

Stewart Carter
Programme Director
UK Civil Aviation Authority
Sent via email

27 September 2024

Dear Stewart,

Thank you for your letter dated 3 September 2024 with preliminary guidance on constructive engagement (CE) for next Heathrow price control review (H8). Heathrow welcomes the opportunity to provide views on your initial plans and looks forward to working with the Civil Aviation Authority (CAA) and Airline Community during H8.

This letter sets out our initial reaction to the proposals for CE Rounds 1 and 2 outlined by the CAA, as these are imminent. Heathrow will continue to develop views and proposals on scope and ways of working for CE Rounds 3 and 4, and will share these in due time to help ensure they are delivered in the best possible way.

It should be noted that the publication of the CAA's guidance on Heathrow's business plan (draft guidance scheduled for October and final methodology in February next year) will have decisive impact on the success of CE. In particular, having the final methodology in place ahead of Round 2 is likely to be key in making this round as effective as possible. Heathrow asks the CAA to consider the risks around its timely delivery and, if the current H8 timetable no longer appears ideal, to update it before the end of October.

In addition, Heathrow notes that given the earlier stage of the price review in which engagement is being proposed for H8, in particular Round 1, Heathrow's plans are likely less mature now than they were in the CE phase of previous price controls. It is important that any information and transparency requirements reflect this change in the process.

H8 timetable

Heathrow is supportive of the updated proposal for the H8 timetable, as set out in CAA's letter from 13 August 2024. Heathrow will aim to deliver against this timetable and, to this end, has begun discussions with Airline Community to address the actions needed to get the CE process underway. Heathrow agrees with the CAA that an effective early CE process can help Heathrow to ensure that its plan reflects customer priorities of our customers.

Nevertheless, given the compressed price review process being proposed, the risk of small delays having a compounding impact needs to be mitigated to avoid a repetition of the H7 experience of shifting timescales and milestones without clear dates. The overall process is likely to be more effective and better targeted at consumers' interests if adequate time is allowed for all parties to complete their stages of the process.

In particular, Heathrow considers that a delay to the issue of the H8 methodology, including business plan guidance, beyond early February could reduce the effectiveness of the second round of CE – also being detrimental to Heathrow's business plan delivery in June. Heathrow urges the CAA to consider this carefully, and if, on reflection, it considers that there is a significant risk to the timely delivery of the methodology, to review whether the current timetable remains appropriate, and to do so by the end of October.

Constructive Engagement

Heathrow is supportive of CAA's overall approach in relation to CE and the importance of early engagement as part of a stronger price control process. This can add value to H8 helping to further enable a customer-focused approach for Heathrow's H8 business plan; Heathrow is committed to deliver on the spirit and approach of the new CE process proposed by the CAA.

In line with the guidance issued by the CAA, it is Heathrow's view that the underpinning goal of CE in this early stage of H8 should be for Heathrow and Airline Community to understand their respective priorities for the next regulatory cycle, key assumptions, and views on the key choices in the business plan. In addition, where possible, to find consensus and alignment on these. In other words, undertaking CE at this early stage should enable the Airline Community to explain to Heathrow what is important to them. For example, it would be useful to hear from the Airline Community what they consider to be a resilient airport. Therefore, CE should work more as a two-way form of engagement and, to support such an approach, it will be helpful if the final guidance from the CAA reflected this opportunity.

Alongside this, it should be noted that for the initial stage of CE, Heathrow will still be developing the elements of its plan, and understanding the relative priorities of different choices. Getting feedback from the Airline Community at this early planning stage is valuable as it will help shape the business plan in a way that helps meet their needs, while ensuring the needs of consumers are also considered.

This also means that in many cases the information Heathrow has on specific choices will be relatively immature, and detailed information on costs or benefits will not be

available until later in the process. It is important that this is reflected in CAA's guidance and Airline Community expectations concerning information sharing and transparency.

Governance Protocol

Heathrow and Airline Community have started discussions to develop a CE governance protocol setting out the parties' understanding on CE objectives, scope, and expected outputs. This protocol will be shared with the CAA in due course.

CE chairing

Following the precedent set by NR23, where the CAA proposed two co-chairs (one appointed by Airline Community and one by NERL), Heathrow and the Airline Community have already agreed on their nominated co-chairs:

- Heathrow: Manish Madhas, Head of Regulatory Engagement & Performance.
- Airline Community: Simon Laver, Assistant Director - Airports, Passenger, Cargo and Security (Europe) at International Air Transport Association (IATA).

The co-chairing approach will provide a balanced view in meetings and avoids the need to identify a suitable independent chair with sufficient specialist knowledge, which would be problematic given the specified timescales for CE.

Independent reporter

Alongside the co-chairs, the CAA has also consulted on the appointment of an independent reporter. Heathrow supports this initiative and the notion that the independent reporter should be nominated jointly by Heathrow and Airline Community.

It is Heathrow's view that the independent reporter should be responsible for collecting and articulating in a summarised manner a *factual account* of the discussions and outcomes in each round of CE, as well as any agreement on next steps or requirements reached by the parties. Heathrow also considers it is key that CE reports drafted by the independent reporter should be jointly agreed with the co-chairs ahead of being presented to the CAA – the nominated reporter should start its activities by setting out a mechanism to operationalise the reporting process.

The role of the CAA

The CAA has a central role to play prior to and during CE – especially given the likely focus of Rounds 3 and 4 – and Heathrow is supportive of CAA's proposal for the regulator to have a more active role during CE in H8.

Heathrow agrees that the CAA should be attending all sessions as it will help its understanding of the process and the thinking of the different parties. Heathrow also agree with the CAA that CE is primarily an engagement process between Heathrow and Airline Community where the regulator should not have a moderator or arbitration role but instead help facilitating discussions and clarifying policy positions or plans for the price review process.

Heathrow will continue to share information as and when required and at the right level of maturity to inform positive discussions with the Airline Community. Heathrow is confident that our approach will deliver on the spirit and approach of the new CE process created by the CAA and reiterated above.

Round 1

Overall approach

Heathrow supports the overall approach and themes proposed for Round 1 of CE. In line with CAA's guidance, it is key that CE as a whole, but particularly Round 1, is seen as an opportunity for joint plan shaping for H8, rather than a one-way information provision stage.

Heathrow expects discussions in Round 1 to focus on broad vision and ambitions for the future airport, also providing parties with a chance to share and feed in their understanding of consumer priorities for areas such as investment and service quality. In this sense, and in view of the early start of CE and the very initial stage of planning for the next regulatory cycle overall, Round 1 will deliver on the CAA's ambitions – and not cover detailed plans and cost estimates at this stage.

It is important that, when developing final CE guidance as well as during CE discussions the CAA reiterates this broad purpose of Round 1 to ensure expectations are aligned and avoid that CE is derailed by conflicting assumptions about what Round 1 can be expected to cover.

Round 1 sessions

Heathrow has already shared a proposed structure for Round 1 meetings with Airline Community, suggesting 4 separate sessions:

- Context and scene setting;
- Strategy, traffic and capacity upgrades;
- Service quality and resilience;
- Emerging capital choices.

In these sessions Heathrow expects the following to be addressed:

- Heathrow's current H8 passenger forecast and its likely links to capacity requirements as well as potential impacts of higher customer numbers on areas such as satisfaction and non-aeronautical income.
- Heathrow and Airline Community views on what the key choices for H8 are in terms of investment, service quality and their understanding of consumer priorities for these areas. Heathrow expects to be able to describe potential benefits where choices are investment-related at a high level in Round 1 and will be developing more refined views on costs to be shared throughout CE.
- Emerging views on some key elements of the business plan such as capacity upgrades, decarbonisation, surface access, and property, seeking airline views on the key benefits that they expect the business plan should take into account.

Round 2

Overall approach

Business plan information provision and discussion can add significantly value to the price review process and is a key condition for the development of the customer-focused plan ambitioned by Heathrow. This is why Heathrow consistently provides the CAA and Airline Community with the best information available at the time during the price review process and is firmly committed to continue doing the same in H8.

Given the planned focus on building blocks of Round 2, Heathrow considers that this round could be more effective if it were to take place after the CAA has published its final methodology for H8 (currently forecast for February 2025). This will help ensure that discussions are consistent with the policy objectives and information requirements in the methodology. Additionally, Round 2 can be strengthened if there if Heathrow and the Airline Community have appropriate time after Round 1 to review how effective it has been, also allowing the CAA to update the CE guidance for Round 2 taking into account any lessons learnt.

Addressing these issues would suggest a slightly later start to Round 2. However, this then compresses the time for the delivery of an effective business plan in June 2025. This highlights the importance of timely delivery of the final methodology by the CAA in early February, as a delay could result in a less effective process leading up to business plan submission. As set out above, we ask the CAA to consider this risk carefully.

We are happy to clarify any issues raised in this letter and to continue discussions on how to best shape CE and broader H8 elements to deliver a business plan that is

focused on both consumers and our airline customers within proposed timescales. Heathrow is committed to work with our airlines partners to set the governance, parameters and themes for discussion during CE – driving a two-way discussion and information sharing approach to help set the customer focus that will underpin Heathrow's H8 business plan.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M King', with a horizontal line above the first few letters.

Mike King
Director of Regulation and Economics