



Airlines for America®

We Connect the World

March 28, 2024

Stewart Carter
Programme Director NR23
Civil Aviation Authority
Westferry House
11 Westferry Circus
E14 4HD
United Kingdom

Sent via email: stewart.carter@caa.co.uk; economicregulation@caa.co.uk

RE: CAP2618: Setting Future Price Controls – Review of Approach

Dear Mr. Carter,

Airlines for America (A4A), on behalf of its members,¹ appreciates the opportunity to comment on the UK Civil Aviation Authority's (CAA) CAP2618: Setting Future Price Controls – Review of Approach. Our A4A members operate significant services to Heathrow and have a strong vested interest in the outcome of the consultation. We support the joint comments that International Air Transport Association (IATA) and Heathrow Airlines Operators Committee (AOC) have submitted but wish to supplement them with brief observations of our own.

As an initial matter, Heathrow charges are among the highest in the world. While Heathrow Airport Limited (HAL) claims that the H7 settlement is “challenging,” the latest Jacobs’ report² makes clear that the H7 settlement still leaves Heathrow as one of the most expensive airports in the world and the most expensive airport for aeronautical charges.

Despite benefitting from high charges, HAL’s debt has risen significantly in the past decade. This increase is explained by HAL’s payment of £4 billion to shareholders in the same period. Thus, HAL is diverting revenues to shareholders and seeking to persuade the CAA that it needs higher charges to sustain its operating costs. This system harms consumers and is inconsistent with the admonition in the Civil Aviation Act 2012 that “airport operators provide the services demanded by passengers at minimum cost.”

¹ A4A is the principal trade and service organization of the U.S. scheduled airline industry. Members of the association are Alaska Airlines, Inc.; American Airlines Group, Inc.; Atlas Air, Inc.; Delta Air Lines, Inc.; Federal Express Corporation; Hawaiian Airlines; JetBlue Airways Corp.; Southwest Airlines Co.; United Holdings, Inc.; and United Parcel Service Co. Air Canada is an associate member.

² Review of Airport Charges 2023, Jacobs and Airport Performance Indicators 2023: [Airports Performance Indicators 2023 | Jacobs](#)

A4A has a number of recommendations designed to improve the efficiency and effectiveness of the H8 process and to ensure that customers are treated fairly while HAL receives a fair return for its services. We list these key recommendations below:

Regulatory Asset Base (RAB): The CAA should conduct a comprehensive reassessment of RAB. RAB is a fundamental building block and drives 90% of the charge. HAL's RAB now stands at £20 billion, a 50% increase since the start of Q6.

In conducting this reassessment, the CAA should consider whether the use of RPI is consistent with international standards. In addition, the CAA should evaluate whether it is appropriate to allocate to the RAB the costs for "Leadership and Logistics" at a blanket rate of 15.74% of total capital costs. Finally, the CAA should consider liquidating under-performing and non-core assets which add little or no consumer or commercial value.

CAA Resources, Monitoring and Enforcement: The CAA should ensure it has the appropriate resources to deliver a timely and high-quality H8 determination that meets consumer needs. In particular, the CAA should have the resources needed to engage outside experts early in the process to assist in constructing the key building blocks in close consultation with stakeholders.

We disagree with the CAA's proposal to exclude "issues around implementation of price controls, monitoring and enforcement" from the scope of this consultation. These issues are key to ensuring compliance with the CAA's final determination. The CAA should ensure that it has the appropriate resources to conduct an effective H8 process and to undertake its own consumer research. It should also have sufficient resources to conduct monitoring and enforcement activities during the control period. Too often we have seen HAL delay implementation of key elements of the CAA's determination to the detriment of airlines and their passengers. As a result, CAA should have sufficient resources to monitor HAL's implementation of its determination and to take enforcement action where warranted.

Balance of Risks: H8 should allocate risks equitably between HAL and Heathrow users. Risks are currently imbalanced as a result of decisions made during COVID-19. While the CAA has sought to address this imbalance – for example updating the WACC to reflect the Traffic Risk Sharing (TRS) mechanism - these imbalances are now structurally embedded within the current framework. Whatever the merits of re-allocating risks during COVID-19, the CAA should rebalance the allocation of risks not only to reflect the reduced risks to HAL post-pandemic but also to ensure that the consumer interests are given priority.

Constructive Engagement: The CAA should seek to make constructive engagement with all stakeholders more effective. From the outset, the CAA should develop a workplan setting out clear expectations and timescales. The CAA should also put in place enhanced incentives and enforcement measures to ensure that HAL's future business plans fully comply with the CAA's final determination. In completing these tasks, CAA should use outside experts where appropriate.

Finally, we support the targeted improvements in developing the building blocks that IATA/AOC advocate for, including primary use of independent models for OpEx, commercial revenues and passenger forecasting, a review on the Other Regulated Charges framework and further refinement of the outcome-based regulation and capital governance framework.

We thank you for your kind attention. Please do not hesitate to contact me if you have any questions or require further information.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Glatz". The signature is fluid and cursive, with the first name "Keith" written in a smaller, more compact script and the last name "Glatz" in a larger, more prominent script.

Keith Glatz
Senior Vice President - International