

Heathrow



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Rob Bishton

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Sent via email - economicregulation@caa.co.uk

Dear Rob,

This is a joint letter from Heathrow Airport and the airline community operating at Heathrow, as represented by the Heathrow AOC and the London (Heathrow) Airline Consultative Committee (collectively the Airline Community) in response to the Civil Aviation Authority's (CAA) CAP2618 consultation on "Setting Future Price Controls".

Both parties are committed to support the CAA in delivering improved price control review processes that help further the interests of consumers.

The purpose of the letter is to highlight common themes and issues that we agree need to be reviewed and improved for future price control reviews. Both Heathrow and the Airline Community will also be submitting separate responses to the CAA's consultation.

This letter has been developed through positive and proactive engagement on behalf of all parties – including a workshop during the consultation period to further develop and refine our joint positions.

Context for CAA Price Control Decisions:

As the UK's only hub airport, the economic regulation of the Heathrow and future price control reviews that deliver this, are of critical importance to the growth and development of the UK aviation eco-system and ultimately, consumers.

The leadership of the CAA must reflect this importance in the priority it places on conducting this review, learning the lessons from it, and then acting and delivering on areas of reform for future price controls.

Getting this process right and ensuring that all stakeholders across industry are clear on the objectives, parameters, and deliverables from the CAA, will enable a much-improved process for H8 and a step-change from the most recent Heathrow price control review, H7.

This will help deliver a H8 settlement that furthers the interest of consumers in line with the CAA's primary statutory duty.

Summary – Key Areas of Focus:

We have agreed on three broad themes that the CAA must address through this consultation and review process.

More details on each are outlined further in the letter, but fall under the following headings:

- 1) *Setting the right strategic vision*
- 2) *Improving delivery against clear timelines*
- 3) *Enhancing CAA transparency and predictability*

Heathrow and the Airline Community believe that whilst the CAA's consultation covers a broad range of issues (the detail of which will be covered in individual responses), the CAA and its leadership must ensure that these issues are considered thoroughly, given the cross-sector agreement that has been developed and outlined.

Below adds further detail and information on the themes and areas of improvement that we would like the CAA to consider and act upon as part of this review.

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1. Setting the right strategic vision:

Both Heathrow and the Airline Community support the principle that greater clarity on the approach to, delivery of and resourcing for future price controls, is vital for the engagement that follows from industry to be appropriately focused and detailed.

The CAA has a statutory duty to further the interests of consumers and will have a government policy landscape in which to operate. However, we believe H7 lacked an overarching strategy as to how the CAA was intending to deliver against these obligations. This should not remove flexibility from the evolution of the final price control but should set clear objectives that all participants can work towards.

Setting out the CAA's objectives, priorities, and requirements before the price control process commences will ensure all stakeholders understand the parameters on which to engage and respond.

Predictability from the outset will enable an improved price control process for all involved.

Key areas where we ask for clarity on objectives, are outlined below:

- Consumer outcomes: It is vital that the CAA sets out its strategic vision on economic regulation, notably for how it will deliver on its duty to further the interests of consumers at Heathrow. This will inform how the regulator approaches the different stages of its work and enable it to resource and prioritise effectively.
- Alignment: The CAA will need to outline how it intends to align the H8 price control process with those related to London Gatwick and NERL. This clarity will give confidence to stakeholders where there will be overlap and the right prioritisation across the three reviews.

2. Improving delivery against clear timelines:

As outlined above, greater clarity of objectives, duties and approaches from the outset is vital – but this must come with a realistic and clear timetable of activity and delivery. As part of the CAA's draft method statement/ policy guidance, Heathrow and the Airline Community ask for improvements in the following areas to address the challenges experienced within the H7 process around moving timelines, missed deadlines and lack of clarity on delivery at times:

- **Governance:** The CAA must ensure the timetables set out in the price control process align with the internal governance required to deliver against it. Heathrow and the Airline Community are agnostic to how this might work in practice (i.e. whether a separate Regulatory Board or a robust delegation framework are required to avoid delays that could come with the overuse of the CAA Board) but believe must be addressed as part of this review.
- **Timetables:** The CAA proposes a timetable for H8 where the delivery of Heathrow's Initial Business Plan (IBP) and important components such as Constructive Engagement, would begin in early 2025. However, we have already seen delays in the process: the H7 remittal consultation has only just been published, despite the CMA Final Decision being issued more than six months ago; this current review more than two months' delayed; and there is no certainty on when the CAA will publish guidance on the business planning process.

The CAA's proposed timetable could risk reducing sufficient time for vital components of the process, notably Constructive Engagement. The CAA makes clear it considers this to be an important step, and we agree with that, so it is critical that this is factored into the timetable, and with time to allow the required developments from this lessons learned process. Proactive engagement by the CAA during the process would allow the regulator to establish what areas may need particular attention to facilitate delivery to its timescales. The CAA should provide much greater clarity on its proposed timetable including demonstrating its deliverability, factoring in key decision milestones, such as CAA Board meetings, and any dependencies.

- **Process if and when delays occur:** Whilst ensuring the right governance is in place and deliverable timelines are set, delays may occur. If this is the case, the CAA ought to signal the delay early on - including the reason and rationale for the delay, consider whether these reasons necessitate a delay, set out a new timeline that all stakeholders can work to, and the impact of the delay on other parts of the process required. As above, any delays should not result in truncating key elements of the process, such as evidence gathering, Constructive Engagement and consultation windows.
- **Resourcing:** It is clear that the price control process will have significant "peaks", with various rounds of consultation that require significant resource. However, the CAA has not outlined a clear and detailed resource plan to deliver this. The CAA's resourcing plans need to take into account ongoing needs across the entire regulatory period, not only cyclical spikes. The use of 3rd parties, the cross-CAA coordination and mapping of team activities during the process, are vital to ensure the timelines and timescales set out are met.

3. Transparency and predictability of CAA engagement:

The purpose of this review is to set out an improved framework to deliver H8. As such, it is important for the CAA to be transparent about areas where change is required, and how it intends to make and implement these changes over the next few months (or how they intend to do so during the price control process itself).

Alongside the clear guidance on how an improved process will be delivered, it is essential that the CAA provides greater clarity on the information the CAA require from all parties at each stage of the price control process

and how this will be utilised, as well as how the regulator intends to support important elements of the process where it is industry-led.

We refer to the following key areas:

- **Constructive Engagement:** Constructive engagement is a clear industry-led part of the overall price control process, which all parties are committed to fully engaging with for H8. However, the discussions that take place can provide the CAA with clear line of sight of the main issues that may need to be addressed by the regulator while discussions are ongoing. As such, there is a role for the CAA to obtain an early understanding and provide guidance about these key issues as discussions take place, as well as seeking to proactively resolve the most challenging issues ahead of the next part of the price control process.
- **Building Blocks:** The CAA should also be clear in its expectations on the various building blocks and seek to outline the elements where it will set out or guidance for the parties. This would help the CAA to clarify whether certain elements, approaches or information being shared are sufficient. At the same time, such guidance would help remove ambiguity for industry stakeholders and allow for a proactive intervention by the regulator - where it may be required.

Summary:

As outlined in our joint letter, both Heathrow and the Airline Community are committed to working with the CAA on this review and to an overall improvement of future price control reviews at Heathrow. The impact these decisions can have on the landscape of UK aviation means it is vital this process is successful and learns the lessons of previous price control reviews thoroughly.

Both at a working level and senior level, the CAA must place a significant priority on delivery, with industry standing ready to support and play our part in an improved price control process.

Yours sincerely,

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