London (Heathrow) Airline Consultative Committee

Ref: response to "Notice of proposed modification to Heathrow Airport Limited's Economic Licence to allow for an annual recovery of £10m of Category B costs for a new northwest runway" CAP 1470

Final – 6 Dec 16

Thank you for the opportunity to respond to the above consultation and the CAA's desire to modify the HAL licence. We have noted the consistent position taken by the CAA over the last few years and outlined in CAP 1372, 1332 and 1279. However, we continue to remain highly disappointed with the CAA's approach and the Heathrow airline community continues to believe that these costs should not be recovered until our passengers receive the benefits from the related assets and not beforehand. Such a recovery is ultimately prefunding which we are fundamentally opposed to.

We note that while the CAA has extended the deadline for CAP 1469, it has not done so for CAP 1470. This implies that the CAA is already pre-empting its decision from CAP 1469 in relation to the inclusion of GBP 10 million in Q6 charges. We find this aspect to be very worrying as we are unable, from the evidence provided in the CAA's response to CAP 1469, to establish a clear justification for the CAA's reasoning. Consequently, we remain unable to support the proposed licence change until greater clarity exists around an integrated approach towards the management of Cat B costs. This includes the factors associated with risk sharing in particular the treatment of planning permission as an asset, the timing and level of returns and lack of adequate governance. In addition, we have no information regarding how the CAA wish to assess the cost efficiency of Cat B costs and the new role to be played by the IFS.

The present submission solely focuses on our views regarding the inclusion of GBP 10 million in Q6 charges (as being proposed in the license modification). All other concerns and views regarding the CAA's final proposals regarding the treatment of category B costs will be included in our submission on CAP 1469.

We note that the UK CAA has provided two main reasons on why it should allow this GBP 10 million in charges:

- The allowance incentivises the airport operator to start working on securing a planning permission immediately after a government decision, and
- There needs to be an alignment with previous CAA decisions regarding Gatwick

In relation to the first point, we do not believe HAL needs a further incentive to start working on securing a planning permission. HAL has already worked heavily on being the chosen option for building additional capacity in the South East of England (i.e. Cat A costs). Now that there is a government decision, we find it hard to believe that HAL will not be fully incentivised to continue working in the obvious next step of the process (i.e. securing planning permission). Indeed it is our understanding that resources have been recruited by HAL and contracts have been let, which therefore illustrates that HAL are clearly wholly incentivised to press ahead.

With regards to the second point, we do not believe that alignment with previous decisions is a justification in itself, if there is no compelling reason that would justify such decision in the first place. Furthermore, the Gatwick decision was taken at a different point in time, with different levels of uncertainty. It is now clear that the circumstances under which that decision was taken are not relevant for the situation we currently face at Heathrow.

Finally, we remain very concerned with the fact that the proposed way forward for the Cat B costs, which are very significant according to HAL's estimates, will allow a prefunding component and will set a precedent for Cat C costs, which are far more significant.

In the light of these matters, we urgently request a meeting with the CAA to explain our issues and to assess the potential for further exploratory talks around our concerns. In the meantime, we would like to request that consultation 1469 should be deliberated on prior to the issues raised in 1470. Consequently any decision on 1470 should not precede decisions on 1469.