



## Airlines for America®

*We Connect the World*

May 1, 2024

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RE: CAA Consultation on Outstanding H7 Issues

Dear Mr. Evans,

Airlines for America (A4A), on behalf of its members,<sup>1</sup> appreciates the opportunity to respond to the Civil Aviation Authority's (CAA) consultation on matters that (1) the Competition and Markets Authority (CMA) remitted to the CAA in its Final Determinations on H7 price control; (2) the CAA was unable to resolve prior to making its Final Decision; and (3) Heathrow Airport Limited (HAL) raised separately. A4A members operate extensive services to Heathrow and have a strong vested interest in the outcome of this consultation. We support the comments that IATA has submitted but wish to supplement them with brief observations of our own.

Subject to the reservations set out below, we welcome the CAA's proposal to lower the proposed cap on airport charges by 6% for 2025 and 2026. This would equate to an estimated cap of £23.72 in 2025 (a decrease of £1.52) and £23.70 in 2026 (a decrease of £1.57). Heathrow charges are amongst the highest in the world, and the proposed reductions are positive news for airlines and passengers. We hope that the ongoing review of the CAA's approach to setting pricing controls (including a review of the Regulatory Asset Base and the lessons learned from the H7) will identify the reasons why Heathrow charges are so high and facilitate further reductions.

1. Issues CMA referred back to CAA

**Additional adjustment factor (AK) for revenues in 2020 and 2021:** We support the CAA's approach to the AK adjustment and believe it is consistent with the CMA's position. However, the CAA should reflect this adjustment in reduced airport charges in 2025 and not over a two-year period so that consumers can benefit from this correction as soon as practical.

**Index-linked premium:** We support the CAA's decision to remove the premium and believe it is consistent with the CMA's position. This decision will benefit consumers by reducing the CAA's original estimate of HAL's overall weighted average cost of capital (WACC) by two basis points.

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<sup>1</sup> 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 Continental Holdings, Inc.; and United Parcel Service Co. Air Canada is an associate member.

**“Shock factor” used in the H7 passenger forecast:** We disagree with the CAA’s conclusion on review that HAL’s use of the shock factor is reasonable. This decision underlines the need to revisit the methodology the CAA uses to estimate passenger forecasts in consultation with airlines and other stakeholders.

2. Issues CAA Left Unresolved in its Final Decision

**Opex allowance “building block”:** We agree with the CAA’s proposal. The findings of the CAA’s pension advisers support removal of £84 million of pension deficit repair costs (PDRC) from the opex allowance for H7.

**Level of business rate costs included in the opex allowance:** We disagree with the CAA’s decision not to reduce business rate costs on the ground that HAL’s business rates are likely to increase in the last year of H7. The CAA acknowledges that the original calculation of business rate costs in its Final Decision was £85 million too high, and, in our view, consumers should enjoy the benefits of the CAA’s recalculation at this time. The CAA can correct for any increase in HAL’s business rate costs in a reconciliation at the end of the price control period.

**Pod Parking Premium:** Like IATA, we respectfully disagree with the CAA’s assessment of an 8.2 percent premium and instead respectfully submit that there should be no premium for the Pod Parking product.

3. HAL’s Additional Issues

**Queueing Times for Vehicles:** We agree with HAL’s proposal to clarify in the license agreement that the appropriate metric is the average wait time every 15-minute period rather than the average wait time over a one-month period.

**Application of Terminal Drop-Off Charge (TDOC) Recovery Mechanism:** In response to HAL’s proposal, the CAA should first establish if a correction is actually required. If that is deemed to be the case, the CAA should publish a proposal, clearly setting out its position and rationale for the change, with further engagement and consultation on the matter with interested stakeholders.

**Operational Certificate of Operational Measures:** We disagree that assurances from HAL’s Chief Operating Officer and a nominated board member are sufficient to confirm Heathrow has available sufficient operational resources. The CAA should not allow HAL to correct its own homework but rather require HAL to provide an independent expert assessment of its operational resources.

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

Sincerely,



Keith Glatz  
Senior Vice President – International Affairs