10th December 2010.

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 2010/11 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.

RPI	2.97%					0.46%					2.40%					2.12%					2.75%					Pricing	Variance to Table 6-3			
Index	1.030					1.034					1.059					1.082					1.111									
£m	Breakdown Table 6.3 in 07/08p										Breakdown Table 6.3 in Outturn										2011/12									
Baggage, Check-in & CUSS	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13															
Income	89.081	86.720	87.721	87.361	89.472	91.727	89.703	92.916	94.497	99.441	111.090					111.090					111.090	16.593								
Direct Cost	82.3	79.1	79.4	78.3	79.8	84.703	81.852	84.092	84.728	88.669	101.321					101.321					101.321	(16.593)								
Annuity	0	0	0	0	0	-	-	-	-	-	0.000					0.000					0.000	0.000								
Allocated Costs	6.8	7.6	8.3	9.0	9.7	7.024	7.851	8.824	9.769	10.772	9.769					9.769					9.769	0.000								
Bfwd from prior year																														
Total costs	89.081	86.720	87.721	87.361	89.472	91.727	89.703	92.916	94.497	99.441	111.090					111.090					111.090	(16.593)								
											0.000					0.000					0.000									
Staff Car Parking	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13																				
Income	19.510	19.570	19.550	19.530	19.500	20.089	20.243	20.708	21.125	21.673	19.449					19.449					19.449	(1.676)								
Direct Costs	7.853	7.871	7.857	7.843	7.826	8.086	8.142	8.323	8.484	8.698	10.788					10.788					10.788	(2.304)								
Annuity	7.453	7.480	7.476	7.472	7.464	7.674	7.737	7.918	8.082	8.295	4.871					4.871					4.871	3.211								
Allocated Costs	4.204	4.219	4.217	4.215	4.210	4.329	4.364	4.467	4.559	4.679	4.591					4.591					4.591	(0.032)								
Bfwd from prior year											(0.801)					(0.801)					(0.801)	0.801								
Total costs	19.510	19.570	19.550	19.530	19.500	20.089	20.243	20.708	21.125	21.673	19.449					19.449					19.449	1.676								
											(0.000)					(0.000)					(0.000)									
Airside Licences	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13																				
Income	0.780	0.780	0.780	0.780	0.780	0.803	0.807	0.826	0.844	0.867	1.481					1.481					1.481	0.638								
Direct Costs	0.378	0.378	0.378	0.378	0.378	0.390	0.391	0.401	0.409	0.421	0.708					0.708					0.708	(0.299)								
Annuity	0.041	0.041	0.041	0.041	0.041	0.042	0.042	0.043	0.044	0.045	0.046					0.046					0.046	(0.001)								
Allocated Costs	0.361	0.361	0.361	0.361	0.361	0.371	0.373	0.382	0.390	0.401	0.421					0.421					0.421	(0.031)								
Bfwd from prior year											0.306					0.306					0.306	(0.306)								
Total costs	0.780	0.780	0.780	0.780	0.780	0.803	0.807	0.826	0.844	0.867	1.481					1.481					1.481	(0.638)								
											0.000					0.000					0.000									
Electricity	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13																				
Income	29.490	28.750	28.420	27.920	28.970	30.366	29.739	30.106	30.200	32.198	26.089					26.089					26.089	(4.112)								
Direct Costs	22.212	21.478	21.375	20.957	21.754	22.871	22.217	22.641	22.663	24.178	18.959					18.959					18.959	3.704								
Annuity	4.771	4.764	4.618	4.565	4.727	4.913	4.928	4.891	4.938	5.254	4.671					4.671					4.671	0.267								
Allocated Costs	2.510	2.507	2.430	2.402	2.487	2.585	2.593	2.574	2.598	2.764	2.458					2.458					2.458	0.141								
Bfwd from prior year											0.000					0.000					0.000	0.000								
Total costs	29.493	28.749	28.422	27.925	28.968	30.369	29.737	30.106	30.200	32.196	26.088					26.088					26.088	4.111								
											0.000					0.000					0.000									
Fixed Electrical Ground Power	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13																				
Income	7.180	7.160	7.120	7.090	7.060	7.393	7.406	7.542	7.669	7.847	6.389					6.389					6.389	(1.280)								
Direct Costs	3.094	3.085	3.055	3.042	3.038	3.186	3.191	3.236	3.290	3.376	3.258					3.258					3.258	0.032								
Annuity	2.078	2.072	2.089	2.079	2.054	2.140	2.143	2.213	2.249	2.283	2.249					2.249					2.249	(0.000)								
Allocated Costs	2.008	2.003	1.977	1.969	1.968	2.067	2.072	2.094	2.130	2.188	2.130					2.130					2.130	0.000								
Bfwd from prior year											(1.248)					(1.248)					(1.248)	1.248								
Total costs	7.180	7.160	7.120	7.090	7.060	7.393	7.406	7.542	7.669	7.847	6.389					6.389					6.389	0.032								
											0.000					0.000					0.000									
Heating and Ventilation	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13																				
Income	0.980	0.950	0.930	0.910	0.890	1.009	0.983	0.985	0.984	0.989																				
Direct Costs	0.702	0.681	0.666	0.652	0.638	0.723	0.704	0.706	0.705	0.709	0.709					0.709					0.709									
Annuity	0.565	0.548	0.536	0.525	0.513	0.582	0.567	0.568	0.568	0.571	0.571					0.571					0.571									
Allocated Costs	0.299	0.290	0.284	0.278	0.272	0.308	0.300	0.301	0.300	0.302	0.302					0.302					0.302									
Bfwd from prior year																														
Total costs	1.567	1.519	1.487	1.455	1.423	1.613	1.571	1.575	1.574	1.581																				
Water & Sewerage	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13																				
Income	0.950	0.930	0.930	0.930	0.930	0.978	0.962	0.983	1.006	1.034	1.091					1.091					1.091	0.085								
Direct Costs	0.598	0.597	0.600	0.605	0.610	0.616	0.617	0.635	0.658	0.678	0.743					0.743					0.743	(0.084)								
Annuity	0.163	0.156	0.152	0.149	0.146	0.167	0.161	0.161	0.161	0.162	0.161					0.161					0.161	(0.000)								
Allocated Costs	0.189	0.181	0.176	0.173	0.170	0.195	0.187	0.187	0.187	0.189	0.187					0.187					0.187	(0.000)								
Bfwd from prior year											0.000					0.000					0.000	0.000								
Total costs	0.950	0.934	0.928	0.927	0.926	0.978	0.966	0.983	1.006	1.029	1.091					1.091					1.091	(0.084)								
											0.000					0.000					0.000									
Security ID	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13																				
Income	2.730	2.750	2.780	2.800	2.730	2.811	2.845	2.945	3.029	3.034	3.074					3.074					3.074	0.045								
Direct Costs	1.327	1.337	1.351	1.361	1.327	1.366	1.383	1.431	1.472	1.475	1.359					1.359					1.359	0.113								
Annuity	0.079	0.080	0.081	0.081	0.079	0.081	0.082	0.085	0.088	0.088	0.091					0.091					0.091	(0.003)								
Allocated Costs	1.324	1.334	1.348	1.358	1.324	1.363	1.379	1.428	1.469	1.472	1.522					1.522					1.522	(0.053)								
Bfwd from prior year											0.102					0														

**Baggage, Check-In & CUSS
2011-12**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>111,090</u>	<u>94,497</u>	<u>16,593</u>	Pricing adjusted to reflect cost increases	<u>16,593</u>
				Additional scope - ITO operation (5T)	(1,100)
				Additional scope - T1 - T4 Tunnel operating at fuller capacity than previously assumed	(400)
				Additional scope - T1 OOG assumed closed	(200)
				Additional scope - Terminal 4 Ancillary Baggage Facility	(400)
				Additional scope- T4 following transfer of responsibilities from BA	(1,800)
				Additional scope - T4IB	(1,600)
				Under estimated T5 O&M costs, now based on actuals and reflecting extended scope.	(6,000)
				Additional scope- Building 560/Baggage Recovery Facility	(900)
				Check-in & CUSS - check-in under estimated and CUSS fully recovered	(4,200)
				Miscellaneous	7
Direct Expenditure	<u>101,321</u>	<u>84,728</u>	<u>(16,593)</u>		<u>(16,593)</u>
Allocated costs	<u>9,769</u>	<u>9,769</u>	<u>0</u>		
Net (under) / over recovery at 31 March 2012	<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.

**Staff Car Parking
2011-12**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	19,449	21,125	(1,676)	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	149 (1,826) (1,676)
Direct Expenditure	10,788	8,484	(2,304)	Additional staffing and maintenance costs 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	(464) (1,620) (927) (26) 733 (2,303)
Allocated costs and Annuity	9,462	12,641	3,179	Release of spaces in multi-storey car parks therefore reduction in annuity charge. Forecasted prior year over-recovery not included within Table 6-3	
Prior year under / (over) recovery	(801)	0	801		
Net (under) / over recovery at 31 March 2012	(0)	0	(0)		

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

2011-12

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance
Total Revenue	<u>1,481</u>	<u>844</u>	<u>638</u>	Pricing adjusted to reflect cost increases and prior year under-recovery
Direct Expenditure	<u>708</u>	<u>409</u>	<u>(299)</u>	Increase in safety work costs - agreed with Airport User Committee
Allocated costs and Annuity	466	434	(32)	RPI movement
Prior year under / (over) recovery	306	0	(306)	Forecasted prior year under-recovery not included within Table 6-3
Net (under) / over recovery at 31 March 2012	<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.

**Electricity
2011-12**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>26,089</u>	<u>30,200</u>	<u>(4,112)</u>		
				Pricing adjusted to reflect cost decreases	(945)
				Decrease in 3rd party share from 39.1% per Table 6-3 to 35% per Pricing	<u>(3,167)</u>
					(4,112)
Direct Expenditure	<u>18,959</u>	<u>22,664</u>	<u>3,705</u>		
				Reduced consumption and costs	1,328
				Decrease in 3rd party share from 39.1% per Table 6-3 to 35% per Pricing	<u>2,377</u>
					3,705
Allocated costs and Annuity	<u>7,129</u>	<u>7,537</u>	<u>407</u>	RPI movement	
Net (under) / over recovery at 31 March 2012	<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.

**Fixed Electrical Ground Power (FEGP)
2011-12**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>6,389</u>	<u>7,669</u>	<u>(1,280)</u>	Pricing adjusted to reflect cost increases and prior year over-recovery	
Direct Expenditure	<u>3,258</u>	<u>3,290</u>	<u>32</u>	Higher electricity usage Reduced maintenance costs	(218) 250
Allocated costs and Annuity	4,379	4,379	(0)		
Prior year under / (over) recovery	(1,248)	0	1,248	Forecasted prior year over-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2012	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>		<u><u>32</u></u>

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
2011-12**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>1,091</u>	<u>1,006</u>	<u>85</u>	Pricing adjusted to reflect cost increases Increase in 3rd party share from 16% per Table 6-3 to 19% per Pricing	(104) 189 <u>85</u>
Direct Expenditure	<u>743</u>	<u>657</u>	<u>(85)</u>	Increase in costs mainly T5 related Increase in 3rd party share from 16% per Table 6-3 to 19% per Pricing	38 (123) <u>(85)</u>
Allocated costs and Annuity	<u>348</u>	<u>348</u>	<u>(0)</u>		
Net (under) / over recovery at 31 March 2012	<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.

**Security Documentation
2011-12**

3rd Party Element only

	Pricing £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Total Revenue	<u>3,074</u>	<u>3,029</u>	<u>45</u>	Pricing adjusted to reflect prior year under-recovery Decrease in 3rd party share from 85% per Table 6-3 to 82% per Pricing	152 (107) <u>45</u>
Direct Expenditure	<u>1,359</u>	<u>1,472</u>	<u>113</u>	Staff savings Property Purchase of cards, card holders, lanyards etc Decrease in 3rd party share from 85% per Table 6-3 to 82% per Pricing	223 58 (220) 52 <u>113</u>
Allocated costs and Annuity Prior year under / (over) recovery	<u>1,613</u> <u>102</u>	<u>1,557</u> <u>0</u>	<u>(56)</u> <u>(102)</u>	RPI movement Forecasted prior year under-recovery not included within Table 6-3	
Net (under) / over recovery at 31 March 2012	<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.

