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CIVIL AVIATION AUTHORITY**

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Notices relating to applications and permissions

All communications regarding content of this document should be addressed to:

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

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

Section 1 Applications for permission

Carlisle Airport and Dunsfold Aerodrome have each applied to the Civil Aviation Authority for a Permission to levy airport charges and such Permissions are deemed to be in force under Section 38(3) of the Airports Act 1986.

Copies of both applications are available for inspection at the offices of the Civil Aviation Authority at CAA House, 45-59 Kingsway, London, WC2B 6TE.

Section 3 Miscellaneous

The CAA has published a document seeking views on its proposals for the setting of new price controls at Stansted airport for the five years from 1 April 2009 to 31 March 2014 (the period known as Q5 or the fifth quinquennium), and for addressing three public interest findings made by the Competition Commission in relation to service quality, user consultation and the structure of airport charges. The CAA is also inviting views on whether conditions imposed to remedy previous public interest findings by the Competition Commission in the past should be retained, amended or revoked.

The document constituted notice by the CAA of the conditions it intends to impose or modify for the purposes of Regulation 12(1) of the Civil Aviation Authority (Economic Regulation of Airports) Regulations 1986 ('the Regulations').

Where the CAA's proposals for imposing or modifying conditions imposed in relation to Stansted airport do not accord with the recommendations of the Competition Commission's set out in its report on Stansted Airport Limited, the CAA sets out in this document its reasons for not implementing those recommendations, in accordance with the obligation under Regulation 12(1) of the Regulations. This document should be considered a statement of reasons for that purpose.

Any comments on the proposals should be sent, if possible by e-mail, to airportsreview@caa.co.uk, by **Tuesday 3 February 2009**. Alternatively, comments may be posted to:

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The document is available on the CAA's website at <http://www.caa.co.uk/docs/5/ergdocs/081209StanstedProposals.pdf>

The proposed conditions are shown below.

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

Stansted 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 2009 it shall fix those charges at the levels best calculated to secure that, in that year, the total revenue at Stansted Airport from such charges divided by the total number of passengers using Stansted Airport, does not exceed the maximum average revenue yield per passenger which shall be calculated as follows:

$$M_{2009/10} = \text{£}6.53$$

where $M_{2009/10}$ is the maximum average revenue yield per passenger using Stansted Airport in relevant year 2009/10 expressed in £.

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 2010 it shall fix those charges at the levels best calculated to secure that, in that year, the total revenue at Stansted Airport from such charges divided by the total number of passengers using Stansted Airport, does not exceed the maximum average revenue yield per passenger which shall be calculated as follows:

$$M_{2010/11} = \left(1 + \frac{RPI_{t-1} + X}{100} \right) (\text{£}6.53 + S_{t-1})$$

where:

$M_{2010/11}$ is the maximum average revenue yield per passenger using Stansted Airport in relevant year 2010/11 expressed in £;

RPI_{t-1} has the meaning assigned to it by paragraph 7;

$X = 0$;

S_{t-1} has the values assigned in paragraph 5.

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 2011 it shall fix those charges at the levels best calculated to secure that, in each relevant year, the total revenue at Stansted Airport from such charges, divided by the total

number of passengers using Stansted 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 is the maximum average revenue yield per passenger using Stansted Airport in relevant year t expressed in £;

RPI_{t-1} has the meaning assigned to it by paragraph 7;

$X = 1.63$;

Y_{t-1} has the meaning assigned to it by paragraph 4; and

K_t has the meaning assigned to it by paragraph 6.

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

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

where:

$Y_{t-2} = £6.53 + S_{t-1}$ for the relevant year t beginning on 1 April 2011;

RPI_{t-2} has the values assigned in paragraph 7;

$X = 1.63$; and

S_{t-1} has the values assigned in paragraph 5.

5. S_{t-1} is the allowable security cost per passenger using Stansted 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 £:

For each relevant year $t-1$

If

Expected Cumulative Costs $_{t-1} \geq £3.6$ million; and
Expected Cumulative Costs $_{t-2} \geq £3.6$ million

then

$$S_{t-1} = 0.9C_{t-1}$$

or if

Expected Cumulative Costs_{t-1} > £3.6 million; and
 Expected Cumulative Costs_{t-2} < £3.6 million

then

$$S_{t-1} = 0.9 \frac{\text{Expected Cumulated Cost}_{t-1} - 3.6 \text{million}}{(6 - T_t) Q_{t-1}}$$

or if

Expected Cumulative Costs_{t-1} < £3.6 million; and
 Expected Cumulative Costs_{t-2} > £3.6 million

then

$$S_{t-1} = -0.9 \frac{\text{Expected Cumulated Cost}_{t-2} - 3.6 \text{million}}{(6 - t^*) Q_{t-1}}$$

where

$$t^*_{2009/10} = 1; t^*_{2010/11} = 2; t^*_{2011/12} = 3; t^*_{2012/13} = 4; \text{ and } t^*_{2013/14} = 5$$

otherwise

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

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

Year (t-1)	2009/10	2010/11	2011/12	2012/13
A. Effect of claims relating to 2009/10	5 x C _{2009/10} x Q _{2009/10}	5 x C _{2009/10} x Q _{2009/10}	5 x C _{2009/10} x Q _{2009/10}	5 x C _{2009/10} x Q _{2009/10}
B. Effect of claims relating to 2010/11		4 x C _{2010/11} x Q _{2010/11}	4 x C _{2010/11} x Q _{2010/11}	4 x C _{2010/11} x Q _{2010/11}
C. Effect of claims relating to 2011/12			3 x C _{2011/12} x Q _{2011/12}	3 x C _{2011/12} x Q _{2011/12}
D. Effect of claims relating to 2012/13				2 x C _{2012/13} x Q _{2012/13}
Expected Cumulative Cost Sum rows A to D				

where:

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

Q and Q_{t-1} = passengers using Stansted Airport in the relevant year.

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

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

in which

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

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

Q_t = passengers using Stansted Airport in relevant year t ;

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

I_{t-2} = 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.

7. In this condition:

“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 Stansted 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 Service Level Agreements divided by the total number of passengers using Stansted Airport in the relevant year;

“passenger using an airport” means a passenger joining or leaving an aircraft at Stansted Airport;

“qualifying security claim per passenger” means the annual equivalent of the increase or decrease in security costs at Stansted 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;

“relevant air services” means air services carrying passengers that join or leave an aircraft at Stansted 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 August in relevant year t-1 and that published with respect to the immediately preceding August, and “ RPI_{t-2} ” shall be construed accordingly;

“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 September in year t-2 to the end of August in year t-1.

Stansted condition 2

In each of the five consecutive years beginning on 1 April 2009, the operator of Stansted 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 A. Public interest conditions

Conditions as to the arrangements for consultation by Stansted Airport Limited with airlines in accordance with section 46(2) of the Airports Act 1986

WHEREAS the Competition Commission ("CC") in its report to the Civil Aviation Authority ("CAA") following a reference made by the CAA to the CC on 29 April 2008 in respect of Stansted Airport Limited ("STAL") concluded that STAL's conduct with regard to consultation at Stansted since 1 April 2003 had operated against the public interest;

AND WHEREAS the CC found that the consultation process, with regards to the development of the airport and STAL's capital expenditure programme failed and that this failure had adverse effects both on the charges levied in the period 1 April 2009 to 31 March 2014 and on the operational activities of the airport and its users;

AND WHEREAS the CC found that STAL's failure with regard to information provision and the process of consultation had adverse effects on the management and development of Stansted airport and specifically on:

- (a) the operational activities of the airport and its users which affected directly the price paid by the users of the airport in airport charges and the operational efficiency and effectiveness of the airport, both of which affect users' reasonable interests, including the interests of possible future users; and
- (b) the efficiency of capital expenditure, which also affected directly the price paid by users of the airport in airport charges and so affected users' reasonable interests.

AND WHEREAS the CC believed these adverse effects could be remedied through the imposition on STAL of conditions;

AND WHEREAS the CC recommended that conditions should be imposed on STAL in relation to the information provided as a basis for consultation and in relation to the process of consultation;

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 Competition Commission as to the conditions by which the effects adverse to the public interest could be remedied or prevented;

AND WHEREAS the CAA has powers to impose conditions on STAL as the operator of Stansted Airport;

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

1. STAL shall provide information to, and conduct consultation with, airline users of Stansted airport with regards to the development of Stansted airport and STAL's capital expenditure programme in such form and at such times as may be specified from time to time by the CAA following consultation with STAL and its users.
2. STAL shall, to a reasonable extent, co-operate with any independent facilitator appointed by the CAA in the resolution of disputes and other matters relating to the operation of condition 1. The purpose of the facilitator is to facilitate consultation between STAL and users under condition 1.
3. These conditions shall take effect on 1 April 2009 and shall continue in force until 31 March 2014 unless, before that date, they are modified or withdrawn.

These conditions may be extended beyond 31 March 2014 in accordance with section 51(2) of the Act.

Conditions as to rebates to be paid by Stansted Airport Limited to users 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 its report to the Civil Aviation Authority ("CAA") following a reference made by the CAA to the CC on 29 April 2008 in respect of Stansted Airport Limited ("STAL") concluded that security queue management during 2003, 2005 and 2006 constituted a course of conduct which had operated against the public interest;

AND WHEREAS the CC's analysis of passenger survey data relating to service quality suggested that performance overall had been declining, although there was some evidence of recent improvement, and that Stansted ranked poorly in international benchmarking surveys;

AND WHEREAS the CC found that there were adverse effects on the operational activities of the airport in relation to service quality, in particular with regard to security queue management, which directly affected both the reasonable interests of users and the operational effectiveness of the airport;

AND WHEREAS the CC believed these adverse effects could be remedied through the imposition on STAL of a requirement to meet specified service standards;

AND WHEREAS the CC recommended that a condition should be imposed on STAL which establishes queue standards, backed by penalties in the event that the standards are not met;

AND WHEREAS the CC recommended that a condition should be imposed on STAL requiring a Service Quality Rebate scheme to be introduced at Stansted Airport;

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 Competition Commission as to the conditions by which the effects adverse to the public interest could be remedied or prevented;

AND WHEREAS the CAA has powers to impose conditions on STAL as the operator of Stansted Airport;

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

1. STAL shall pay specified rebates to airlines whenever its quality of service fails to meet specified service standards. The specified service standards and rebates shall be as published from time to time by the CAA following consultation with STAL and its users.

2. STAL shall maintain records of the actual quality of service and rebates made in such a form that performance could be independently audited against the standards published as above.
3. STAL shall publish, monthly, on an easily accessible page on its website its performance against the specified service standards and details of the specified rebates paid and payable in respect of each category of service.
4. STAL shall publish, monthly, through prominent displays in the terminal at Stansted Airport, its performance against such specified service standards as the CAA shall from time to time nominate for the purpose of better informing passengers.
5. STAL shall facilitate regular independent audits of the measurement and working of the service quality regime, including the QSM methodology. Audits of the QSM should ensure that it is in accord with best market practice, and that the methodology is adequately implemented to make sure that samples reasonably reflect the overall mix of passengers. The independent auditors for this purpose will be appointed by the CAA and shall report to the CAA.
6. These conditions shall take effect on 1 April 2009 and shall continue in force until 31 March 2014 unless, before that date, they are modified or withdrawn.

These conditions may be extended beyond 31 March 2014 in accordance with section 51(2) of the Act.

Conditions as to the structure of airport charges levied by Stansted Airport Limited in accordance with section 46(2) of the Airports Act 1986

WHEREAS the Competition Commission ("CC") in its report to the Civil Aviation Authority ("CAA") following a reference made by the CAA to the CC on 29 April 2008 in respect of Stansted Airport Limited ("STAL") concluded that the current structure of landing charges at Stansted, which failed to give off-peak discounts to aircraft in excess of 250 metric tonnes, had no basis and had been operating against the public interest;

AND WHEREAS the CC found that there were adverse effects concerning the charges levied by the airport which affected directly the reasonable interests of some users;

AND WHEREAS the CC believed these adverse effects could be remedied through the imposition on STAL of a requirement to offer a reasonable off-peak discount for aircraft in excess of 250 metric tonnes;

AND WHEREAS the CC recommended that a condition should be imposed on STAL which would require it to offer an aircraft in the highest weight band at Stansted (aircraft in excess of 250 metric tonnes) at least the same level of off-peak discount on landing charges as the discount offered in the next lower weight band (aircraft in excess of 50 metric tonnes but below 250 metric tonnes);

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 Competition Commission as to the conditions by which the effects adverse to the public interest could be remedied or prevented;

AND WHEREAS the CAA has powers to impose conditions on STAL as the operator of Stansted Airport;

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

1. This condition shall apply when and for so long as STAL fixes its airport charges for the landing of aircraft so that the charge levied for landing an aircraft in excess of 50 tonnes but below 250 metric tonnes during a peak period is higher than the charge levied for landing at other times. Where this condition does apply, the charges levied for landing aircraft in excess of 250 metric tonnes shall, at all times, bear the same relationship to the equivalent charges levied on aircraft in excess of 50 metric tonnes but below 250 metric tonnes.
2. By 31 March each year STAL shall provide documentary evidence to the CAA that Condition 1 has been satisfied in respect of the following charging period.

These conditions shall take effect on 1 April 2009 and shall continue in force until 31 March 2014 unless, before that date, they are modified or withdrawn.

The conditions may be extended beyond 31 March 2014 in accordance with section 51(2) of the Act.

Conditions as to the cost information available to users in respect of Stansted Airport Limited 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 13 December 1990 in respect of Stansted Airport concluded that in providing to users inadequate information on the costs or other bases for charges of a number of services and facilities for airlines, tenants and licensees Stansted Airport Limited ("STAL") had pursued a course of conduct which may be expected to operate against the public interest;

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

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 conditions on 18 November 1991;

AND WHEREAS the Competition Commission ("the CC") in the report made to the CAA following a reference made by the CAA to the CC on 29 April 2008 in respect of Stansted Airport recommended that the CAA should extend to Stansted Airport the requirements for transparency in relation to charges for non-airport charges activities;

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

1. By 31 December 2009 and by 31 December in each subsequent year STAL shall inform the CAA of the system used by it to allocate costs to non-airport charges activities. STAL shall make any amendments to its cost allocation system if so requested by CAA by 31 March prior to each charging year commencing on 1 April.
2. By 31 December 2009 and by 31 December in each subsequent year STAL shall provide to the CAA statements of actual costs and revenues in respect of each of the facilities specified in paragraph 8 for the year ending the previous 31 March.
3. Each year STAL 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 STAL 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 STAL to be in connection with a particular charge vary from those provided in the Profit Centre Reports supplied to the CAA, STAL 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 STAL 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. Where in respect of any year forecast revenue from any of the specified facilities differs from that forecast for the purposes of the price control review for the period 1 April 2009 to 31 March 2014 (as specified by the CAA), STAL shall provide to the CAA and to users or their representatives detailed reasons for the differences.
8. The specified facilities are: check-in desks (including facilities provided for self service check-in), baggage systems, other desk licences, staff car parking, staff ID cards, fixed electrical ground power, hydrant refuelling, airside parking, airside licences, cable routing, maintenance, heating and utility services, and facilities for bus and coach operators.
9. These modified conditions shall take effect from 1 April 2009 and shall continue in force until 31 March 2014 unless, before that date, they are modified or withdrawn.

The conditions may be extended beyond 31 March 2014 in accordance with section 51(2) of the Airports Act 1986.