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**UNITED KINGDOM  
CIVIL AVIATION AUTHORITY**

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Airports - Economic Regulation**

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**Notices relating to applications and permissions**

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This notice should be read in conjunction with the Civil Aviation Authority Official Record Series 6 Part 1.

**Contents**

- Section 1 Applications for permission**
- Section 2 Decisions of the Authority**
- Section 3 Miscellaneous**

Note: Sections are omitted if they contain no entry in this issue.

## **Section 1      Applications for permissions**

Farnborough Airport has applied to the Civil Aviation Authority for a Permission to levy airport charges and such a Permission is deemed to be in force under Section 38(3) of the Airports Act 1986.

A copy of the application is available for inspection at the offices of the Civil Aviation Authority at K4 Gate 7, CAA House, 45-59 Kingsway, London, WC2B 6TE.

## **Section 2     Decisions of the Authority**

### **Manchester Airport Limited**

1. The Civil Aviation Authority has decided to impose conditions on the maximum amounts which are being capable of being levied as airport charges in relation to Manchester Airport for the five years beginning on 1 April 2003 as set out in Annex 1.
2. The Civil Aviation Authority has decided to impose conditions to remedy the public interest finding of the Competition Commission with respect to Manchester Airport as set out in Annex 2.
3. The Civil Aviation Authority has decided to extend the condition as to the procedures for consultation with users in respect of Manchester Airport to 31 March 2008 as set out in Annex 3.
4. The Civil Aviation Authority has decided to extend the condition as to the cost information available to users in respect of Manchester Airport to 31 March 2008.
5. The Civil Aviation Authority's full decision has been published on its website ([www.caa.co.uk](http://www.caa.co.uk)).

## Annex 1: Price cap conditions

### Conditions as to airport charges imposed in relation to Manchester Airport in accordance with section 40(4) of the Airports Act 1986

#### Condition 1

1. When the airport operator fixes the amounts to be levied by it by way of airport charges in respect of relevant air services in the year beginning on 1 April 2003 it shall fix those charges at the levels best calculated to secure that, in that year, the total revenue at Manchester Airport from such charges divided by the total number of passengers using Manchester Airport, does not exceed the maximum average revenue yield per passenger which shall be: £6.500

2. When the airport operator fixes the amounts to be levied by it by way of airport charges in respect of relevant air services in the year beginning on 1 April 2004 it shall fix those charges at the levels best calculated to secure that, in that year, the total revenue at Manchester Airport from such charges divided by the total number of passengers using Manchester airport, does not exceed the maximum average revenue yield per passenger which shall be calculated as follows:

$$M_t = \left(1 + \frac{RPI_{t-1} - X}{100}\right) Y_{t-1}$$

and

$$Y_{t-1} = \pounds 6.500 + S_{t-1}$$

and where  $RPI_{t-1}$  and  $S_{t-1}$  have the meanings as set out in paragraphs 3 and 4 of this condition.

3. On each occasion on which the airport operator fixes the amounts to be levied by it by way of airport charges in respect of relevant air services in each of the three relevant years beginning with 1 April 2005 it shall fix those charges at the levels best calculated to secure that, in each relevant year, the total revenue at Manchester Airport from such charges, divided by the total number of passengers using Manchester Airport, does not exceed the maximum revenue yield per passenger calculated in accordance with the following formula:

$$M_t = \left(1 + \frac{RPI_{t-1} - X}{100}\right) Y_{t-1} - K_t$$

where

$M_t$  = maximum average revenue yield per passenger using Manchester Airport in relevant year  $t$  expressed in £;

$RPI_{t-1}$  has the meaning assigned to it by paragraph 4;

$$X = 5$$

$Y_{t-1}$  = the specified average revenue yield per passenger calculated in accordance with the following formula:

$$Y_{t-1} = Y_{t-2} \left(1 + \frac{RPI_{t-2}}{100}\right) + S_{t-1}$$

Where:

$$Y_{2003/4} = \pounds 6.500 + S_{2003/4};$$

$S_{t-1}$  = the allowable security cost per passenger using Manchester Airport in relevant year  $t - 1$  (whether of a positive or a negative value) to be applied in relevant year  $t$  calculated in accordance with the following formulae expressed in  $\pounds$ ;

for each relevant year  $t - 1$

If

*Expected Cumulative Cost* <sub>$t-1$</sub>   $\geq$  4 million and

*Expected Cumulative Cost* <sub>$t-2$</sub>   $\geq$  4 million

$$S_{t-1} = 0.75C_{t-1}$$

or if

*Expected Cumulative Cost* <sub>$t-1$</sub>   $>$  4 million and

*Expected Cumulative Cost* <sub>$t-2$</sub>   $<$  4 million

or

*Expected Cumulative Cost* <sub>$t-1$</sub>   $<$  4 million and

*Expected Cumulative Cost* <sub>$t-2$</sub>   $>$  4 million

$$S_{t-1} = 0.75 \frac{\text{Expected Cumulative Cost}_{t-1} - 4 \text{ million}}{(6-t)Q_{t-1}}$$

otherwise

$$S_{t-1} = 0$$

Where the expected cumulative cost of annualised claims shall be calculated as follows:

Year ( $t-1$ )	2003/4	2004/5	2005/6	2006/7
A. Effect of claims relating to 2003/4	$5 \times C_1 \times Q_1$	$5 \times C_1 \times Q_1$	$5 \times C_1 \times Q_1$	$5 \times C_1 \times Q_1$
B. Effect of claims relating to 2004/5		$4 \times C_2 \times Q_2$	$4 \times C_2 \times Q_2$	$4 \times C_2 \times Q_2$
C. Effect of claims relating to 2005/6			$3 \times C_3 \times Q_3$	$3 \times C_3 \times Q_3$
D. Effect of claims relating to 2006/7				$2 \times C_4 \times Q_4$
Expected Cumulative Cost Sum rows A to D				

$C_{t-1}$  = the total qualifying security claims per passenger using Manchester Airport in relevant year  $t-1$  (whether of a positive or a negative value) expressed in £;

$K_t$  = the correction per passenger (whether of a positive or negative value) to be made in relevant year  $t$  which is derived as follows:

$$K_t = \frac{T_{t-2} - (Q_{t-2} M_{t-2})}{Q_{t-2}} \left(1 + \frac{I}{100}\right)^2$$

in which

$T_{t-2}$  = total revenue from airport charges in respect of relevant air services levied at Manchester Airport in relevant year  $t-2$ ;

$Q_{t-2}$  = passengers using Manchester Airport in relevant year  $t-2$ ;

$M_{t-2}$  = maximum average revenue yield per passenger using Manchester Airport in relevant year  $t-2$ ;

$I$  = the appropriate interest rate for relevant year  $t-2$  which is equal to, where  $K_t$  (taking no account of  $I$  for this purpose) has a positive value, the Specified Rate plus three percentage points or, where  $K_t$  (taking no account of  $I$  for this purpose) has a negative value, the Specified Rate.

4. In this condition:

5.

'airport charges' has the meaning assigned to it by section 36(1) of the Airports Act 1986;

'airport operator' means the person for the time being having the management of Manchester Airport;

'average revenue yield per passenger' means the revenue from airport charges levied in respect of relevant air services in the relevant year before any deduction of unpublished discounts or payments under Generic Service Standards divided by the total number of passengers using Manchester Airport in the relevant year;

'passenger using an airport' means a passenger joining or leaving an aircraft at Manchester Airport;

'relevant air services' means air services carrying passengers that join or leave an aircraft at Manchester Airport, including air services operated for the purpose of business or general aviation;

'relevant year' means the period of twelve months ending with 31 March in each year;

' $RPI_{t-1}$ ' means the percentage change (whether of a positive or negative value) in the Retail Price Index between that published with respect to September in relevant year  $t-1$  and that published with respect to the immediately preceding September, and ' $RPI_{t-2}$ ' shall be construed accordingly;

'qualifying security claim per passenger' means the annual equivalent of the increase or decrease in security costs at Manchester Airport in the relevant year  $t-1$ , which arise as a result of a change in required security standards at that airport, as certified by the Civil Aviation Authority divided by the number of passengers using the airport in that year

'Specified Rate' means the average of the Treasury Bill Discount Rate (expressed as an annual percentage interest rate) published weekly by the Bank of England, during the 12 months from the beginning of October in year  $t-2$  to the end of September in year  $t-1$ .

## **Condition 2**

In each of the five consecutive years beginning on 1 April 2003 the operator of Manchester Airport shall not levy airport charges in respect of air services that do not fall within the definition of relevant air services for the purposes of Condition 1 that are higher than are levied in respect of equivalent air services falling within that definition.

**Annex 2: Standards of service condition****Conditions as to rebates to be paid by the operator of Manchester Airport where quality of service fails to meet service standards in accordance with section 46(2) of the Airports Act 1986**

WHEREAS the Competition Commission ("CC") in the report to the Civil Aviation Authority ("CAA") following a reference made by the CAA to the Competition Commission on 28 February 2002 in respect of the operator of Manchester Airport ("MA") concluded that in failing to conduct itself, during the period between 10 December 1996 and 28 February 2002, so as to make prices paid sufficiently reflect the level of service provided, MA has pursued a course of conduct that has operated and might be expected to operate against the public interest.

AND WHEREAS the CC found that the effect adverse to the public interest which this course of conduct has had and might be expected to have is that prices do not reflect the quality of service to the extent that would otherwise be the case and in consequence that there is an absence of the financial incentive to provide the quality of service which would obtain in a competitive market.

AND WHEREAS the CC recommended that this adverse effect could be remedied by the imposition of a condition that would:

- a) Require MA to comply with any agreements that MA had concluded with the Airline Operators Committee ("AOC"), by the date of the condition, as to rebates in the event of quality standards not being met in the areas of: check-in desks; outbound baggage systems; security queuing; airbridges; stand availability; fixed electrical ground power; inbound baggage system and remote coaching; and
- b) Require MA to comply with the agreements in relation to every airline that uses Manchester Airport in the future, whether or not it is a member of the AOC.
- c) To the extent that such matters are not covered by agreements concluded with the AOC by the date of the condition, the condition would require MA to pay specified rebates to airlines whenever specified standards are not met and to comply with specified monitoring and reporting requirements: the rebates, standards, monitoring and reporting requirements would be specified in the condition which could contain provision for exceptions.

NOW THEREFORE the CAA, in exercise of its powers and duties under section 46(2) of the Act hereby imposes the following conditions on MA:-

1. MA shall notify the CAA within fourteen days of the date this condition comes into force of any agreements that it has concluded with the AOC in respect of rebates payable when an agreed level of service quality is not met in the following areas:- check-in desks; outbound baggage systems; security queuing; airbridges; stand availability; fixed electrical ground power; inbound baggage system and remote coaching. This notification should include the



service levels specified, the basis of rebates, any exceptions, the basis for the measurement of service quality, and any arrangements agreed with the AOC for dispute resolution.

2. Where MA and the AOC have both subsequently agreed modifications to an agreement, or the terms of a new agreement to replace the existing agreement or to discontinue the existing agreement then MA shall notify the CAA in writing. If within 28 days of such notification the CAA has not written to MA to withhold consent to the proposed changes then the agreement may be modified or discontinued accordingly. If the CAA writes to MA withholding consent then the pre-existing agreement remains in force until such time as the CAA consents to changes.
3. Within one month of the date this condition comes into force MA shall publish the terms of any agreement described in (1) then in force and shall comply with the terms of that agreement, in relation to every operator of aircraft that uses Manchester Airport, whether or not that airline is a member of the AOC.
4. If as of the date this condition comes into force MA has not made agreements with the AOC in accordance with paragraph 1 above and where the CAA has, after consultation with MA and users, published a schedule of rebates which are payable in the event of certain quality levels not being reached then MA shall calculate and pay to the operators of aircraft such rebates as from time to time specified by the CAA.

These conditions shall take effect on 1 April 2003 and shall continue in force until 31 March 2008 unless before that date they are modified or withdrawn. The conditions may be extended beyond 31 March 2008 in accordance with section 51(2) of the Act.

**Annex 3: Consultation condition****Conditions as to the procedures for consultation with users in respect of Manchester Airport in accordance with Sections 46(2), 51(2) and 51(6) of the Airports Act 1986**

WHEREAS the Monopolies and Mergers Commission ("MMC") in the report made to the Civil Aviation Authority ("CAA") following a reference made by the CAA to the MMC on 10 December 1996 in respect of Manchester Airport ("MA") concluded that the carrying on of inadequate procedures for consultation had operated and might be expected to operate against the public interest.

AND WHEREAS the MMC recommended in the report that the CAA should impose conditions to require MA to implement consultation procedures to be approved by the CAA.

AND WHEREAS the CAA had regard, as required by Section 46(4) of the Airports Act 1986 ("the Act"), to the recommendations made by the MMC as to the conditions by which the effects adverse to the public interest could be remedied or prevented. AND WHEREAS the CAA imposed a condition on 31 October 1997.

AND WHEREAS the Competition Commission recommended in its report following a reference made by the CAA on 28 February 2002 that the condition imposed by the CAA on 31 October 1997 should be extended.

NOW THEREFORE THE CAA, in exercise of its duties and powers under Sections 46(2), 51(2) and 51(6) of the Act, hereby imposes the following conditions on MA:-

1. MA shall forthwith notify the CAA of any changes to its arrangements for consulting users about its capital investment plans, the structure of airport charges, charges in relation to operational activities, and quality of services at the airport about which it informed the CAA in accordance with paragraphs 1 to 5 of the condition imposed by the CAA on 31 October 1997. The changes to be notified are those in respect of:
  - A description of the information to be provided to users;
  - The identity, where relevant, of the appropriate consultative body;
  - The frequency of consultative meetings;
  - The procedural arrangements for consultation including the level of attendance at meetings, forwarding of papers for meetings, minutes of the discussions and explaining how final decisions were reached.
2. At the request of the CAA, MA will make such reasonable changes to its arrangements for consultation as the CAA may specify at any time.
3. This condition shall apply until 31 March 2008 after which date it may be extended in accordance with section 51(2) of the Act.

**Annex 4: Conditions on cost transparency of specified activities****Conditions as to the cost information available to users in respect of Manchester Airport in accordance with section 46(2) of the Airports Act 1986**

WHEREAS the Monopolies and Mergers Commission ("MMC") in the report made to the Civil Aviation Authority ("CAA") following a reference made by the CAA to the MMC on 9 December 1991 in respect of Manchester Airport ("MA") concluded that the provision of inadequate information to users on the costs of a number of facilities and services might be expected to operate against the public interest.

AND WHEREAS the MMC recommended in the report that the CAA should impose conditions to require MA to provide on an annual basis or at the time of each price increase information to the CAA and to users on the detailed costs or other factors on which such charges are based.

AND WHEREAS the CAA imposed conditions as to the cost information available to users in its decision published on 30 October 1992.

AND WHEREAS the MMC in the report made to the CAA following a reference made by the CAA to the MMC on 10 December 1996 in respect of MA concluded that the provision of inadequate information to users on the cost and revenues associated with the supply of utilities might be expected to operate against the public interest.

AND WHEREAS the MMC recommended in the report that the CAA should impose conditions to require MA to provide annually to users and the CAA full information on the revenue from and the costs of supplying utilities to users.

AND WHEREAS the Competition Commission in the report to the CAA following a reference made by the CAA to the Competition Commission on 28 February 2002 recommended that the conditions imposed by the CAA should be extended beyond 31 March 2003.

AND WHEREAS the CAA has had regard, as required by Section 46(4) of the Airports Act 1986 ("the Act"), to the recommendations made by the MMC as to the conditions by which the effects adverse to the public interest could be remedied or prevented.

NOW THEREFORE THE CAA, in exercise of its duties under Section 46(2) of the Act, hereby imposes the following conditions on MA:-

1. By 31 December in each year MA shall inform the CAA of the system used by it to allocate costs to non-airport charges activities. If so requested by CAA MA shall make any amendments to its cost allocation system by 31 March prior to each charging year commencing on 1 April.
2. By 31 December in each year MA shall provide to the CAA and to users or organisations representing users statements of actual costs and revenues in respect of each of the facilities specified in paragraph 7 for the year ending the previous 31 March. MA shall require its auditors to carry out an independent examination of the accounting records of MA and of such other documents and information as may be necessary to enable them to make a special report to the CAA, at the same time that

the statements are provided, as to whether MA has properly complied with this condition.

3. Each year MA shall provide to the CAA and to users or organisations representing users of the specified facilities prior to implementing any price changes a statement of the pricing principles for each item charged.

4. Each year including the current year MA shall provide the CAA and users or their representatives the assumptions and relevant cost information adequate to verify that the charges derive from the application of the pricing principles.

5. Where the costs stated by MA to be in connection with a particular charge vary from those provided in the costing reports supplied to the CAA, MA shall provide to the CAA and to users or their representatives a reconciliation with detailed reasons for such differences.

6. Where charges for the specified facilities are not established in relation to cost MA shall provide to the CAA and to users or their representatives a statement of the principles on the basis of which the charges have been set with full background information as to the calculation of such charges including statements of any comparables used.

7. The specified facilities are: check-in desks and baggage systems, other desk licences, staff car parking, staff ID cards, fixed electrical ground power, hydrant refuelling, airside licences, cable routing, and maintenance, heating and utility services.

8. This condition shall apply until 31 March 2008 after which date it may be extended in accordance with section 51(2) of the Act.