
Seminario internacional sobre gestión privada de aeropuertos

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UK privatisation entering a new phase of Economic Regulation



- **UK has over 20 years experience of airport privatisation**
 - UK's Airport Act more than 20 years old
 - Very inflexible (5 year fixed term price controls) based on return on Regulatory Asset Base (RAB)
- **Government intends to introduce new Airports Economic Regulation bill in May 2012 with Royal Assent in April 2013?**
 - Puts the passenger at heart of regulation
 - Will introduce licence based regime
 - More flexible / alternative forms of regulation
- **CAA will carry out competition assessments this year at Heathrow, Gatwick and Stansted in preparation for next regulatory period**
- **Context of UK future London and SE airports policy is "No new runways"**

Treatment of capital expenditure



- **Difficulty of setting capex plan more than 7 years in advance**
- **Concept of 2-tier capex**
 - Core capex included in regulatory settlement
 - Discretionary capex subject to an ex-post approval (this approach applied for Heathrow Runway 3 expenditure)
- **In 2008 CAA introduced capex triggers to ensure timely delivery of projects but this has given rise to a number of problems**
 - One of the few opportunities for airlines to recoup money
 - Definitions not well based
- **Mid term capex efficiency review (issue of aborted costs)**
- **Improvements to airport consultation protocols**



Capex triggers

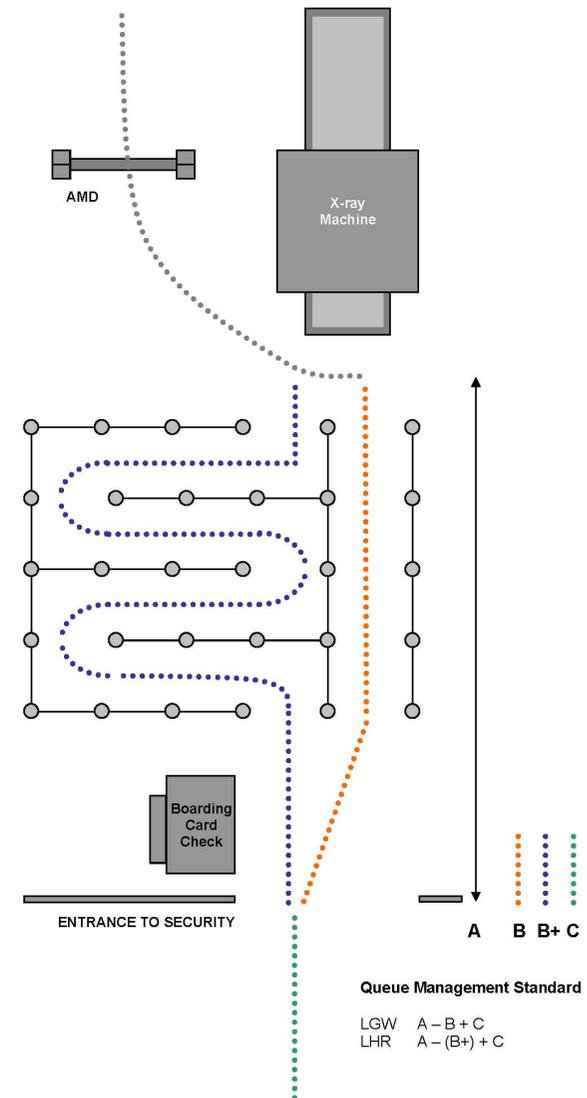
- **Feature of the price control at Heathrow and Gatwick**
- **Not all capex is triggered (around 60 percent at Heathrow and 40 percent at Gatwick)**
- **Milestones to be reached by defined dates in respect of relevant capital projects**
- **Penalties applied on a monthly basis if milestone not met until trigger project completed**
- **Trigger issues include**
 - **disputes from unclear definitions**
 - **makes it difficult to alter the capex programme as airlines benefit from trigger failures**

<http://www.caa.co.uk/docs/5/ergdocs/NWZoneTrigger>



Service Quality Dimension

- **UK regulated airports have a service quality rebate (SQR) scheme**
 - 7 percent of revenues at risk
 - About 50 percent is based on security queuing
 - In practice needs careful audit
- **SQR may need to be improved to deal with wider range of passenger issues, (snow chaos at end of 2010 led to some criticism)**
- **In recent speech, Chair of CAA suggested using customer preference based measures**
 - Gatwick has invested a lot to improve some of its passenger scores, e.g. wayfinding, but found little shift in customer rating

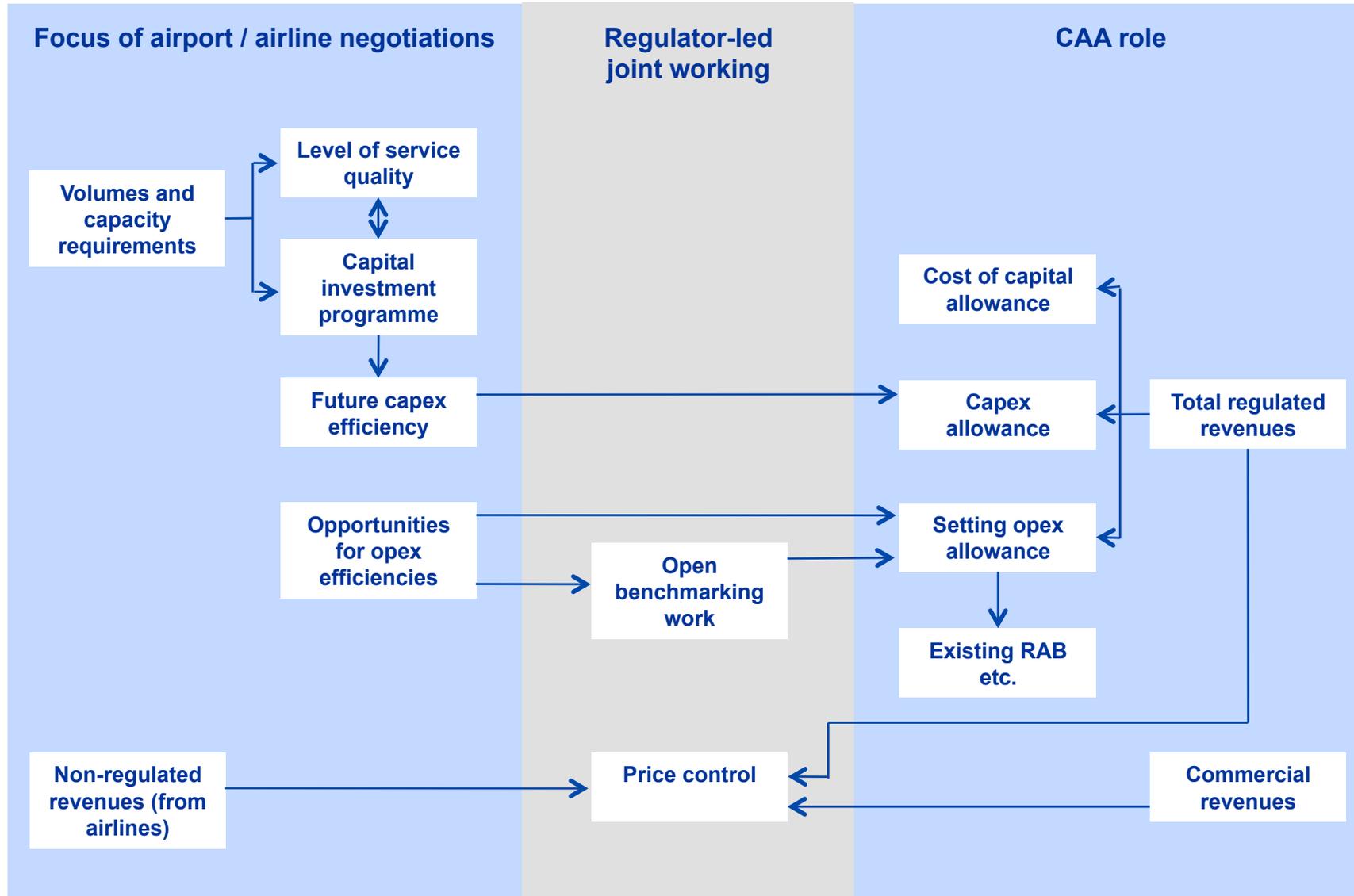


Airport Financing



- **CAA's position traditionally been that finances of the company / companies matter for their owners and financiers**
 - Concerns about potential effects of high indebtedness on investment
 - Need for new owners to recognise that costs and risks lay with them
 - CAA would seek to protect interests of users
- **CAA's approach to date has been conditioned by absence of legal powers**
 - Designated airports do not operate under licence
 - CAA therefore has no powers to enforce a ring fence, particular credit rating etc.
- **Government has proposed new ring fencing conditions in future airport licenses – will need to retain investor confidence about how these are applied**

Q5 (2008-13) Constructive engagement: process



Lessons learnt from Q5 Regulatory Period (2008-2013)



- **Scope of Constructive Engagement (CE)**
 - Improvement in governance process
 - Airlines want full scrutiny including operating costs and commercial revenues
 - Are there opportunities for gain sharing between airport and airlines?
- **Is CE phase fundamentally different from regulatory led phase?**
 - Which issues should fall under CE and which under regulatory phase?
- **Role of CAA**
 - Should the regulator act as facilitator or broker agreements?
- **How to represent the passenger interest**
 - can regulators simply rely on airlines to represent passenger views?

A possible approach to Q6 (2014 onwards)



- **Regulation needs to reflect the vision for the Airport (not yet clear for Heathrow and Gatwick up to 2020)**
- **Main concern of airlines appears to be Affordability (in Q5 prices at Heathrow increased by RPI + 7.5%) and now three times higher than a decade ago**
- **Regulator role to promote more commercial agreements building on the social capital of the industry**
- **Regulation in Q6 will consider range of options including Regulatory Asset Base (RAB)**
 - **Airlines believe RAB based regulation encourages excessive investment – but investors like certainty**
 - **However, airports have failed to earn regulated return for several years (c. 1% below level allowed by CAA) – risk/reward balance under review**
 - **Different regulatory approaches at each airport depending on degree of market power**
- **Passenger interest must be included, so may not be able to rely totally on commercial agreements, especially if there is still market power**