

Annex 1 – Proposed Licence Modifications

Introduction

This annex outlines certain Licence modifications which we consider are necessary for the H7 price control period.

While we expect the majority of required changes have been covered in this annex, this submission does not prohibit further constructive discussions with the CAA on the final list of proposed modifications or the final wording of conditions within the Licence and we naturally reserve the right to make further proposals.

Summary of the proposed modifications

The table below sets out a number of proposed modifications to the Q6 Licence to align it with our H7 proposals. The items contained in the table primarily relate to policy issues. This is not an exhaustive list and there is further detailed work required on elements such as the various formulas. We look forward to working with the CAA on these areas.

Licence Part	Licence condition / element	Summary of modification	Reasons for the proposed modification
C	S-factor	As set out in our RBP, we propose that the S-Factor mechanism currently included in the airport charges formula should be retained and amended to include the impact to airport costs of changes to health and safety policy, alongside the current allowances for security. We propose to rename as SHS-factor.	This amendment would ensure that any unforeseeable changes to processes and operations put in place through a formal change to government policy or guidelines through the H7 period can be accounted for and included within the price control.
C	Business Rates	We propose to move the business rate revaluation factor out of the price control	In our RBP, we proposed that business rates should be subject to a full pass-through treatment, building on the business rates

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		formula and into ORCs as a full pass-through.	<p>factor currently included within the airport charge formula. This would ensure that the regulatory framework better allocates risk to the party best placed to manage it. This cost is driven by external factors and Heathrow is not in control of its business rates liability, meaning that a pass through is appropriate.</p> <p>We see there are benefits of using the ORCs mechanism, namely that it provides a clear governance and reporting processes for transparency in line with airline requests.</p>
C	Risk-sharing	Introduce a risk-sharing mechanism into the price control condition.	Full details are contained in chapter 4 of the main body of our CAP2139 response.
C	Price Control Reopener	We propose that there should be a qualitative condition to facilitate the request that the price control be adjusted in the case that there is a major change in assumptions from those on which the price control was based.	A qualitative condition would allow for a review of H7 building block assumptions should a worst-case outturn scenario outside of management control materialise.
C	Forecourt Charge	A new mechanism for the forecourt charge to be incorporated into the price control condition.	Our proposals build on the airline community's request for a 'Notified Items' type approach and agreed principles discussed through governance. Rather than a blanket pass through of revenues to manage uncertainty, our proposals include a consultation provision on

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			potential changes to the level of the forecourt charge above / below a threshold of 10% and a targeted adjustment to the revenues included in the price control if a statutory change outside of Heathrow's control means that Heathrow is no longer able to enforce the scheme.
C	Charges for Other Services Dispute Mechanism	Include an ORCs dispute mechanism.	This will ensure there is clarity between Heathrow, the CAA and airlines over the escalation process if there is a dispute over ORCs.
C	Capital Dispute Mechanism	Include a capital dispute mechanism.	This will ensure there is clarity between Heathrow, the CAA and airlines over the escalation process if there is a dispute over capital related matters.
C	Expansion Framework Trigger	A time-bound mechanism for recommending expansion.	To confirm there is a process in place as part of the H7 price control to ensure that expansion could be incorporated into the regulatory framework as required.
E	Certificate of Adequacy of Resources	<p>Proposal to align the Certificate of Adequacy of Resources more closely with the annual going concern assessment.</p> <p>Thoughts on the CAA's proposed modifications are contained in Appendix K of the main body of our CAP2139 response.</p>	We consider it would be more appropriate and better practice to align the Certificate of Adequacy of Resources with the annual going concern assessment which is verified by auditors. The exercises are substantially consistent and we think that aligning the time horizon would reduce unnecessary regulatory burden while still satisfying the core requirement of the condition.

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			We set out more detail on this in Appendix K of our response to CAP2139.
E	Continuity of Service Plan	Proposal to reduce the frequency of submitting the Continuity of Service Plan from 12 months to 24 months.	<p>We consider that 24 months is proportionate to the requirement. With the exception of Covid-related changes, there are typically only minor updates to make on an annual basis, which do not justify the burden associated with Board-related governance and approval on such a frequent basis.</p> <p>We believe we can ensure that there is coverage of the few changes that are made on an annual basis, such as those related to movements in job roles / key contacts, by methods such as keeping live versions of documents on our systems that the Continuity of Service Plan can refer to.</p>
Schedule 1	SQRB Exclusions	Modify the list of exclusions in the Licence.	<p>The experience of Q6 and more recently Covid-19 has resulted in the need to refine and add a number of exclusions.</p> <p>The aim of this is to provide greater clarity for Heathrow, the CAA and the airlines.</p>
Schedule 1	SQRB Dispute Mechanism	Include an SQRB dispute mechanism for exclusion requests.	This will ensure there is clarity between Heathrow, the CAA and airlines over the escalation process if there is an exclusion request dispute.