

Dame Deirdre Hutton, DBE
Chair



Lord Paul Deighton
Chairman
Heathrow Airport Holdings Ltd
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A handwritten signature in black ink, appearing to read 'Paul Deighton'.

Thank you for your letter of 6 July. We welcome your renewed commitment to work with stakeholders to deliver capacity expansion in a way that is timely, affordable, commercially financeable, respects the needs of local communities and the environment – and, critically from our perspective, is in the best interests of consumers. As you will know, we have consistently said that airport expansion in the southeast of England is in the interests of consumers, otherwise passengers will experience increased delays, less choice and higher fares.

We also fully recognise the importance of adopting a pragmatic approach to delivery. To be successful this must involve processes designed to win and retain the confidence of your stakeholders. A lack of trust whether real, perceived or manufactured, could undermine our collective efforts to secure the timely delivery of a programme that should bring transformational change to Heathrow.

An important part of this is your commitment to pursue capacity expansion in a way that will keep airport charges at no more than 2016 levels (adjusted for inflation) for each year of the next price control period and beyond. We strongly welcome your ambition to try and secure this outcome, as keeping charges close to current levels was a key objective of the Secretary of State in identifying Heathrow as the government's preferred location for capacity expansion and charges being 'flat in real terms' is a key requirement for the airline community. We expect that in your business planning process and assessment of various design options you will adopt the aim of charges being flat in real terms as a key top down budgeting guideline and objective, subject to an overall test of developing capacity expansion in a way that is in the best interests of consumers.

We note that you have explicitly mentioned the retail price index (RPI) as the measure of inflation. As you will know there are a range of views on how inflation should be measured and I suggest that there are further working level discussions between our respective teams to identify the best measure of inflation for use in judging longer term commitments on affordability.

While we understand that it may be too early for you to make a firm commercial commitment to no real increases in airport charges from 2016 levels it is not too early for HAL to build on

its existing work and set out robust plans on how it intends to deliver on this ambition in a way that will build confidence in its approach. This should involve further work to reduce the uncertainties associated with the current cost estimates and go beyond a business as usual price control process and provide a meaningful update on the key drivers of affordability ahead of HAL producing its initial price control business plan. The most appropriate time for this update would appear to be at the time that HAL consults on its DCO application, but we would be happy to discuss the precise timing with you further at a working level.

There should also be working level discussions on the scope of the update but our initial view is that it should be supported by:

- a) the latest available information on the work to seek out further efficiency savings in the design and construction of the capacity expansion programme;
- b) further work on all the main drivers of affordability, which should build on what you have already achieved and provide for an appropriate degree of transparency with respect to these matters, but should also recognise the inherent uncertainties and difficulties associated with making longer-term forecasts; and
- c) joint working with the CAA on the regulatory tools and incentive arrangements that could best deliver predictable and affordable airport charges over the period of the next main price control.

Successful delivery depends on us taking appropriate steps to secure alignment with key stakeholders on the ambitions for the programme in respect of efficiency, affordability, and financeability. I strongly encourage you to continue to work with us, the airlines, and other stakeholders to help achieve this alignment.

Yours sincerely
Deirdre

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