



NON - CONFIDENTIAL

The Quinquennial Review of Stansted
BAA's Initial Submission to the
Competition Commission

BAA/CC2008/750

BAA Limited
May 2008

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Foreword

In June 2006, BAA was taken over by Airport Development and Investment Ltd (“ADI”), a consortium formed by Ferrovial Infraestructuras, S.A (“Ferrovial”), Caisse de dépôt du Québec (“CDQ”) and GIC Special Investments Pte Ltd (“GIC”).

The forecasts were approved for submission to the Competition Commission (CC) by the Managing Director of Stansted Airport. These forecasts supersede all other forecasts that previously existed.

The CC is aware that ADI is in the process of refinancing BAA, a process that is expected to complete during the CC quinquennial investigation. In particular, this will mean a financial and operational ringfence being put around the three designated airports (Heathrow, Gatwick and Stansted). The forecasts contained in this submission to the CC are consistent with those that have been made to the rating agencies and as part of the re-financing proposals.

This submission to the CC has also been sent to the CAA.

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Chapter 1 Introduction

Background

- 1.1. BAA is under new ownership and new leadership. With this comes higher ambitions to run airports well for passengers and other users, principally airlines. BAA is committed to transforming the passenger experience. The first stage of this was the delivery at Heathrow of Terminal 5, one of Europe's largest construction projects, on time and on budget.
- 1.2. The Stansted submission continues this theme with Q5 (the period from 1 April 2009 to 31 March 2014) seeing significant transformation of the passenger experience. During the quinquennium, Stansted's transformation will play an important role in alleviating the constraint on the capacity of BAA's London airports with the current application to grow the airport to 35 million passengers per annum ("mppa"). In Q6 (the period from 1 April 2014 to 31 March 2019), this continues with the development of the second runway and its associated infrastructure, known as Stansted Generation 2, the construction of which is programmed to begin during Q5, and which will incur significant expenditure within Q5.
- 1.3. This document has been set out in broadly the same format as BAA's regulatory submission to the CC for Heathrow and Gatwick in May 2007 (BAA/CC2007/100). Where appropriate, that document has been cross referred. General assumptions and commentary on generic items that are common to all three airports, and which have not changed materially since BAA/CC2007/100, have not been replicated and hence, certain of the chapters have not been included in this document. Chapter 13 on the Stansted financial forecasts includes appropriate commentary on specific areas of Stansted's business.
- 1.4. In **chapter 2, Comparison to March 2008 submission**, we explain the changes in the Stansted forecast since the March 2008 submission. The main changes to EBITDA result from a reduction in forecast passenger numbers leading to a decrease in airport charges and other revenue. Costs have also been reduced to take account of the passenger impact.
- 1.5. In **chapter 3, Macro Economic Assumptions**, we provide the macro economic forecasts underlying this forecast. In order to remain consistent with the forecasts provided to the rating agencies and those supporting the refinancing proposals, these have not changed since the March 2008 submission to the CAA, BAA/Q5/700. However, we have provided, for comparison, the latest available forecasts for GDP and RPI.
- 1.6. In **chapter 4, Q4 Regulatory Performance**, we report Stansted's Q4 performance. Despite higher traffic volumes than forecast, revenues are forecast to be lower than those included in the Q4 forecasts made by the CC and CAA, principally due to the higher levels of discounts and reductions in property income following the APP transaction in 2005. Costs are also forecast to be slightly higher in total than the original Q4 forecasts. This is primarily due to increased staff costs arising from the increase in accounting pension costs and to the increased security and operational manning levels, partially offset by lower maintenance and property related costs.

- 1.7. In **chapters 5 to 12, Traffic Forecasts, Retail, Service Quality, Productivity, Capital Investment Programme, Utilities, Security Costs and Intragroup Recharges**, we provide commentary on the Stansted specific assumptions and issues.
- 1.8. In **chapter 13, BAA Stansted, Financial Forecasts**, we present the financial forecasts for Stansted, which comprise the development of the existing infrastructure to handle 35 mppa and the subsequent development of the second runway and associated infrastructure.
- 1.9. In **chapter 14, The Q5 Opening RAB**, we present an analysis of the opening RAB, rolled forward from 2002/03 in accordance with the CAA's methodology as defined in its 2003 Decision¹.
- 1.10. In **chapter 15, BAA Pension Scheme**, we provide an update of developments to the group scheme since BAA/CC2007/100, including the most recent actuaries' forecast which includes the estimated impact of the proposed change to close the existing defined benefit scheme to new entrants and the introduction of a defined contribution scheme.
- 1.11. **Chapter 16, Depreciation Calculation**, explains the basis of the depreciation calculation underlying the regulatory forecast for Q5 and shows the variance between actual and forecast depreciation through Q4.
- 1.12. In **chapter 17, Public Interest Issues**, we comment on the concerns raised by airlines to the CAA as reported in its reference to the CC², and note that the CAA is not making a recommendation in respect of any of these issues.
- 1.13. In **chapter 18, Major Risks and Uncertainties**, we describe the key risks and uncertainties facing the airport and comment on potential costs that have not been included in this forecast, and the level of uncertainty around some of the costs which have been included.
- 1.14. **Chapter 19, GSM forecast** summarises the forecasts which are contained in a CD that accompanies this submission and which are the subject of the preceding chapters. The submission contains forecasts for the period 2007/08 to 2018/19, that is for the remainder of Q4 and for the revised Q5 and Q6 price control periods.

Context

- 1.15. The following matters should be considered when reviewing this submission.

Cost of capital and the price profile

- 1.16. It should be noted that the price profile reflected in the forecast reflects BAA Stansted's current thinking on the appropriate price path for Q5 and Q6. It is based on our view that an appropriate cost of capital for Stansted is currently 8.00% pre tax real. The forecast assumes that this rate of return will be achieved over the 10 year period to 2018/19, i.e. for Q5 and Q6 together.

¹Economic Regulation of BAA London Airports (Heathrow, Gatwick and Stansted) 2003-2008, CAA, February 2003

² Airport Regulation: Price control review – CAA reference to the Competition Commission for Stansted Airport, CAA, April 2008

1.17. The resultant profile of airport charges yields is as follows (2007/08 prices):

2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
£6.38	£6.66	£7.20	£7.77	£8.38	£8.42	£8.47	£8.51	£8.55	£8.59

1.18. The forecast and the price path assumptions noted above result in pre-tax real returns of 7.25% in Q5 and 8.65% in Q6. These returns are within the 6.86% to 11.02% range of the estimated cost of capital for Stansted contained within BAA/CC2007/101.

1.19. The prices above include recovery of the costs of ANS direct charging from 2008/09. This is estimated at 46 pence per passenger.

Uncertainty

1.20. This forecast is subject to uncertainty with respect to security, volume risk and the re-financing of BAA.

The CAA Proposals for Consultation

1.21. The CAA has indicated that the price control may not be based on the traditional 'building blocks' approach used at Heathrow and Gatwick. CAA has set out 6 options for consultation. This submission does not constitute BAA's contribution to any of these CAA concepts, other than our submission of costs, revenues and the Q5 opening RAB.

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Chapter 2 Comparison to March 2008 Submission

Introduction

- 2.1. This chapter compares the current forecast with the March 2008 submission to the CAA, reference BAA/Q5/700.

- 2.2. The key variances to the March 2008 submission are:
 - Reduced traffic volumes;
 - Impact of reduced traffic volumes on airport charges, revenues, and operating costs; and
 - CAA and Competition Commission charges in respect of the regulatory review.

- 2.3. More detailed variance analysis and commentary is provided below.

Table 2.1 - Summary of Impact on Stansted
£000 2007/08 prices

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Aircraft charges revenue	0	-8,505	-7,202	-9,477	-9,921	-8,599	-3,847	4,573	10,497	17,076	24,631	31,850
Other operational income	0	0	-74	-94	-91	-71	-24	9	10	11	12	12
Duty & tax free revenue	0	0	180	-1,046	-1,330	-1,146	-470	0	0	0	0	0
Bureau de change revenue	0	0	-491	-612	-593	-476	-20	0	0	0	0	0
Catering revenue	0	0	-485	-626	-612	-497	-208	0	0	0	0	0
Other retail revenue	0	0	-812	-996	-963	-773	-320	0	0	0	0	0
Car parking revenue	0	-2,218	-1,898	-2,356	-2,195	-1,724	-694	0	0	0	0	0
Property revenue	0	0	0	0	0	0	0	0	0	0	0	0
Utility revenue	0	0	-205	-259	-251	-201	-84	0	0	0	0	0
Other revenue	0	0	0	0	0	0	0	0	0	0	0	0
Intercompany revenue	0	0	0	0	0	0	0	0	0	0	0	0
Total operating revenue	0	-10,723	-10,988	-15,467	-15,954	-13,487	-5,668	4,581	10,506	17,087	24,642	31,862
Staff - non security	0	0	-8	-16	-14	-4	-588	-684	-795	-807	-819	-831
Staff - security	0	0	-180	-323	-253	-62	255	609	722	734	745	762
Police costs	0	0	0	0	0	0	0	0	0	0	0	0
Rent	0	0	0	0	0	0	0	0	0	0	0	0
Rates	0	0	-145	-265	-212	-52	-14	-15	-16	-16	-16	-16
Utility costs	0	0	-293	-370	-358	-288	-119	0	0	0	0	0
Maintenance costs	0	0	106	-612	-593	-476	-197	0	0	0	0	0
Other costs	0	-613	-672	-848	-821	-658	1,232	9	10	11	12	12
Intercompany costs	0	0	0	0	0	0	0	0	0	0	0	0
Total operating expenditure	0	-613	-1,192	-2,435	-2,251	-1,540	568	-81	-79	-78	-78	-73
EBITDA	0	-10,110	-9,795	-13,032	-13,704	-11,947	-6,235	4,662	10,586	17,165	24,721	31,935
EBITDA without aircraft charges impact	0	-1,605	-2,593	-3,555	-3,783	-3,347	-2,388	90	89	89	90	85
Passengers	0	-1,332	-1,128	-1,423	-1,378	-1,107	-459	0	0	0	0	0
Man years - non security	0	0	0	0	0	0	-20	-23	-25	-25	-25	-25
Man years - security	0	0	-5	-9	-7	-2	9	19	22	22	22	22
Capex	0	0	0	0	0	0	0	0	0	0	0	0

Negative variance on costs implies lower costs in the current submission. Otherwise, negative variances imply lower passengers, revenue, EBITDA, man years and capital expenditure in the current submission.

Stansted commentary**Passengers**

- 2.4. In comparison to previous forecasts, traffic is lower, though still increasing year on year throughout Q5. This takes into account the signs of the slowing UK economy becoming apparent during late 2007, along with some evidence of short term airline capacity reductions in response to this, and other events.

Traffic charges

- 2.5. Traffic charges have been set to achieve an 8% return for the period Q5 and Q6. This has resulted in a price path which rises to £7.92, excluding recovery of ANS costs, by the end of Q5. A constant value of X has been modelled for Q6 (at RPI +0.51%), resulting in a price of £8.13 (excluding ANS) by the end of Q6. This includes an assessment of the yield relating to non passenger flights of around 30 pence per passenger.

Other operational income

- 2.6. The majority of the costs incurred in the handling of passengers with reduced mobility (PRM's) are assumed to be recovered within other operational income, the exception being Stansted's contribution for retail shopping assistants and costs incurred for passenger service assistants. The reduction in passenger forecast has resulted in a small downturn in income for PRM handling.

Retail and other revenue

- 2.7. There is a decrease in retail revenue for the Q5 period due to the change in the traffic forecast. This reduction has also resulted in other income being reduced by around £1million over the Q5 period, in the main due to a decrease in utilities income.

Staff costs

- 2.8. The reduced passenger forecast has led to a forecast reduction in security manning levels. The assumption is that the improvement in security productivity will be 50% of traffic growth. This results in staff costs being lowered by around £1.2 million over Q5. The forecast for staffing is based on the continued impact of the heightened security measures since August 2006 and the focus on providing quality service through the passenger search process to achieve the target of 95% of passengers queuing at security for less than 10 minutes.

Other costs

- 2.9. Aerodrome Navigation Services (ANS) costs arising from the change to direct charging, and PRM costs, are traffic driven and have been reduced in line with updated forecasts, as has airport licence fees. Additional costs of £1 million have been included in 2013/14 for the regulatory review charges from the CAA and Competition Commission. Other operating costs have been adjusted to take account of less passengers, though it is recognised that not all costs will move in line with passengers. A general stretch of around £4 million for Q5 has been included within costs, excluding staffing, though these have not been specifically identified and appear in a mixture of costs categories, e.g. maintenance and equipment.

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Chapter 3 Macro Economic Assumptions

Introduction

- 3.1 There are a number of macro-economic assumptions that underpin the long term forecast. These assumptions have been used in the most recent BAA forecast for 2007/08, and the airport budget for the calendar year 2008.
- 3.2 The BAA accounting year end has been changed from 31 March to 31 December, following the acquisition of BAA group by ADI. Additionally, business plan data is only produced formally for a one year period, the current one being the year ending 31 December 2008.

GDP

- 3.3 The forecasts have been prepared assuming UK GDP growth within the range 2.0% to 2.5% p.a. This has been based on the evidence of forecasts produced by specialist economic forecasting agencies (notably as given in Consensus Forecasts published by Consensus Economics Inc). The Consensus Forecast for UK GDP published in September 2007 was for UK growth of 2.8% in 2007 (slightly above the indicated range) and the forecast for 2008 was for growth of 2.1% and the longer term forecasts published in August 2007 for the period through to 2019 fell within the assumed range. This compares with the OEF April 2008 Economic Outlook forecasts for the UK which range from 1.9% growth in 2008 rising to 3.2% in 2011 and falling to 2.6% in 2012.

Inflation

- 3.4 For forecasting purposes our long term modelling assumptions for inflation have been based on RPI (Retail Price Index). RPI has been assumed as:

2007/08 4.00%
2008/09 2.23%
2009/10 2.43%
2010/11 2.70%

- 3.5 These have been based on forecasts contained within OEF Economic Outlook, October 2007. The OEF forecasts produced in April 2008 show the following:

2008/09 2.65%
2009/10 2.53%
2010/11 2.55%

- 3.6 For long term forecasting purposes, inflation has been assumed to be 2.50% p.a. The government amended the inflation target from RPI to CPI (Consumer Price Index) as announced in the Chancellor's Pre-Budget Report in December 2003. The government's long term target for CPI was, and remains, 2% p.a. Prior to the switch to CPI, the long term target for RPI was 2.50%. Hence the long term RPI forecast is consistent with the government's long term target for CPI.

Construction price inflation (COPI)

3.7 In the capital expenditure projections included within this submission, BAA has incorporated an allowance for construction inflation to run above the rate of inflation as measured by RPI.

3.8 The following assumptions have been made:

2008/09-2013/14	RPI + 2%
2014/15-2018/19	RPI + 0% (note: this does not represent a forecast).

3.9 The CAA, in its recommendations of March 2007 to the CC in respect of Heathrow and Gatwick³, agreed that there is some level of positive adjustment to capital expenditure in Q5 resulting from COPI. In its Decision⁴ of March 2008, the CAA adopted BAA's proposed construction inflation for Heathrow and Gatwick price controls (2008/09 to 2012/13).

Wage inflation

3.10 Average earnings are expected to be, from 2008 - 2011, 0.8%, 1.9%, 2.2% and 1.8% above RPI for the UK (using OEF Economic Outlook April 2008). Historically, Stansted has experienced wage inflation averaging 2.2% per annum over the period from 1998/9 to 2007/8. In the same period, average earnings for the whole economy have increased at an average rate of 4.88% and general inflation, measured by the all items index of retail prices, has averaged 3.04% per annum. Stansted's increase in average pay has been held back mainly due to the increasing proportion of operative staff in security and by the effects of the relatively lower rates that were introduced in the market rate review of October 1997.

3.11 The one year business plan assumes wage inflation of RPI + 1.45% on average for 2008/09, being a pay deal of RPI + 0.70% and a further 0.75% assumed for "pay drift". The long term forecast assumes wage inflation of [E]. This covers annual pay deals, grade drift, the impact of change programmes (reducing overall staff numbers but increasing job sizes due to upskilling), offset partially by an increasing proportion of operative staff and continuous improvement of managerial process and structure.

³ Airport price control review – CAA recommendations to the Competition Commission for Heathrow and Gatwick Airports, CAA, March 2007

⁴ Economic Regulation of BAA London Airports, Heathrow and Gatwick, 2008-2013, CAA, March 2008

Chapter 4 Q4 Regulatory Performance

Introduction

- 4.1. In February 2003, the CAA set the price formula for Stansted airport for the period 2003/04 to 2007/08 ('Q4'). References in the following analysis to Q4 therefore relate to the original 5 year period ending on 31 March 2008. The price formula was set on the basis of financial forecasts which would generate a pre tax real return on assets of 7.5% (equivalent to 7.75% on an IRR basis), taking account of the regulator's assumptions on costs and revenues.
- 4.2. This chapter reports the performance of Stansted airport for the first four years (actual) and final year (forecast) of Q4, together with the forecast for the whole of Q4, compared with the regulatory settlement. The one year extension to Q4 is not included within this analysis. A brief commentary on the key issues and explanations for variances is also provided.
- 4.3. The airport has made lower profits and returns than were forecast by the CAA in the first four years of the quinquennium.

Table 4.1 Performance variance from regulatory settlement for Stansted

Variance against CAA forecast £m, outturn prices	2003/04	2004/05	2005/06	2006/07	2007/08	Total forecast Q4
Passengers (million)	1.9	1.9	1.9	2.7	1.4	9.8
EBITDA (after exceptionals)	(20.0)	(25.2)	(29.0)	(40.2)	(6.4)	(120.8)
RAB at year end	(15.1)	(98.8)	(112.0)	(97.4)	(81.0)	(81.0)
Rate of return on average RAB	(2.2)%	(2.5)%	(2.4)%	(3.4)%	(0.0)%	(2.1)%

The key factors underlying the performance are as follows ;

Passengers

- 4.4. Over the first four years, passenger growth significantly exceeded expectations at the time of the Q4 regulatory review. In this period, passenger numbers were 8.4 million (11%) above forecast.
- 4.5. The Q4 forecasts had assumed that the gradual onset of maturity in the no-frills sector would occur earlier than appears to be the case. The level of out-performance of forecast passenger volumes compared to the Q4 forecasts has continued in 2007/08, resulting in an increase of around 10% over the 5 years.

Income

- 4.6. Total income for the four years to date was £112.0 million less than forecast, largely the result of lower airport charges and rental income, as explained further below.

- 4.7. Airport charges income was £76.5 million below forecast, despite higher traffic volumes, as a result of higher levels of discounting, caused primarily by the Ryanair takeover of Buzz. The forecast assumes that discounts largely disappeared in 2007/08, so that airport charges revenues exceed the CAA's regulatory assumptions in the final year of Q4 due to improvements in yield and the increase in passengers above forecast.
- 4.8. Retail revenues, excluding car parks, were above forecast by £24.4 million for the first four years, due to both the volume effect of increased passenger numbers and improved yield per passenger. Yields improved due to a range of factors, including increases in the categories of perfumes, gifts and specialist shops, increased ranges and market expansion (e.g. cosmetics and skin care growth and space expansion). Against this, there has been a structural decline in liquor and tobacco. The forecast World Health Organisation abolition of tobacco sales has, however, not taken place.
- 4.9. Catering has shown strong growth due to an increasing depth of range and offer. Bureau de change revenues are ahead, the Q4 forecast having assumed UK euro entry from 1 April 2005 and a significant drop in revenues thereafter. Additional passenger numbers have improved revenue from bureaux de change, but increased cash machine and credit/debit card usage have had an adverse impact.
- 4.10. Car park revenues have, however, been below forecast, by £21.1 million in the four years to date, due in part to increasing competition from off-airport car parks (i.e. local hotels and Bishops Stortford Football Club), and the increasing use of public transport (33.8% in 2002 c.f. 44.6% in 2007). There has also been, at Stansted, a strong growth in inbound traffic from carriers based outside the UK, e.g. Germanwings and Air Berlin, which has a negative effect on car park revenue.
- 4.11. For 2007/08, these trends have continued, with generally strong retail growth offset to some extent by lower than forecast car park revenues. The net impact over the five years, for all retail activity, is expected to be slightly ahead of forecast, by around £3 million.
- 4.12. Other revenues (from property, utilities, check-in and baggage rents and other specified facilities) were, in total, below forecast by £38.8 million for the first four years of Q4. This adverse variance arose as follows:
- Property income was lower by £23.3 million. A number of properties were transferred to APP, a joint venture in which BAA holds a 50% stake, in March 2005. Rental income since then is reduced by approximately £7 million p.a. The airport RAB was accordingly reduced as a result of this transaction. Property revenues have also been impacted by the no-frills carriers not taking up on-airport office space or using Commercially Important Passenger (CIP) lounges. The forecasts were also overstated, as the CAA had assumed that an increased passenger base (passenger forecasts were increased above BAA's original forecasts) would generate a proportionate increase in rental income, whereas this relationship is not linear;

- Revenue from utilities recharges to users was down by £3.6 million. This is a product of two factors. Firstly, the consumption of utilities by users in relation to the total airport consumption is lower than forecast. Secondly, some mitigation of this has occurred due to the rising input costs passed on through recharges to tenants; and
- Other revenues have been below forecast by £11.9 million over the first four years of Q4. As with property income, other revenues were uplifted by the CAA in line with the increase in passenger numbers over BAA's original forecast. Again, the relationship between passengers and this revenue stream is not linear. In 2005/06, and for future years, following agreement with airlines, charges for aviation fuel throughput have been reduced, accounting for a significant part of the shortfall.

4.13. The above trends have continued in 2007/08, with rental reductions from the APP transaction and generally lower occupations driving lower rental income. Other revenues have also reduced further following the outsourcing of sales of vehicle fuel (though this is compensated by the reduction in costs from the saving in purchasing costs).

Expenditure

- 4.14. Operating costs (after exceptionals) for the four years to date were £2.4 million above the regulatory forecasts.
- 4.15. Staffing levels (man years) exceeded regulatory forecasts by 64 in 2006/07, following a small increase in 2003/04 and two years of below forecast numbers. The increase in 2006/07 was mainly the result of increased security staff arising from the August 2006 Directives. There was also an increase in other operational staff as a response to increased traffic levels.
- 4.16. Staff costs have exceeded the regulatory forecasts for the four years to date by £18.3 million. In addition to the increased security and operational manning levels, this has been mainly due to an increase in accounting pension costs.
- 4.17. For 2007/08, staff costs continue to be higher than forecast as a result of additional security manning required following the change in government security measures introduced in August 2006 and subsequent amendments. The net impact of the above is expected to be an increase in staff costs over the Q4 forecast by circa £31 million for the 5 year period.
- 4.18. For the first four years, costs other than staff costs were £15.9 million below the regulatory forecasts. This is explained below:
- Rates costs were £7.1 million below forecast, partially due to the release of provisions, £4 million, following the latest valuation in 2006;
 - Utility costs were £5.8 million below forecast. The increased costs of buying in electricity has been offset by the planned delay in the bulk supply point upgrade project, which has reduced the forecast increase in the distribution management fee;
 - Maintenance and equipment costs were below forecast by £5.9 million in the four year period, due in the main to assumptions made regarding projects that were delayed or not

undertaken, (e.g. the standby runway, terminal arrivals extension and multi storey car park). The new facilities for companies (with their own pumps), followed by the outsourcing of this activity has reduced the costs of supply of vehicle fuel;

- Police costs were above forecast by £2.0 million to 2006/07. This has been due to a combination of additional resource required for the increase in passenger numbers, and the increased threat level. Security directives, which have increased the scope of policing, have resulted in additional manpower requirements. Cost per passenger has been broadly in line with forecast;
- Other costs have been below forecast by £6.1 million. This is in part due to the higher forecasts made by the CAA, who increased cost allowances in line with passenger forecast increases. Offsetting this, costs rose from 2005/06 to 2006/07 by £8 million, mainly due to exceptional costs of change programmes such as Inspiring Service Excellence ('ISE'); and
- Intragroup costs were £7.0 million above forecasts to 2006/07. This reflects the increasing charge for centrally provided services, such as IT, supply chain, retail and project support.

Capital expenditure

Table 4.2 Capital expenditure forecast for Q4

£million outturn	Total current forecast for Q4	Regulatory settlement (rolled forward by RPI ⁵)	Variance Q4 against Regulatory settlement (rolled forward by RPI)	Regulatory settlement (rolled forward by construction inflation ⁶)	Variance Q4 against Regulatory settlement (rolled forward by COPI)
SG1	236	376	-140	396	-160
SG2	130	0	130	0	130
Stansted Total	366	376	-10	396	-30

4.19. The Q4 totals above are based on forecast expenditure for 2007/08. Actual expenditure in 2007/08 for SG1 of £77 million and for SG2 of £34 million results in totals for Q4 of £219 million and £141 million respectively, and a total for the airport of £358 million.

4.20. As the above table demonstrates, expenditure at Stansted is forecast to be £10 million lower than anticipated in the Q4 regulatory settlement.

4.21. Taking higher construction inflation than anticipated into account increases the variance to £30 million.

4.22. Stansted has continuously sought to extract greater utilisation from its existing infrastructure whilst sustaining an appropriate level of service quality for airlines and passengers. Key

⁵ RPI calculated as a financial year average

⁶ Construction inflation measured by September % increase in Construction Output Price Index (COPI)

projects originally planned for the period of Q4, but subsequently deferred or cancelled, include a new multi storey car park and a terminal extension to provide more departures capacity. The proposed development of a second runway at Stansted also led to removal from the plan of investment associated with a new standby runway. This SG2 related expenditure was not included in the CAA's Q4 forecasts.

- 4.23. As can be seen from the table above the reduction in investment in the development of the airport to the capacity of the existing runway (SG1) has been largely off-set by the additional expenditure incurred on the development of a second runway and associated infrastructure (SG2) at Stansted.

Annex I - Regulatory Comparison against Q4 CAA regulatory settlement

Stansted Airport (£m outturn prices)	4 Years to 2006/07			Forecast for total Q4		
	Actual	Variance	Variance %	Actual	Variance	Variance %
Passengers (000s)	86,659	8,459	10.8%	110,359	9,859	9.8%
Man years (final year)	1,144	-64	-5.9%	1,298	-190	-17.2%
	£m	£m		£m	£m	
Airport charges	269.9	-76.5	-22.1%	407.9	-50.6	-11.0
Retail income	305.7	3.3	1.1%	395.7	2.7	0.7%
Property income	36.2	-23.3	-39.1%	43.6	-32.5	-42.7%
Utilities	15.1	-3.6	-19.1%	20.2	-4.2	-17.2%
Other income	49.7	-11.9	-19.5%	60.7	-20.7	-25.4%
Total revenue	676.6	-112.0	-14.2%	928.1	-105.3	-10.2%
Staff	164.7	-18.3	-12.5%	219.5	-30.6	-16.2%
Police	24.7	-2.0	-8.9%	31.9	-2.4	-8.2%
Rent and rates	29.5	7.1	19.4%	40.3	7.5	15.6%
Utilities	37.0	5.8	13.5%	49.2	7.1	12.6%
Maintenance & equipment	45.7	5.9	11.4%	56.5	11.2	16.6%
Other/Intragroup costs	85.6	-0.9	-0.9%	119.4	-8.3	-7.5%
Total costs	387.2	-2.4	-0.6%	516.8	-15.5	-3.1%
EBITDA	289.4	-114.4	-28.3%	411.3	-120.8	-22.7%
Regulatory depreciation*	140.4	0.0	0.0%	186.2	0.0	0.0%
EBIT	149.0	-114.4	-43.5%	225.1	-120.8	-34.9%
	£	£		£	£	
Airport Charges yield (gross, all flights)	3.11	-1.32	-29.7%	3.70	-0.87	-19.0%
Retail yield	3.53	-0.34	-8.8%	3.59	-0.33	-8.3%
	£m	£m		£m	£m	
Average RAB	898.1	-68.4	-7.1%	934.5	-72.6	-7.2%
Rate of Return	4.2%	-2.6%		4.7%	-2.1%	

Note: Negative variances on revenues imply lower revenues compared to regulatory settlement and on costs imply higher costs compared to regulatory settlement. Negative variances in man years imply higher man years than forecast.

*The CAA determined that the actual depreciation allowance to be used in Q4 should be as per the CAA decision in February 2003.

Chapter 5 Traffic Forecasts

- 5.1 BAA's forecasts for Stansted in Q5 and beyond have been produced using the same framework as that described for Heathrow and Gatwick in Chapter 6 of BAA/CC2007/100.

Performance to date of previous BAA forecast

- 5.2 The performance of BAA's London area forecasts was set out in Chapter 6 of BAA's submission BAA/CC2007/100 to the Competition Commission in May 2007. This explained the actual performance over the 4 years to 2006/07 and the then current forecasts for 2007/08. Since then, Stansted's traffic improvement over the CAA forecast for 2007/08 has slowed, and is reduced by 1.0 million passengers from the May 2007 forecast. Current forecasts indicate that Stansted will outperform the CAA forecast by 9.8 million passengers for the original 5 years of Q4.

Constructive engagement

- 5.3 Attempts were made to progress the forecasts for Stansted in association with the airlines using similar Constructive Engagement (CE) principles to those adopted at Heathrow and Gatwick. However from the outset it was apparent that there were wide differences in the methodologies and assumptions advocated by the respective parties. This, and other CE workstreams at Stansted, were discontinued during 2006 by the CAA. The traffic forecast presented in Table 5.1 is therefore that of BAA alone.

Open Skies

- 5.4 BAA's assessment is that any negative impact on Stansted arising as a result of EU/US Open Skies is likely to be small and short-lived, taking place during Q5.

Forecasts

- 5.5 Looking forward, BAA is confident that air travel demand will continue to grow. Our assumptions for the development of traffic across the BAA London area airports as a whole are as follows:
- i. The growth of air passenger demand (as distinct from capacity-constrained throughput) is projected to average about 3.2% per annum up to the end of Q6;
 - ii. UK GDP is assumed to grow at a trend rate of 2.2% per year over the period. In the short term, however, the economy can be expected to experience below trend growth in response to the global credit squeeze following from the sub-prime mortgage defaults in the US in the summer of 2007. This, combined with the effects of historically high oil prices and aviation fuel costs, together with the impact of a growing aviation tax burden, will contribute to a continuation in the next year or so of the low air traffic growth rates of recent years;
 - iii. Real airfares are assumed to decline slightly over the period (by less than 0.5% per annum), with the rate varying between airports and markets. It is projected that the

- gains from technological advance and the forces of competition will for the most part be counteracted by increased fuel and environmental costs (including the effects of the assumed inclusion of aviation in the EU Emissions Trading Scheme from 2011/2012);
- iv. The rate and direction of fares change in any given market is likely to vary from year to year, reflecting conditions at the time.
- 5.6 Table 5.1 presents BAA's traffic forecasts for Stansted. The assumptions supporting the forecasts include the following:
- i. BAA Stansted gains consent from Uttlesford District Council to lift the existing planning conditions;
 - ii. Increases in prices during Q5 and Q6 will have a relatively small impact on the rate of traffic volume growth at Stansted. During Q5, it is assumed that short term price increases will be offered to stimulate off peak traffic;
 - iii. The capacity of the single runway is developed over the longer term towards an average of 48 movements per hour;
 - iv. Stansted derives traffic growth by meeting its own local demand, and, as airport capacity constraints at Heathrow and Gatwick increasingly harden, by attracting an element of spill traffic from elsewhere in the London system;
 - v. Increases in traffic volume growth will be driven by a mix of new short haul routes and frequency (which are likely to be predominantly low cost in nature), along with the gradual emergence of long haul services at Stansted;
 - vi. Over the period to 2014/15 growth will principally be delivered at off-peak times, reflecting the scarcity of peak runway slots;
 - vii. Ongoing growth in the demand for air cargo, along with the scarcity of spare slots at Heathrow and Gatwick, will generate an increase in the number of Cargo ATMs using Stansted;
 - viii. Average passenger loads will rise to about 140 passengers per aircraft by 2007/08. BAA Stansted is assumed to seek and gain permission to develop SG2, opening in time for the start of 2015/16; and
 - ix. Traffic volumes are assumed to grow significantly in the first few years of operation of SG2, at a faster rate than would be the case with a single runway.

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Table 5.1 Traffic Forecasts – Stansted

Pax (m)

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
BAA May 2008 submission to CC	23.8*	23.7	22.7	23.5	24.7	26.6	28.5	31.0	33.0	38.0	41.3	44.9	46.6
BAA March 2008 submission to CAA	23.8*	23.7	24.0	24.6	26.1	28.0	29.6	31.5	33.0	38.0	41.3	44.9	46.6
Q4 decision	21.1	22.3	N/A										

*Actual

Note passenger forecast includes EU-US 'Open Skies'.

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Chapter 6 Retail

Overview

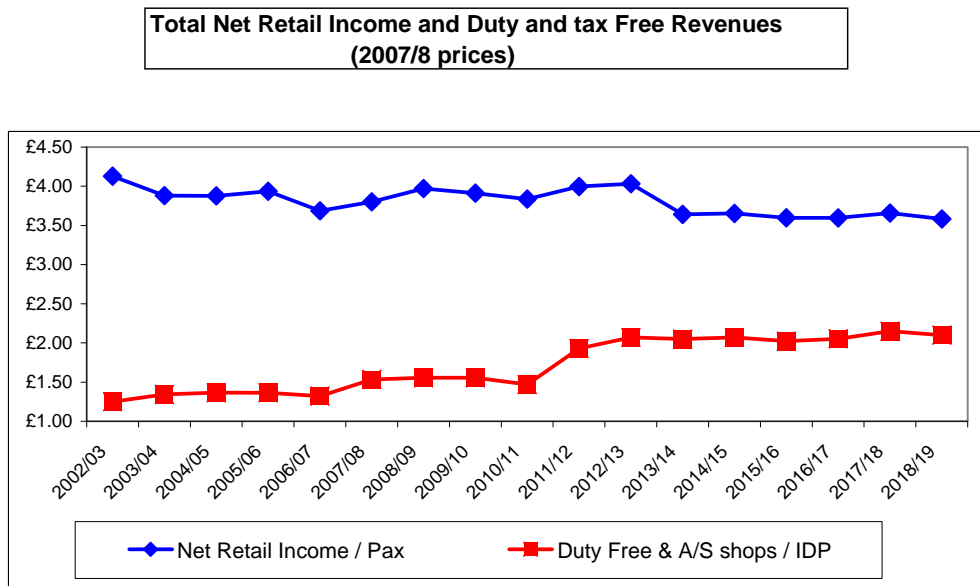
- 6.1. A significant proportion of income generated by Stansted airport is from a range of retail activities. Commercial income⁷ segments represented at Stansted include duty and tax free shops, other specialist shops, news and books, food and beverage, bureau de change, car parking, car rental, media and other minor categories.
- 6.2. BAA Stansted forecast commercial income using historic spend per passenger trend analysis, applying airport-wide generic assumptions based on consumer spending trends by category, and overlaying airport-specific impacts including those arising from capital projects. The resultant per passenger income figures are multiplied by the passenger number projections to determine the net retail income cash forecast.
- 6.3. This chapter complements the airport-specific commentary in chapter 13 and provides an overview of the generic assumptions included within the commercial income forecast to 2018/19 for all the major categories.

Net retail income

- 6.4. The current business plan forecast that net retail income per passenger for Stansted airport will be £3.97 in 2008/09 (2007/08 prices). This compares with £4.13 in 2002/03 (2007/08 prices), reflecting a decrease of 4% over the six year period. A number of key impacts have driven this performance, notably the further widening of the EU on 1st May 2004, car parking due to growth of inbound traffic, a structural decline in tobacco sales, and most recently the increased security restrictions put in place and subsequently amended after the terrorist alert in August 2006.
- 6.5. It is anticipated that this decline will be halted by the delivery of capital projects leading to improved customer experience and retail selection.
- 6.6. The car park market is forecast to be challenging and, in spite of a number of projects and initiatives, will decline on a per passenger basis.
- 6.7. The graph below (figure 6.1) indicates the historical trends and projected net retail income figures on a per passenger and per international departing passenger (IDP) basis.

⁷ Concession income (turnover rent) or gross profit (after management/agency fees)

Figure 6.1



Retailing

6.8. There are a number of key challenges and specific events which have been included within the current forecast;

- Legislation and buying trends within the tobacco and liquor markets;
- Further EU enlargement;
- Increase in arrival shop competition;
- Growth of on-line retailing and High Street competition; and
- Increased security restrictions.

Legislation and buying trends within the tobacco and liquor markets

6.9. The number of passengers purchasing tobacco products has declined significantly over the last few years.

6.10. It is anticipated that by 2009 there will be additional and pictorial health warnings on tobacco packs and it may no longer be possible to trade cartons of 1000 cigarettes.

Further EU enlargement

6.11. Further EU enlargement reduces the newly designated EU passenger spends in certain airside shop categories. The margin on sales in these categories is also reduced as the VAT liability on these sales is effectively shared between the airport and concessionaires.

6.12. The current forecast assumes Croatia enters the EU in 2010/11, followed by Turkey, Albania, Bosnia, Macedonia, Serbia and Montenegro in 2015/16. Impacts have been included within the forecast based upon current passenger levels, spend and margin figures.

Increase in arrival shop competition

6.13. In 2005, the Norwegian Government permitted airports in Norway to sell duty and tax free products to arriving passengers, joining around 20 other countries that have adopted a

similar approach. This has had a significant impact on the spend levels of passengers flying to Norway. Airports in Switzerland, Stockholm and Vancouver have all recently announced their intention to follow this example⁸. The forecast assumes these agreements are in place by 2009/10 although there is clearly a growing tendency for more countries to introduce duty free arrivals shopping.

Competition from high street and on-line retailing

- 6.14. Over the last few years, the grocery trade, led by Tesco, has rapidly expanded into a broad range of non-food categories. This is a direct threat to airport passenger spend by UK residents, particularly within the travel accessory (sun creams and films), music and technology categories.
- 6.15. The core value for money and convenience propositions underpinning travel retailing are also under increasing challenge from on-line retailing which is expected to treble in size in the UK within the next five years⁹. It is forecast that income generated from music, books and technology will be further diluted, as will beauty products, especially following the launch of fragrance on Amazon in the US last year.
- 6.16. As a result of the above impacts, a 0.2% per annum decrease in income per passenger generated from specialist shops and book shops has been included within the forecast through to 2012/13.

Increased security restrictions

- 6.17. The recent addition and evolving security restrictions (from August 2006 and subsequently) which restrict the size and contents of cabin baggage through passenger search and on flights have impacted commercial revenues.
- 6.18. This latest example of the rapid and ever more frequent changes to regulations - both inside and outside of the UK - causes confusion and uncertainty and affects the passengers' sense of having permission to buy at the airport shops. The latest impacts are outlined below.
- 6.19. Following the DfT's announcement in November 2006, passengers can carry a limited quantity of liquids (gels, lotions, pastes, liquid cosmetics, foams and foodstuffs) in their hand baggage through airport security. All liquids must be in individual containers not greater than 100ml capacity and placed in one transparent re-sealable bag.
- 6.20. The regulations have also increased check-in and security processing times which effectively reduces passenger dwell time and engagement with the retail offer in the airside departure lounge areas.

In-terminal services

- 6.21. In-terminal services include catering, bureaux de change and other smaller categories including vending, left luggage, family entertainments and hotel reservations. For the purposes of the long term forecast, it has been assumed that the income per passenger

⁸ www.modiereport.com

⁹ Source: Verdict

achieved from these smaller categories remains constant, in real terms, throughout the period. There are, however, issues which have a bearing on the long term performance of catering and currency exchange which are identified below.

Catering

- 6.22. Income per passenger generated from food and beverage activities has increased in recent years. This trend has been driven by the introduction of innovative new brands (Giraffe and Lovejuice) and diversifying the offer along with successful renegotiation of contracts which has driven margin improvements.
- 6.23. The rapid increase in low fare air travel, which typically offers limited on board catering, has also stimulated growth in this category. Further information is included in the CAA submission BAA/Q5/50.
- 6.24. Whilst the introduction of a ban on smoking in public places is expected to reduce revenues at the airport bars and pubs, it will not significantly impact the underlying growth trend which is forecast to continue at 1% per annum until 2013/14. The achievement of such growth will require investment in new outlets and an on-going attention to providing the right product mix.

Bureaux de change

- 6.25. The foreign exchange market has been impacted during Q4 by the introduction of the Euro and the increasing trend of credit / debit card and cash machine usage abroad. This has, however, been countered by a positive improvement in the effective margins generated by the airports as a result of successful contract renegotiations.
- 6.26. Further margin growth is not anticipated, and could in fact lead to detrimental customer service if operator profitability is threatened. The behavioural changes identified are expected to continue. The long term projections include an annual 0.5% decline in income per passenger as a result.
- 6.27. The forecast assumes that the UK adopts the Euro in 2013/14. This impact has been calculated based on the current level of Sterling – Euro transactions identified by several of the current operators.

Travel services

- 6.28. Travel Services consists of car parking and car rental activities.

Car parking

- 6.29. The airport car parking business at Stansted is in the midst of a challenging and changing market and this is forecast to continue: there is increasing competition being experienced from local hotels and other 'unofficial' operators; the rise in customer demand for pre-booking means margins are impacted by agency fees; and there is a steady increase ongoing in the proportion of non-UK carriers and non-UK passengers using the airport. These passengers do not park and this has a significant impact on per passenger performance.

- 6.30. Revenue management is being introduced which is intended to offset some of these impactors by improving return per space.

Car rental

- 6.31. The car rental market has undergone a number of structural changes over the last few years. The consolidation of a number of global brands combined with the rapid growth of 'low-cost' internet based operators has impacted margins and passenger spend. The current forecast estimates that further internet pre-booking of either on-airport car hire at reduced margins or off-airport competition will reduce income per passenger by 0.5% per annum until 2013/14.

Media and advertising

- 6.32. The forecast assumes that the income per passenger levels generated by media and advertising will remain constant throughout the period to 2018/19. Whilst revenue is not directly linked to passenger spend, it is expected that the recently announced seven year advertising management contract with JCDecaux will stimulate new media opportunities including the use of mobile technology.

Major developments

- 6.33. The forecasts include the impact of car park enhancements, the arrivals extension and the departures extension. The last of these can be seen to create a significant uplift in 2011/12 and 2012/13. This project is not currently at a sufficient level of detail to anticipate its impact on individual income lines so the entire impact is shown under duty and tax free. The income necessary to justify this project is challenging and will also require an improvement in departure lounge dwell times, something that would require airline cooperation.

Retail Strategy Review

- 6.34. A review of the retail strategy, previously defined in 2001, has been undertaken in response to the changing external environment and a number of specific challenges.
- 6.35. The broad thrust of the new strategy is to focus on developing retail sales at the airport, and not rely on increasing margins to sustain net income growth. The strategies to achieve sales growth are based on improving the reputation of airport shopping and delivering higher levels of passenger engagement.
- 6.36. In the short to medium term, the pursuit of this strategy will require investment in the airport retail offer that potentially puts margins at risk, but the longer term benefit is a more sustainable, consumer driven income outlook.
- 6.37. The consumer is becoming increasingly discerning and demanding of value, innovative products and improved service. As outlined above, the internet has fuelled greater market place awareness and has provided consumers access to a global array of retailers and service providers.
- 6.38. The strategy review has outlined a number of opportunities to re-engage passengers through a change in approach to the terminal and value propositions as well as a number of

operational and customer communication improvements. The forecast assumes the successful implementation of these opportunities, which reduces but does not eliminate the decline in real net retail income per passenger levels. There is a risk, however, that these measures fail to stimulate the change in customer behaviour required.

Chapter 7 Service Quality

Overview

- 7.1 BAA has always strived to deliver a high quality service to our airline customers and to the travellers who use our airports. Our strategies have, for some time, included a determination to deliver a service which meets the expectations of our passengers. BAA has retained this strategy under its new ownership – but with a renewed commitment.
- 7.2 In March 2007, BAA announced “Putting Passengers First”, BAA’s plans to end congestion and cut queuing time at its airports. As part of these plans, BAA is spending an additional £40 million to recruit 1,400 extra security guards and open 22 new security lanes across its seven UK airports. Once these developments are complete in 2008, Stansted is committing to sustain queuing times 10 minutes or less for 95% of the time across the operational day. At the same time, BAA is also planning a multi-billion pound investment programme at its airports which will add vital new facilities, improve existing terminals and add significantly to the UK’s overall airport capacity.
- 7.3 BAA’s determination to understand and respond to the views of passengers is evident from the Quality of Service Monitor (QSM). This passenger opinion survey has been running for more than ten years. Feedback from QSM and other passenger surveys is carefully considered by BAA’s managers, from the Chief Executive through to operational staff, and provides a vital understanding of where BAA and the wider airport community is succeeding and identifying areas where improvement is needed.
- 7.4 In 2006, the CAA asked for evidence from BAA to demonstrate how the company understands and incorporates the views of passengers in setting and delivering service quality standards. BAA provided the CAA with extensive material to explain how the company handles this issue in BAA/Q5/220 and BAA/Q5/249. Extensive use is made of the QSM survey as well as the Quality of Facilities Monitor (QFM), a passenger opinion survey focussed on infrastructure issues. This has created a large body of evidence demonstrating how we take passengers’ views into account in the development programmes of the airports.

Q4 performance

- 7.5 Following consultation with the AOC in 1998, Stansted agreed to put in place and make available to the AOC specific service level agreements (SLA’s) and the associated performance data on a monthly basis.
- 7.6 Q4 performance has been good with little deviation from the target service levels. Projected performance is positive with the expectation of continuing to reach service level targets.

- 7.7 Additional information on BAA's service quality performance can be gained from reviewing the QSM results for the period, which show the passengers' views of delivered service at Stansted airport¹⁰.
- 7.8 Much has been said about BAA's service quality performance in 2006 and early 2007, particularly in the aftermath of the security crisis on August 10th. Despite the media stories to the contrary, through each month of 2006 BAA and airlines continued to deliver a good level of service – as rated by the passengers¹¹.
- 7.9 It is right to reflect on BAA's response to the events of August 10th. The government's response to the threat level was unprecedented in its urgency and impact. One alternative for BAA would have been to close airports whilst a new operating plan could be developed and implemented. Instead, BAA sought to keep the airports operating as normally as possible whilst ensuring the government's security requirements were implemented. Airports and airlines faced an enormous challenge and the problems that arose did not all lie with BAA.
- 7.10 In conclusion, we consider that, given the scale of the increase in security requirements, BAA responded well. There are many examples of BAA staff going well beyond the call of duty to help travellers. We accept however that the airport and its airline partners could have responded better. Significant steps have been taken to learn from the experience and we have invested in staff and facilities to reduce security queue times and improve our resilience.

¹⁰ During Q4, the CAA commissioned an external audit of BAA's QSM survey and consulted with interested parties on the audit report. In March 2006, the CAA stated: "The CAA concluded on the basis of the audit and the responses from the consultation that: QSM is a suitable research instrument for the service quality rebates output, that it is statistically sound, and can be relied on as an indicator of service performance".

¹¹ BAA's QSM ratings range from '1' (Very poor) to '5' (Excellent), with '3' being 'Average' and '4' being 'Good'. The August 2006 scores include interviews conducted prior to August 10th, and exclude data from the days immediately afterwards when our QSM staff were deployed in assisting passengers.

7.11 Details of current measures and performance of Service Quality are shown in figure 7.1;

Figure 7.1

SLA Measures	Dec-07	Apr-08	
	Actual	Actual	Target
Unplanned Downtime			
TTS	0.8%	0.9%	2.0%
Airbridges	8.9%	4.3%	2.0%
Lifts	0.0%	1.0%	2.0%
Escalators	0.2%	0.2%	2.0%
Baggage system	2.3%	1.2%	5.0%
Stand availability	1.8%	1.2%	2.0%
Security Queuing Times			
Percentage of passengers less than 10 minutes	98.0%	99.9%	95.0%
Customer Feedback			
Complaints v Compliments this month	15:1	4:1	10:1

Looking forward to Q5

- 7.12 Quality of service remains a key strategic imperative for Stansted. We place a strong focus on the elements of service which improve the passenger experience and those which contribute to reducing airline costs and ensuring turnaround punctuality. The latter has been stated as the most important issue for its currently predominant airline customers e.g. passenger security screening, baggage systems and stand availability. In its drive to improve the overall passenger experience, Stansted is also focusing on a number of elements which passengers tell us are important to them (eg. security capacity, toilet cleanliness, arrivals baggage delivery, immigration queuing and PSE availability). Although these measures form part of BAA's QSM assurance system, the airlines would appear to place less reliance on these service drivers.
- 7.13 The SLA's currently in place at Stansted have served to assist both internal and external stakeholders by identifying service performance against targets of key processes, and highlighting where potential improvements can be made. Going forward, Stansted intends to examine formalising SLA's with its airport users in the context of the CAA's forthcoming 2009 decision on the regulatory settlement.
- 7.14 Stansted will be focusing energy in Q5 on maintaining and improving cost efficiency and productivity whilst protecting service quality. However, Stansted remains convinced that service levels measured and targets set should be appropriate to meet the needs of the airports users and commensurate with the price controls set.
- 7.15 Stansted is not opposed to the principle of a Service Level Rebate scheme and sees some potential for advantages. For example, it might bring a degree of objectivity to debates on service levels. However, Stansted would be concerned at the inclusion of any elements within a scheme where there is not a very high level of direct control. Clearly any measures should focus on performance measures which have a direct bearing on the passenger and the airline operations, for example passenger security queue times, or baggage system availability. Stansted also believes that any scheme should be symmetric and provide

incentives for the airport should targets be exceeded. We would also want to ensure that the proposals for Stansted were appropriate for the circumstances facing Stansted airport and not automatically carried over from Heathrow and Gatwick.

Chapter 8 Productivity

- 8.1. The following report on Stansted's productivity should be read in conjunction with the comments made in respect of BAA's assumptions for productivity contained in Chapter 9 of BAA's submission to the CC (BAA/CC2007/100).
- 8.2. For the first four years of Q4 Stansted experienced year on year increases in passenger numbers above forecast. During this period of significant growth, the airport improved its productivity in each year to 2005/06, exceeding the CAA's forecasts for productivity.
- 8.3. As a result of the tighter security regime following the August 2006 terrorist alert, the requirement for increased security staff led to a decline in productivity in 2006/07 which has continued into 2007/08 and is expected to continue into 2008/09.
- 8.4. The table below shows productivity levels since 1997/98 (the beginning of Q3) to forecast 2013/14 (end of Q5).

Table 8.1 Stansted productivity, '000's passenger per man year

	97/98	05/06	08/09	13/14
Stansted	8.64	21.29	[E]	[E]

Key factors underlying productivity forecasts

Man years forecast

- 8.5. Man years is defined as the measure of total hours paid, either through basic pay (assumed at 2088 hours p.a.) or overtime, the sum of the two being converted to Full Time Equivalents. Although Man Years comprises 'normal time' plus overtime hours, the total is impacted by absence and sickness rates, vacancy factors and staff turnover, and roster and shift efficiencies, all of which can impact upon overtime hours and hence the amount of overtime pay.

Table 8.2 Man Years

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14
Stansted	1,144	1,298	[E]	[E]	[E]	[E]	[E]	[E]

- 8.6. The significant drivers in the movement in Man Years in the period to the end of Q5 are:
- passenger number growth;
 - impacts of additional security measures (from August 2006); and
 - efficiencies delivered through the implementation of change programmes and continuing productivity measures.

Table 8.3 Man year changes by impact

	07/08	08/09	09/10	10/11	11/12	12/13	13/14
Security	[E]	[E]	[E]	[E]	[E]	[E]	[E]
Change Programmes	[E]	[E]	[E]	[E]	[E]	[E]	[E]
Other	[E]	[E]	[E]	[E]	[E]	[E]	[E]
Stansted Total	[E]	[E]	[E]	[E]	[E]	[E]	[E]

Security impacts

8.7. BAA has experienced a significant increase in security costs due to new security directives which have been introduced during the current quinquennium. Chapter 11 contains further analysis of security costs and the changing security environment.

Stansted specific productivity measures

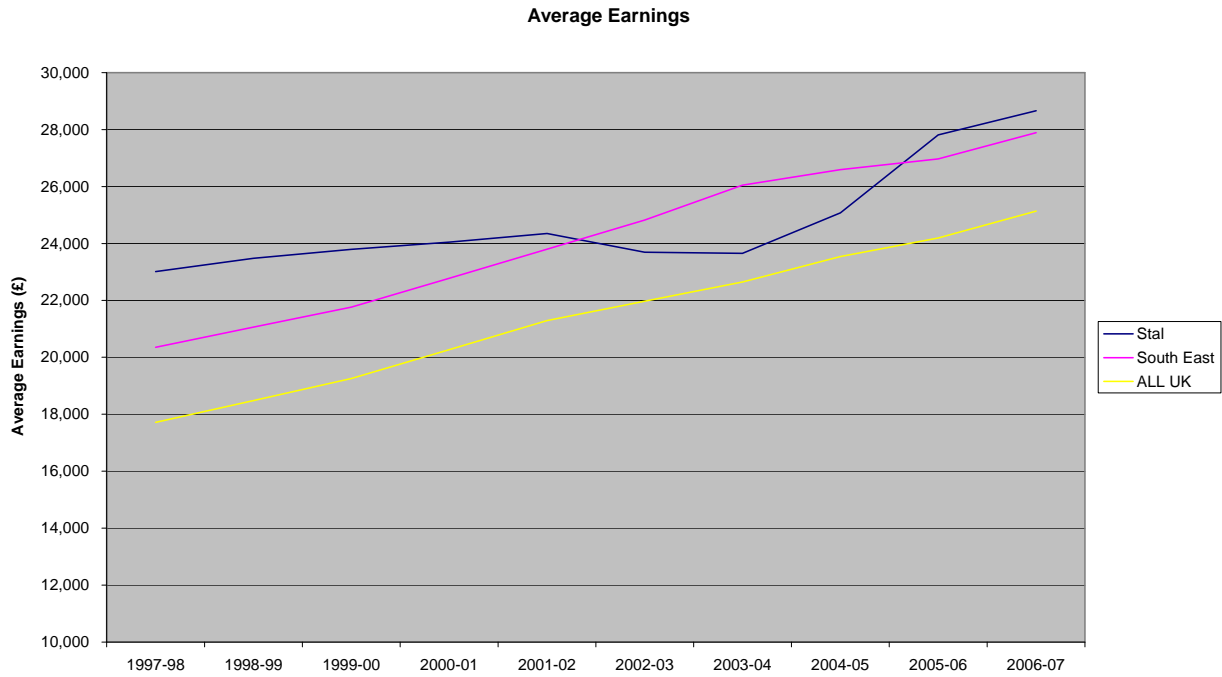
8.8. The DEE change programme (known at Stansted as ISE) was implemented across BAA during 2006/07. The programme reorganised the airport operations, reducing layers, reducing manning and improving the leadership capability. In addition, other change programmes (HR, Simplification, Engineering), together with ongoing productivity improvements, are reflected in this submission.

Staff costs per man year

8.9. The historical analysis of increases in costs per employee has shown an average annual growth of circa 2.1% p.a. over the period 1998-2007, compared to the increase in average earnings in the UK (from 1998 to 2006) of circa 4.0% p.a., or around 1.5% p.a. above inflation. The long-term forecast built into staff costs is [E] real p.a. (excluding pension adjustment), which is felt to be appropriate, given the belief that it will not be possible to keep wage increases significantly below the UK average while retaining key staff and hiring new security staff while at the same time avoiding industrial action.

8.10. In the period from 1997/98 to 2006/07, there was a significant difference between the average earnings growth of Stansted when compared to the South East region. Average earnings at Stansted grew in the period by 25% compared to the relevant South East region average of 37%. The comparative figure for the South East Region for 2007/08 was not available at the time of this report.

Figure 8.1 BAA earnings vs SE region earnings



Staff costs per passenger

8.11. Average real staff costs per passenger have, as a result of the above, increased from £2.18 per passenger in 2006/07 to £2.45 in 2008/09, thereafter gradually reducing to [E] in 2013/14.

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Chapter 9 Capital Investment Programme

- 9.1. Investment at Stansted falls into two distinct categories; that which supports the growth of Stansted within the capacity constraints of the existing runway (G1) and investment supporting the progression through planning and subsequent development of a second runway and associated infrastructure (G2).

Table 9.1 Capital expenditure

	£m (2007/08 prices)
2008/09	126
2009/10	130
2010/11	72
2011/12	236
2012/13	330
2013/14	598
2014/15	317
2015/16	81
2016/17	34
2017/18	26
2018/19	93

G1

- 9.2. In April 2006 a planning application was submitted to Uttlesford District Council ("UDC") to enable the airport to grow to 35 mppa by amending its limit on air transport movements and removing the 25 mppa cap on passengers. This application was refused by UDC on 29th November 2006. Following the airport's appeal a public inquiry was held, which closed during October 2007. The decision is expected to be made during the first half of 2008. BAA expects this to support BAA's application.
- 9.3. Key programmes have been identified for Q5, Capacity, Safety, Security & Sustainability and Asset Replacement which reflect our programme of investment over the next 10 years.
- 9.4. Within the capacity programme, the focus is on the delivery of infrastructure to enable throughput of around 33 mppa by 2014/15. The projects are timed to progressively release the leading constraint on capacity thereby incrementally delivering overall balanced airport growth in an efficient manner.
- 9.5. 2007 saw significant development on the arrivals extension which remains on target for phased completion scheduled from Summer this year. Once operational the new arrivals extension will provide an exciting new passenger experience. Further developments planned in the terminal include the significant commercial opportunity to extend our departures area which will generate excellent retail revenues and help improve the customer experience at STAL. In addition to the clear commercial value of a departures extension the extended area will provide for identified improvements in the baggage

handling system, helping to ensure robust performance and increased capacity in order to meet demand.

- 9.6. Surface access facilities have been improved over the past two years and, further plans exist for some road, rail and car parking infrastructure to support the airport's growth.
- 9.7. Alongside the capacity programme, the development strategy embodies a strong commitment to safety, security & sustainability. Building on the security improvements delivered in 2007, STAL continues to plan for investment in additional security technology such as the new passport reader and facial recognition gate entry system which will be operational for the Borders and Immigration Agency around August of this year.
- 9.8. Stansted continues to closely review and monitor the existing mechanical and electrical infrastructure and as such we have planned investment for the major overhaul and/or replacement of a number of our assets. In parallel we recognise that alongside our plans for growth it is essential to sustain the current asset base to protect performance.

Stansted Generation 2 (SG2)

- 9.9. In December 2003 following an extensive exercise considering all options and a long period of consultation, the Department for Transport produced a White Paper on air transport (The Future of Aviation). The White Paper reached several key conclusions in relation to runway capacity in the South East. The first was that there was an urgent need for additional capacity. In relation to where capacity should be developed it concluded that the first priority is to make best use of the existing runways, including Stansted and Luton. It went on to conclude that provision should be made for two runways in the South East by 2030, and that the first new runway should be at Stansted.
- 9.10. Following the 2003 Air Transport White Paper a progress report was issued in December 2006. The progress report reiterated that the first priority remains making the most of the UK's existing airports. It continued to support the development of two new runways in the South East, the first at Stansted and the second at Heathrow.
- 9.11. Since the White Paper, BAA has progressed proposals for the Generation 2 project to planning application. BAA developed a range of two-runway masterplan options, which were the subject of extensive consultation with users and other stakeholders between December 2005 and March 2006. The public announcement of the BAA preferred option on the two-runway masterplan was made on 30 January 2007.
- 9.12. The SG2 development of Stansted will be the subject of a planning inquiry. BAA submitted its application to UDC on 11 March 2008 following significant work being undertaken on the necessary preparation of a planning application and environmental impact assessment. The Generation 2 programme will begin the long term development of Stansted as a two-runway airport with additional airport passenger and aircraft handling facilities. The first phase of the development will be designed to open in 2015 comprising the second runway, additional terminal capacity, and ancillary facilities, for around 10 million extra passengers a year. The focus of Stansted's future development is to provide necessary good value capacity

infrastructure and facilities to airport users whilst minimising and mitigating the impact on people and the environment.

G2 Programme

9.13. The programme for the Generation 2 project, is expected to be as follows:

- | | |
|------------------------|--------------------|
| • Planning Application | March 2008 |
| • Planning Inquiry | Commence late 2008 |
| • Government Decision | Late 2010 |
| • Phase 1 Construction | Commence 2011 |
| • Phase 1 Opening | 2015 |

G2 Masterplan

9.14. The Generation 2 programme of works will (subject to planning permission) provide:

- a new parallel runway 3,048 metres in length located 2,200 metres to the south-east of the existing runway;
- new taxiways;
- operations in segregated mode;
- the sustainable hourly aircraft movement rate for segregated mode operations is now estimated to be around 86 movements per hour, some six movements per hour higher than previously estimated;
- Around 42 stands and associated piers;
- A passenger building, with passenger, baggage and aircraft handling facilities at an initial capacity of 10 million passengers per annum;
- Increased car parking;
- Improved public transport including enhancements to bus and rail stations; and
- A new control tower.

9.15. The changes to the masterplan have been based on stakeholders' responses to consultation, further design development work by the G2 Project Team, and updated advice from NATS on the feasibility of operating parallel runways in mixed and segregated mode.

9.16. The facilities and infrastructure proposed for Generation 2 reflect BAA's judgement on the appropriate balance between cost, quality and passenger experience. This judgement is based on BAA's view of the facilities and infrastructure that are needed to meet users' needs and to provide an acceptable standard of design and visual appearance.

G2 Phasing

9.17. The second runway and its supporting terminal and airfield facilities will be developed in discrete phases to enable new capacity to be provided in a timely fashion to meet growth in demand.

9.18. The terminal facility, with design functionality enabling it to be expanded in phases, assumes that the existing terminal, once extended, will accommodate 35 million passengers

per annum. The design solution initially provides capacity in Phase 1 for an additional 10 million passengers.

- 9.19. BAA's view of the appropriate size of Phase 1 is based on a development scenario where the opening of a third runway at Heathrow in 2020 has an impact on the rate of traffic growth at Stansted. Note that this does not represent a change in BAA's view as to the likelihood of a third runway at Heathrow.
- 9.20. The Generation 2 facilities will be designed and constructed in a way that will allow Stansted to respond quickly and cost-effectively to faster rates of growth, should they materialise e.g. the third runway at Heathrow is not operational in 2020.
- 9.21. This forecast assumes the full length of the runway will be constructed in Phase 1 to accommodate up to Code E aircraft types. However, the runway and taxiways would be constructed in locations that would enable widening at a later stage, so that the largest aircraft could operate from the airport.
- 9.22. This forecast shows that by the end of Q5 in March 2014, BAA expects to have invested around £1.3 billion (2007/08 prices) in the Generation 2 project to support the delivery of a second runway and associated on-airport infrastructure. By opening in 2015, BAA's investment in the new runway and on-airport infrastructure will have risen to around £1.5 billion (2007/08 prices, excluding wider roads and rail costs).
- 9.23. The infrastructure and facilities within the Generation 2 development include car parks, airport roads, public transport facilities and other landside infrastructure and utility services (eg water sewerage and fire main).

G2 Surface access

- 9.24. The increase in airport capacity associated with the Generation 2 project will require improvements to be made to the surface access infrastructure serving the airport.
- 9.25. In February 2007, BAA launched a public consultation on requirements for road and rail access to the airport. The proposals were the result of extensive work done by BAA, the Highways Agency, Network Rail, the Department for Transport and the Government Office for the East of England. The proposals include:
 - Measures to reduce the growth in car travel to the airport;
 - Longer trains to meet increased passenger demand;
 - The Stansted Express to return to being a dedicated service for airport travellers at busiest times of day; in conjunction with
 - Additional trains on the West Anglia main line serving Harlow and Bishops Stortford passengers;
 - New and improved coach and bus services; and
 - Local road diversions to maintain connections between communities around the extended airport boundary.

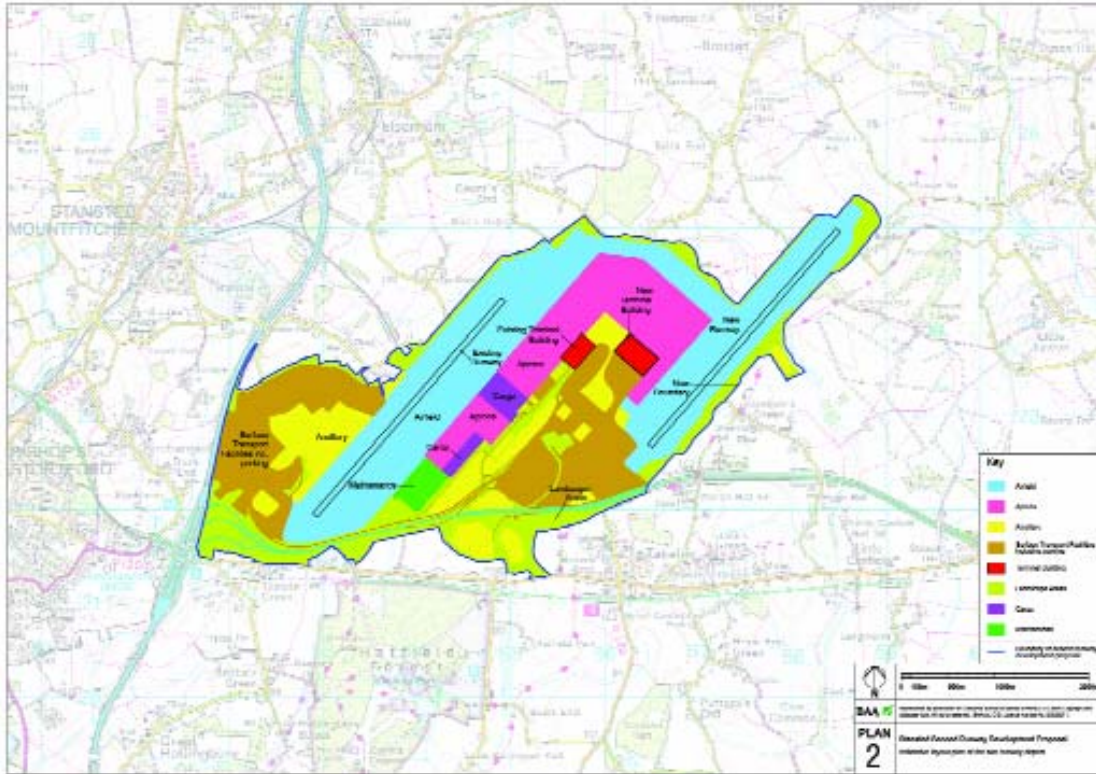
- 9.26. As part of the strategy, the Highways Agency has consulted on its own proposals for widening the M11 south of Stansted between the M25 (junction 6) and the airport (junction 8), and on plans to improve airport access from the M11 to the A120.
- 9.27. The Highways Agency has published orders on the schemes required to provide access from the M11 and A120 to an expanded Stansted Airport. The Secretary of State for Transport has asked the Highways Agency to carry out further work to consider a range of ways that additional capacity can be added to the M11.
- 9.28. Some of the surface access improvements, such as new road junctions and access roads, are essentially on-airport infrastructure, and the costs for these have been included in the on-airport costs reported above.
- 9.29. Other surface access improvements, such as increasing motorway capacity and enhancing the airport's rail links are primarily off-airport enhancements. These schemes are likely to be required for airport purposes as a result of significant growth in capacity, but they will also be needed more generally to support growth in regional road and rail usage.
- 9.30. BAA will be seeking to agree appropriate cost sharing and funding arrangements for these off-airport improvements which take proper account of the airport's share of total benefits, and, for rail in particular, the contribution that airport rail users make to the rail fare-box.
- 9.31. BAA and the Department for Transport have established the principles that will need to be applied to cost-sharing and funding arrangements in connection with the Surface Access Strategy for Generation 2.
- 9.32. BAA has briefed the CAA on progress with these cost-sharing and funding discussions, and updated Stansted's forecast as appropriate to reflect any agreements reached with the DfT on the road and rail enhancements. For the avoidance of doubt, these surface access costs have been added to the RAB in Q6 in these forecasts and no separate revenue streams associated with this capital have been included in the forecasts in Q6.

Summary

- 9.33. The planning and building of a second runway at Stansted is a significant development for the UK; for the East of England region; and for people living and working in the local community around the airport. The Generation 2 project presents a challenge of considerable scale and complexity. A realistic and workable balance has to be achieved between the significant economic and social benefits that users enjoy from air travel, and the duty we have to protect the environment.
- 9.34. The policy framework that drives the Generation 2 project was clearly set out by the Government in 2003 in The Future of Air Transport White Paper. This looked ahead over the next 30 years at the expected growth in demand for air travel and concluded that, while best use must be made of existing runway capacity in the UK, there was a clear need for two new runways in the South East.

9.35. This regulatory submission represents BAA's continuing efforts to deliver the transport infrastructure envisaged in the White Paper. We hope and expect the CAA and Competition Commission to play their respective roles in furthering the reasonable interests of users by encouraging investment in new facilities.

Figure 9.1 Site Plan



Chapter 10 Utilities

Introduction

10.1. There are two elements to utilities forecasts, volume and price. Although this chapter concentrates on expenditure, forecasts have also been made for the anticipated level of utility cost recovery from third parties. Similar estimates are made as to tenant consumption and unit rates.

Macro economic market factors

10.2. Energy costs are influenced by the following factors:

- The UK is a net importer of natural gas from Europe which is index linked to oil;
- Reduction in global oil refining capacity;
- Weather – extreme weather conditions such as hurricanes, flooding and droughts;
- Geopolitics - failing nations in large oil producing states in the Middle East, Africa and South America; and
- Increase in demand with the industrialisation of developing countries, most notably China and India.

10.3. The key drivers impacting this forecast are;

- Price of crude oil;
- Geopolitical stress;
- Nuclear outages.

10.4. Factors expected to increase energy costs are:

- An increase in taxation - Climate Change Levy (CCL); and
- Environmental costs (EU Emissions Trading Scheme) affecting BAA indirectly (electricity generators must purchase carbon credits, the cost of which is passed through to customers) and directly (Stansted is registered under the conditions of the scheme).

Forecasting approach

Electricity

10.5. During the majority of 2007 wholesale energy prices were falling. Through its flexible electricity supply contract BAA was able to take advantage of these favourable market conditions by selling electricity back via its supplier and purchasing back at a lower price. This practice allowed Stansted to deliver savings against its budget.

10.6. At the time of producing Stansted's business plan for submission to CAA in March 2008 and for preparing for BAA's refinancing this performance was assumed to be achievable throughout Q5. This approach has been carried forward into this submission.

10.7. Subsequent to the preparation of the input into this submission the trend in energy prices has changed significantly and prices are now at record highs.

- 10.8. BAA has recently entered into contracts which fix electricity prices for three years at levels in excess of those inherent in this plan. The impact of this contract is expected to increase operating expenditure by approximately £10 million over Q5.

Gas

- 10.9. BAA invoked the mid term market review agreement for the firm gas contract, which allowed BAA to take advantage of the lower unit rates in return for an extension of the contract out to March 2010. Prices from 2010 onwards have increased in accordance with the report from IPA produced for the CAA in October 2007 .

Water

- 10.10. The water industry is regulated by the Water Services Regulation Authority (Ofwat). Ofwat publishes the increases in water charges set for each of the companies by region. BAA has therefore applied these to its current unit rates for its water (including sewerage) cost forecast.

Chapter 11 Security Costs

Introduction

- 11.1 This section explains the security costs that have been forecast by Stansted to deliver the security requirements of the UK Government.
- 11.2 A detailed paper on the impact of the changes in the DfT directives issued in, or soon after, August 2006 was provided to the CAA in the +S Factor claim (BAA/Q5/399). This chapter should be read in conjunction with that paper. Security costs are analysed between the following activities:
- Return to pre August 2006 security queue standards as covered by the +S Claim to the end of 2007;
 - Period from the end of 2007 to the end of Q4.
- 11.3 The costs associated with these activities will include a mixture of operating and capital costs.
- 11.4 It should be noted that the DfT keeps security requirements at airports under constant review. This document includes an estimate of the costs of implementing the new security directives which are currently in force.

Accountability and responsibility for the implementation of aviation security

- 11.5 The DfT, advised by the police and security services, has responsibility for determining the exact measures to be taken by airlines, airports and others to minimise the risk from acts of terrorism. The DfT sets out these measures in a National Aviation Security Programme which is regularly reviewed and updated. The Secretary of State for Transport has power to issue legally enforceable Directions to airports, airlines and listed cargo agents which set out the standards and requirements needed to secure compliance with the National Aviation Security Programme. These powers are contained in the Aviation Security Act 1982 and the Aviation Maritime Security Act 1990. The DfT constantly monitors compliance with Directions and it has powers to prosecute for breaches of a Direction and to issue enforcement notices. The DfT also undertakes research and development, approves all security equipment in use at airports and is responsible for approving all airport developments from an aviation security standpoint. The threat level and the security measures required can be changed by the DfT without notice.

Airport operators

- 11.6 The managing director is responsible for implementing security measures, to the required standards, at airports. He discharges this function through nominated "airport security managers" who act as the main contact point between the DfT and the airport management team. Each airport operator is required to prepare and submit to the DfT for approval an airport security programme.
- 11.7 The organisational structure of security operations varies from airport to airport in line with local requirements. The duty to implement screening to the specified standard is imposed primarily on the airport operator. The airport operator is required to search passengers, hand

baggage, staff and vehicles to the DfT's standard, and conduct regular security patrols of restricted areas. Airport operators also control access into restricted areas by administering an airport identity card system which involves rigorous background checking of applications before electronically coded photo ID cards are issued. Over 60% of BAA staff are employed on security related activities.

- 11.8 In order to achieve the standards set by the DfT there is a need to have effective management processes, a highly trained workforce and continuous monitoring of performance. These require appropriate staff selection and training programmes, performance monitoring systems and auditing processes. Security staff are required to pass stringent selection criteria, undertake induction and annual refresher training in the classroom as well as remedial training in the workplace. All BAA security staff must pass an annual X-Ray screening competency test.
- 11.9 Security staff also play a key role in emergency situations and, therefore, are required to undergo fire and disaster recovery training including involvement in exercises and scenario planning. Security staff are constantly monitored by supervisors for the quality of their work. Motivating individuals to perform repetitive but highly necessary tasks on a consistent basis is a key aspect of the supervisor's role.

Airlines

- 11.10 Airlines are accountable for protecting their aircraft on the ground and in the air. This means questioning passengers at check-in, screening passengers' hold baggage, ensuring that passengers do not board unless they have been screened to a sufficient standard, controlling access to the aircraft to authorised persons only and carrying out pre-departure security checks. The requirement for passengers to have been screened to a sufficient standard is normally discharged by the screening undertaken by the airport operator, but on flights to the USA airlines are required to carry out a second search of passengers at the gate-room immediately before departure.

Other security stakeholders

- 11.11 Border control responsibilities are set out in various pieces of legislation and are carried out by Special Branch, HM Customs & Excise and the UK Immigration Service. Special Branch and the Security Service also have national security responsibilities at airports which are contained within the Terrorism Act 2000 and the Anti-Terrorism, Crime and Security Act 2001. Some provision is made within existing legislation for the airport operator to provide for the essential requirements of the control authorities, including accommodation and certain support facilities. These arrangements are often documented within a Memorandum Of Understanding.
- 11.12 Policing arrangements at 'designated'¹² airports are established through mutual agreement between the airport operator and the local Chief Officer of Police. They should be supported by a Statement of Service Provision. These statements generally cover the four principal areas of counter terrorism, traffic, crime and public safety. This framework is currently under review by the government.

¹² Nine airports were designated in the Policing of Airports Act 1974

The current level of security costs

11.13 BAA reports its expenditure on security related costs as part of the annual airport charges consultation. The costs reported in recent years are as follows;

Table 11.1 Historical security costs per passenger

£/passenger (outturn)	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Total cost	1.10	1.15	1.18	1.29	1.35	1.50

11.14 Looking forward, we have identified the security-related expenditure associated with implementing the new security directives and increasing the service standards in security queuing.

Impact of the 2006 Security Directives

11.15 The DfT introduced eight new security directives over the period August 2006 – April 2007. These directives led to a significant increase in the search requirements at designated search areas including new restrictions on the amount and type of liquids allowed in hand luggage. This has led to a reduction in processing rates at central search resulting in the need to hire additional staff.

11.16 Stansted's traffic profile is characterised by very high departure peaks created by the rotational pattern of the low cost airline model. There are typically three departure "waves" per day, the first early morning wave being the largest. Prior to the increased security directives, Stansted's declared departure capacity (on which the airline schedules are based) was **4,650** passengers per hour. To achieve 95% of passengers queuing for 10 minutes or less required a processing rate in excess of 300 passengers per machine. However, the processing rate under the new security regime was averaging between 200–220 passengers per hour per machine, equating to an hourly processing capacity of circa **3,000** passengers per hour.

11.17 The new directives have led to reduced flow rates through central security resulting in the need to increase security staffing levels and provide additional security lanes, which has necessitated an expansion of the central security area at Stansted. This has resulted in increases in both operating costs and capital expenditure. BAA provided a submission to the CAA in February 2007 (BAA/Q5/399) detailing the expected costs arising from the 2006 security directives.

11.18 These directives have led to a fundamental change in the ongoing security costs. The extra costs associated with these directives, which are included in this submission, are shown in Table 11.2. These costs were submitted to the CAA as part of the audited +S claim.

Table 11.2 Extra security operating costs due to 2006 security directives to return to prior service level of 95% of passengers queuing for 10 minutes or less

Operating Costs	Cost £000
Incremental Security Staff	
80 FTE to support existing machines Oct 06 – Feb 07 (phased start dates)	700
+ 50 FTE to support 3 additional lanes =130 FTE Mar 07 – Apr 07	670
+ 5 FTE due to liquid directives =135 FTE May 07 – Mar 08	3,943
	5,313
Other Staff Costs	
Security Staff Overtime	600
Non-security BAA Staff Costs	98
Other BAA staff costs (non-payroll)	55
Contractor cover (mainly 'Here to Help' assistants)	842
	1,595
Communications	
Allocated central media costs including internet upgrade	760
Check-in signage	166
Printing leaflets/posters	52
	978
Equipment	
Installation and hire of shoe machines	30
Baggage measurement gauges	20
	50
Other	
Plastic bags supplied to passengers	40
Additional cleaning contract costs	11
	51
Total Extra Operating Costs	7,987

Capital expenditure

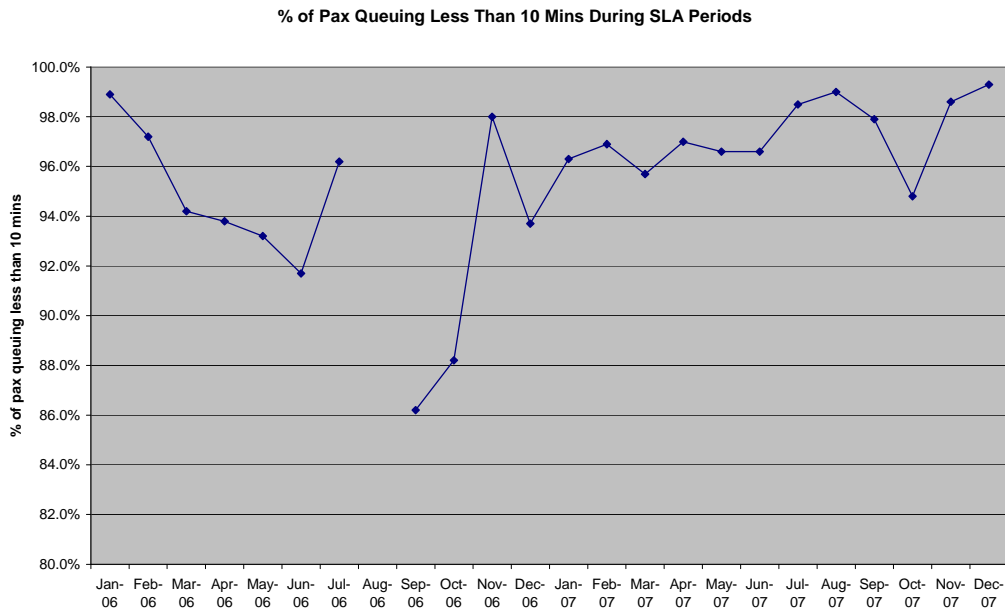
11.19 The new security directives introduced in 2006 have led to increased capital expenditure on the following items, as shown in table 11.3;

- Conventional X ray machines;
- Archway metal detectors;
- Explosive trace detection equipment; and
- Enhanced passenger screening equipment.

Table 11.3

Capital Spend	Cost £000
Central search construction – Mace tender	1,812
Cellular offices/rest room – western side of Terminal	350
Staff toilets & supervisors office	113
Domestic Arrivals – Additional lane and ADM	109
Domestic Arrivals – alterations to RZ boundary	89
2 X-Ray machines and arches	78
Tipnet and Metronet to lanes 15, 16 & 17	50
Provision of Lane 17	33
Other	642
Total Extra Capital Spend	3276

11.20 Evidence that Stansted achieved its objective of returning to the pre-August 2006 levels of service through this additional investment is shown in Figure 11.1.

Figure 11.1 – Percentage of Passengers Queuing Less Than 10 Minutes During SLA Periods

Costs associated with improving consistency and predictability of achieving a '10 minute security queue 95% of the time' standard

- 11.21 One of the criticisms levelled at BAA in the aftermath of 10 August 2006 was a perceived lack of sufficient resilience in the security system. However, the level of resilience which would have been sufficient to meet the August 2006 security requirements without adverse queue impact would have been very high and it is unlikely that carrying this level of additional staff would have been acceptable to airlines and the CAA.
- 11.22 Given events since August 2006, we believe that it is sensible to allow higher staffing levels to ensure there is sufficient resilience in the system when security restrictions are heightened. In the same period, dialogue continued with our airlines about the appropriateness of the three x two hour periods measured under Stansted's existing SLA arrangements. Stansted therefore proposes that additional security resources should be allowed to ensure there is sufficient resilience in the security process. An added benefit of this approach is that the additional resource levels would lead to an increase in service standards to passengers by providing greater predictability and consistency of service delivery over the whole operational day.
- 11.23 In terms of £/passenger, we estimate that by the end of Q4 staff costs of security in 2007/08 prices will be in the region of £1.22 per passenger at Stansted and are forecast to decrease to around £1.03 per passenger by the end of Q5.

Incremental staffing impacts of growth

- 11.24 Stansted's service level target is 95% of passengers queuing at security for less than 10 minutes. Airlines have indicated they are happy a 10 minute target. Any higher level would result in a significant reconfiguration of the terminal. A further 83 man years will be required in 2008/09 to embed a higher degree of resilience to deal with the more challenging security environment and better reliability of standards to meet the requirements of airlines throughout the operating day.

- 11.25 Manpower changes arising from airport growth incorporate the net impact of general productivity improvements (other than included specifically below as impacts of the change programmes or security directives) and additional staffing requirements as a result of increasing passenger numbers. This leads to a small net increase in staff each year. General productivity improvements, although not modelled at a detailed level, are assumed to arise from a continuous improvement programme incorporating, for example, the impact of more advanced technology, roster and shift efficiencies, and improvements in absence management.
- 11.26 Longer-term productivity improvements have been incorporated into the forecasts as follows. For security staff, the forecast includes an increasing resource requirement to manage the growth in traffic. The assumption is that productivity, measured in terms of passengers per security man year, will increase by half the rate of traffic growth.

Other security search areas

- 11.27 Airside and perimeter security, which includes the screening of all vehicles and personnel (e.g. cargo and service vehicles) is used to control access to airside and to secure the airport perimeter and is a core competence of the airport management team.
- 11.28 Other validation posts are required for staff to access airside and restricted areas. The validation posts used in the terminal for staff are VP8 and VP9. The performance at these posts indicate a high level of service as we are not receiving any complaints from airlines regarding poor performance.

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Chapter 12 Intragroup Recharges

- 12.1 This chapter covers intercompany revenue and expenditure recharges. There are two elements to these charges. First, charges are both received by the airport from, and charged out by the airport to, other group companies for services provided. These include central airport services (CAS) provided by group functions and charged out directly from BAA Corporate, such as group retail and property costs. Second, a Corporate allocation is made to the airport for group costs, including those CAS costs not directly allocated. These are allocated according to a number of specified drivers.
- 12.2 In previous regulatory submissions, the airport in addition reported costs arising from central recharges. These were costs which had been centrally forecast, and allocated separately to the airport, which had either not formed part of the normal charging process or were costs which had been identified late in the forecast process. These included pensions adjustments arising from latest actuarial forecasts, adjustments to rates arising from then recent government Budget changes, regulatory review costs and estimated costs arising from the UK adoption of the euro, forecast for 2013/14.
- 12.3 In this forecast, the following adjustments have been made. An assessment of the pensions adjustment arising from the proposed changes to the BAA pension scheme has been made, and incorporated within staff costs. The rates forecast has been amended, and no further adjustment is deemed necessary in respect of the Budget changes noted above. Regulatory review costs are now included in this submission.
- 12.4 In summary, the impact of intercompany recharges on the forecasts is as follows:

Table 12.1 Net intercompany expenditure

£m 2007/08 prices	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Corporate allocation	20.7	21.4	21.2	18.7	18.4	18.8	19.2	19.3	19.1	19.7	20.4	20.4
Other net intercompany costs	5.5	6.0	6.0	6.0	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9

- 12.5 The major intercompany expenditure item is the Corporate Office allocation. This represents the allocation of the cost of centralised airport services not directly recharged and of BAA corporate head office costs.
- 12.6 The July 2007 submission reported the change in policy in relation to corporate cost allocations whereby the entire corporate office cost base has been allocated to business units, as a consequence of the re-financing and the ring-fencing of the regulated assets, which includes Stansted Airport.
- 12.7 In addition, the “cap” between Heathrow/Gatwick and Stansted has been removed from the forecast corporate allocation. Costs are allocated between businesses in accordance with the process described in BAA’s submission to the CAA in October 2007, BAA/Q5/517, which

incorporates management assessment of the appropriate levels of corporate cost to be allocated to each business.

12.8 The other net intercompany costs relate to several items but the principal items in 2007/08 are as follows:

- Corporate costs of £4.5m, principally Group Retail marketing costs allocated to Stansted; and
- BSC (shared service centre) costs allocated to Stansted of £1.0m.

Chapter 13 BAA Stansted – Financial Forecasts

Background

- 13.1 The airport has applied to the local planning authority for permission to increase to 35 mppa. The achievement of this throughput would require capital expenditure over the next 10 years of around £500 million, principally to expand the terminal building and provide additional aircraft aprons, piers and car parking.
- 13.2 BAA has submitted a planning application for a new runway and associated infrastructure in March 2008. The new runway and associated terminal and apron facilities (known as “Generation 2” or “G2”) will bring Stansted’s capacity up to around 68 mppa by 2030, at a total cost of around £2.27 billion (2005 prices)¹³. The first phase of Generation 2 is expected to open in 2015, at a cost of around £1.5 billion (2007/08 prices, excluding wider road and rail costs)¹⁴.
- 13.3 It is expected that all of London’s airports will be operating at capacity over the 30 year timescale of the White Paper. BAA’s forecasts over the period to 2030 show that even with the proposed development of the five London airports (Heathrow, Gatwick, Stansted, City and Luton), not all demand for air travel will be able to be accommodated within the London airports system. It should be noted that Luton’s owners have decided not to proceed with their runway developments.
- 13.4 The remainder of this chapter provides more detail on Stansted’s approach to traffic forecasts, airport charges, service quality, productivity and capital investment.

Traffic and airline partners

- 13.5 Stansted was consistently one of Europe’s fastest growing major airports in the ten years to 2006 and is now the 3rd busiest airport in the UK, having overtaken Manchester in 2006. Passenger numbers rose to 23.8 million for 2006/07, representing an increase of 11% per annum over the last 5 years and 17% per annum over the past 10 years.
- 13.6 Much of this growth has come from the low cost sector. Passenger traffic is dominated at Stansted by Ryanair and easyJet who together represent 83% of the passenger base. Stansted now offers regular flights to about 175 destinations in 40 countries, including an emerging long haul component.
- 13.7 It is projected that Stansted’s annual passenger volumes will be 31% higher than the 2007/08 forecast by end of Q5, and 96% higher by end of Q6. It is anticipated that traffic growth at Stansted will continue to be met by short haul (predominantly) low cost services, along with the gradual development of long haul operations.
- 13.8 The following high level assumptions support the annual passenger forecasts:

¹³ The total cost of £2.27bn (2005 prices, excluding wider road and rail costs), includes expenditure on planning activities and blight schemes during Q4

¹⁴ The Phase 1 cost of £1.5bn (2007/08 prices) is equivalent to £1.4bn (2005 prices) – refer paragraph 7.8

- Growth in London area passenger demand of 3 – 4% per annum;
- Stansted successfully gains consent from Uttlesford District Council to lift the existing planning conditions, enabling development towards 35 mppa;
- Development of Heathrow (to 84 million by 2017/18)... Gatwick (to 40 million), Luton (to about 15 million, using its existing runway) (even though Luton has now cancelled its runway plans), and London City (to about 4 million by the end of Q6); and
- Planning consent is obtained for Stansted Generation 2, the first phase of which is assumed to open in time for the commencement of the summer 2015 operating season.

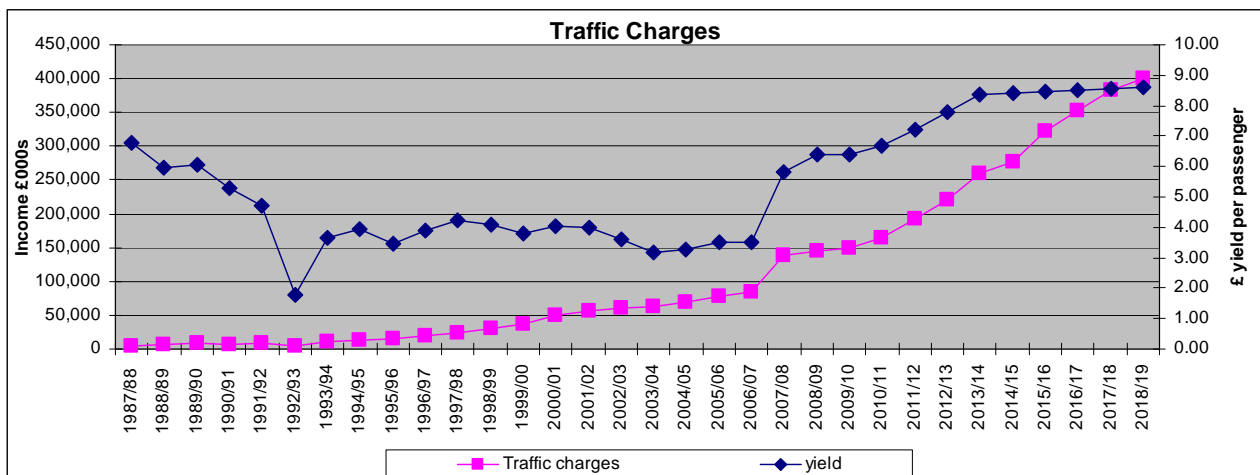
Airport charges

- 13.9 Stansted has charged airlines below the allowable yield throughout the first 4 years of Q4. These discounts have allowed the airlines to test the market for new destinations without taking the whole risk of scheduling a new route. In general, discounts have been structured such that charges gradually increase over time, with new routes attracting the greatest discounts. Typically, discount agreements cover a 3-5 year period although in the case of Ryanair, discount periods have been extended.
- 13.10 At the time of 11 September 2001, the impact on Stansted passenger volumes was uncertain. As a consequence, re-negotiations with airlines were entered into and resulted in discount deals being extended. This represented a significant benefit to the airlines. For instance, in 2006/07 actual aeronautical revenue was £80.7 million, some £49 million less than would have been generated at full tariff, with the same passenger numbers. Subsequently the low cost market actually increased capacity after the initial short-term shock impact.
- 13.11 The success of passenger and route growth at Stansted has meant passenger numbers have exceeded Q4 expectations over the Q4 period to date and as a consequence the total amount of discounts provided to airlines has exceeded the Q4 estimates by £87 million, cumulative to the end of 2006/07. This level of discounting has also been increased due to the takeover of both Buzz and Go airlines. As a result of the above factors, the return on the RAB experienced by Stansted during Q4 has been below that set by the CAA in the Q4 review.
- 13.12 As the airport hits physical capacity constraints, additional capital expenditure is required to accommodate further growth including the Generation 2 project. Stansted now needs to increase its tariffs to improve the return on the RAB to allowed levels and to ensure that the capital cost of expansion is adequately remunerated. To this end for 2007/08 tariffs were set at the allowable yield (but excluding the K factor correction) and the majority of discounts were not renewed. For 2008/09 this policy is being continued with the addition of using the 'K' factor to recover ANS direct charging and S factor costs. (However, for modelling purposes, recovery of '+S' claim in 2008/09 has been shown within other operational income).
- 13.13 Opinion differs between the airlines and Stansted over the impact of increasing airport charges on passenger demand. It is Stansted's belief that raising airport charges to the

existing allowable yield will not materially affect demand in the medium to long term. However in the short-term, since the introduction of full tariff on 1st April 2007, Stansted has experienced a softening of passenger demand. We believe it is too early to assess to what extent this is influenced by airport tariffs but it is noteworthy that it has coincided with a period in which the key UK economic indicators have shown a marked slowdown, coupled with other inflationary pressures on air fares. In the case of the latter this is a reflection of the combined effects of the doubling of APD, oil prices at their highest levels (in real terms) since the oil shocks of the early 1970's and 1980's, and the introduction of add-on charges by low cost carriers (for items such as hold baggage, check-in desk usage, and priority boarding).

- 13.14 For the purposes of assessing the impact on demand, BAA made an indicative assumption that an airport charge of around £8.00 per passenger could be needed by 2014 to remunerate Stansted's investment programme. The increase in aircraft charges relating to Generation 2 is assumed to start from 2008/09 and build to around £8.00 by the time the new runway is completed (Note: modelling resulted in a yield in 2013/14 of just below this at £7.92, excluding ANS recovery of 46 pence per passenger').

Chart 13.1

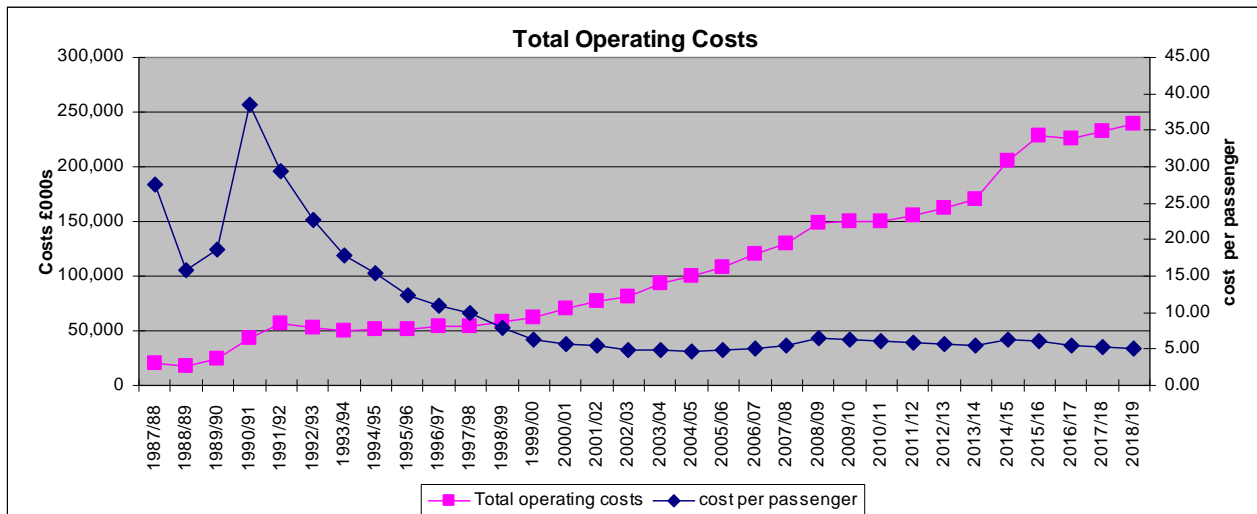


Staffing and productivity

- 13.15 Staffing at Stansted plays a major role in delivering service quality at the airport. It also constitutes a substantial part of the operational costs of the airport. In order to satisfy the significant increase in staffing required at Stansted the recruitment catchment area has been ever widened, now encompassing North London boroughs. Stansted is now in direct competition with the London employment market. The greatest proportion of airport employees are drawn from Uttlesford, the rest from Essex and East Herts. These areas are characterised by low unemployment and relative affluence. These areas also have a high percentage of London commuters or provide workers with a realistic choice of employment in London. This is in direct contrast to the situation at Luton where there is a large local potential workforce pool which has been dramatically increased with the closures of large local employers, e.g. Vauxhall.

- 13.16 During Q4, we have had numerous security directives from the DfT. The most significant of these, to date, were those made in August, September and November 2006.
- 13.17 As outlined in our “+S” factor submission (BAA/Q5/399), these directives have and continue to have a significant impact on our operating environment and the passenger experience, and therefore our financial performance. For Q4, we currently expect the total cost to Stansted of implementing these directives to be around £8 million, excluding capital investment, which includes the costs associated with recruiting an additional 135 FTE front-line customer facing security staff. A further 37 FTE of overtime was worked up to March 2008 making the total 172 additional man years.
- 13.18 Roster efficiency has been high at Stansted reflecting the flexibility of shifts required to cope with fluctuations in passenger numbers throughout the day. Recently, in agreement with the airlines, some of this flexibility has been traded for a higher degree of resilience to deal with the ever more challenging security environment. The impact of managing this in 2008/09 is forecast to be a further 83 man years.
- 13.19 These financial forecasts for 2009/10 and beyond are based on the assumption of a more stable security operating regime going forward, enabling the reversal of both the decline in retail yield and productivity experienced post 10 August 2006.
- 13.20 Stansted delivered productivity improvements over the ten years to 2005/06. These improvements were made in an environment of ever stricter security requirements as worldwide events have recently dictated. Only since the tighter Security Directives following 10 August 2006 has the trend of improvement temporarily halted. The previous trend is expected to return from 2009/10 to 2014/15. From 2014/15 to 2015/16 there is a slight drop in productivity due to the opening of G2 and the increased staffing levels.
- 13.21 Management has prioritised pay rate negotiations to ensure an appropriate outcome is achieved. The balance involved in ensuring pay rates are not too high whilst not wasting the high cost of recruitment and training, as well as the value of experience in such roles, is fundamental to the operation of Stansted. The staff turnover rate has increased during Q4 to 12% in the security function of Stansted illustrating a tightening of the labour market and increased competition for labour. However, it is important to ensure that the staff turnover rate does not become counterproductive to the costs invested in recruitment, training and experience gained.

Chart 13.2



Constructive Engagement

13.22 Stansted embarked on a Constructive Engagement process with the airlines with the intention of agreeing key inputs to the CAA regulation process, namely:

- Traffic forecasts;
- Quality of Service; and
- Capital Expenditure programme.

13.23 The Constructive Engagement process at Stansted did not produce a meaningful agreement in these areas between BAA and the airlines. Stansted believes one of the reasons for this is that the Stansted ACC viewed Constructive Engagement as a price negotiation between the airlines and the airport, as opposed to a process of agreeing key inputs into the regulatory process in line with the original intention of the CAA. The ACC's approach was evident from their insistence that BAA supply its "full business plan" (namely forecasts of aero and non aero revenues, operating costs, operating profit, capital plan, assumptions on rates of return etc.) as a pre-requisite to their participation in Constructive Engagement. Notwithstanding this BAA did provide the ACC with detailed material on the overall capital plan (CIP) and individual projects contained within it. A series of meetings was also held on traffic forecasts.

13.24 A detailed description of the CE process at Stansted is contained in the CAA report on Annex 4 compliance (the Cotterill report)¹⁵.

¹⁵ CAA initial price control proposals for Heathrow, Gatwick and Stansted airports, December 2006, Supporting paper IX, Review of BAA's compliance with Annex 4 of CAA's Decision of February 2003

BAA Stansted – financial forecasts

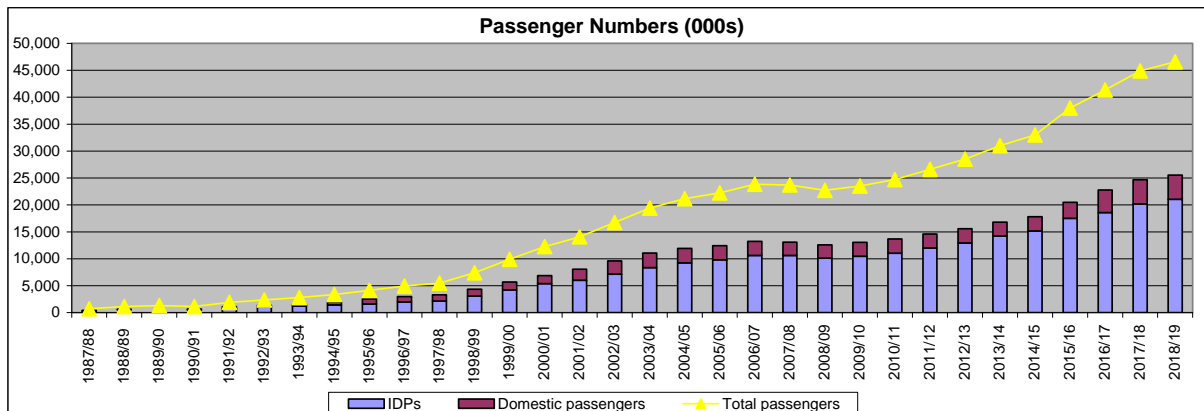
13.25 Presented below is the trend analysis:

Table 13.1 - BAA Stansted Total Operating Income

£million (2007/8 prices)	07/08	08/09	09/10	10/11	11/12	12/13	13/14
Traffic Charges	138.0	144.9	150.0	164.5	191.5	221.4	259.8
Other Operational Income	0.6	4.2	2.2	2.4	2.5	2.7	2.9
Retail Income	90.1	90.1	91.9	94.8	106.3	114.9	112.9
Property & Utilities Income	12.5	12.9	13.1	13.6	15.7	16.7	19.1
Other Income	10.6	8.2	8.4	8.2	8.4	8.4	8.4
Total Income	251.8	260.3	265.6	283.5	324.4	364.1	403.1

Passenger Numbers

Chart 13.3

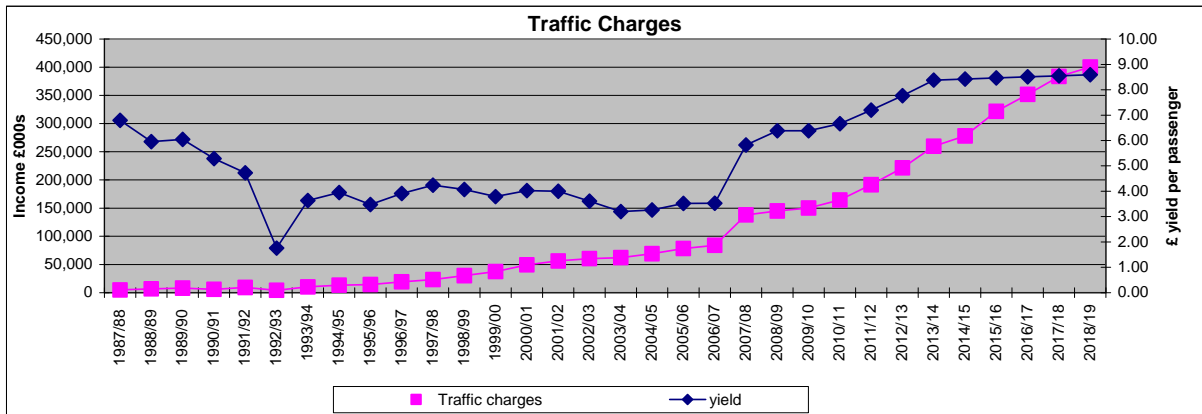


	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88	1992/93	1997/98	2003/04	2009/10	2014/15
1991/92	1996/97	2002/03	2008/09	2013/14	2018/19	
Total	27.6%	20.2%	25.1%	3.2%	7.2%	9.0%

13.26 From a low base Stansted passenger numbers increased by an average 20.2% p.a. in Q2 and 25.1% in Q3. From 1995/96 to 2006/07 the growth has been 17.3% p.a. Since 1997/98 there has been significant growth due to the advent of the low cost carrier airlines locating at Stansted airport. Passenger growth slowed briefly after the 11 September 2001 attacks and then recovered rapidly. In Q4, passenger growth has moderated to an average of 3.2% p.a., but this is forecast to increase to 7.2% in Q5, reaching 33 mppa in 2014/15. The second runway and associated infrastructure is forecast to open on 1st April 2015 and assumes a segregated mode of operation. Projections for Q6 show growth of 9.0% p.a. The forecast includes open skies reflecting the liberalisation of transatlantic air travel between Europe and the US; the impact on Stansted of this is expected to be small and short lived.

Traffic Charges

Chart 13.4

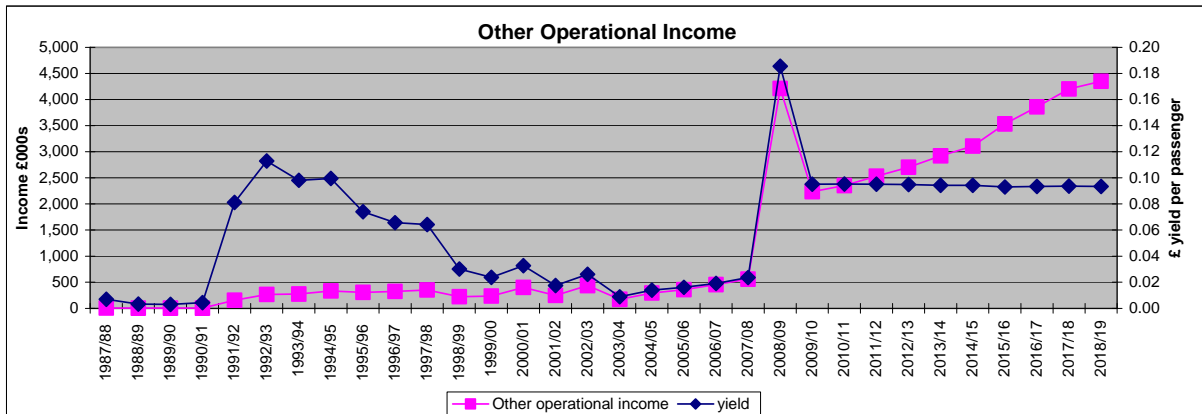


	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Income	16.5%	46.9%	21.1%	18.5%	14.7%	9.5%
Yield	-8.7%	22.2%	-3.2%	14.8%	7.0%	0.5%

13.27 Traffic charges yields at Stansted remained broadly static in real terms from 1993/94 to 1999/00. The increase in traffic charges in 2000/01 reflects the recovery of the ‘D’ factor in the airport charges formula due to the loss of EU duty free revenues. The drop in actual yield per passenger from 2001/02 reflects the discounts offered to airlines in order to drive the continued growth in passengers and routes following September 11th. In the remainder of Q4 a RPI+0 formula is applied to airport charges. Additionally the majority of discounts ended in March 2007, hence the step increase in 2007/08. Traffic charges include the recovery of ANS costs from 2008/09. In Q5 it is expected that yield will rise towards the end of the quinquennium to ensure an adequate return on the asset base is achieved following a period in the early years of the quinquennium when price rises will be suppressed to stimulate growth.

Other Operational Income

Chart 13.5



	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Income	135.4%	5.0%	4.4%	89.6%	6.9%	8.7%

- 13.28 Historically, this line is fairly exclusively Fixed Electrical Ground Power (FEGP) income, which is driven by the number of aircraft movements. Yield per passenger has declined steadily as passenger numbers have increased. There was an under recovery in 2001/02 due to a failure of the recording system. The drop in 2003/04 reflects the inaccuracies in the recording of FEGP. The gradual increases from 2004/05 reflects the growing passenger numbers and improvements in capturing usage.
- 13.29 Yield per passenger is maintained over time reflecting increased recovery resulting from tariff rises. Going forward, the trend is in line with growth in passenger numbers instead of ATM's to reflect the future increase in average aircraft size.
- 13.30 The large increase from 2008/09 is attributable to the recovery of costs associated with handling passengers with reduced mobility (PRMs), and, for 2008/09 only, with the recovery of additional security costs for 2006/07 and 2007/08 claimed through the '+S' claim.

Duty & Tax Free & Airside Specialist Shops

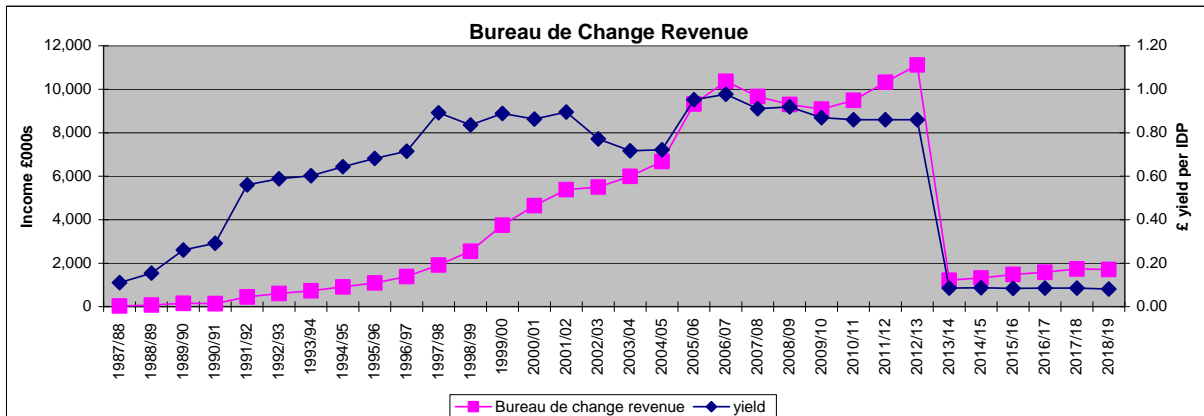
Chart 13.6



	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Income	28.4%	21.7%	-12.6%	7.0%	15.7%	8.9%
Yield/IDP	0.8%	4.0%	-31.3%	3.0%	7.2%	0.4%

- 13.31 The historic trend in yield per passenger to 1998/99 is fairly static despite the large passenger increases driven by low cost charter traffic. The loss of EU Duty Free in 1999/2000 resulted in a reduction of over 60% in the yield per IDP. Traffic at Stansted is heavily EU weighted, and the abolition of EU duty free allowances had a major impact on this revenue stream at Stansted. In the long-term, income increases reflecting the growing passenger numbers whilst income per passenger remains broadly flat for SG1 passengers.
- 13.32 Income has a step increase in 2011/12 due to the opening of the departures extension. (Note: all incremental income associated with the extension has been modelled within this category)
- 13.33 It is predicted that the new terminal facilities associated with SG2 will eventually drive a 10% increase in yield per passenger for in-terminal retail activities for G2 passengers, including duty and tax free and airside specialist shops, but that level of performance will only be achieved once passenger throughput in the new terminal has reached more than 15 mppa in Q7. On opening (2015), yield per passenger for G2 passengers will be 20% lower than for G1 passengers, reflecting the more limited range of trading opportunities in the new G2 terminal in the initial years.
- 13.34 As passenger volumes in the new terminal increase, the yield per passenger is forecast to increase to the same level as the existing terminal during the forecast period.

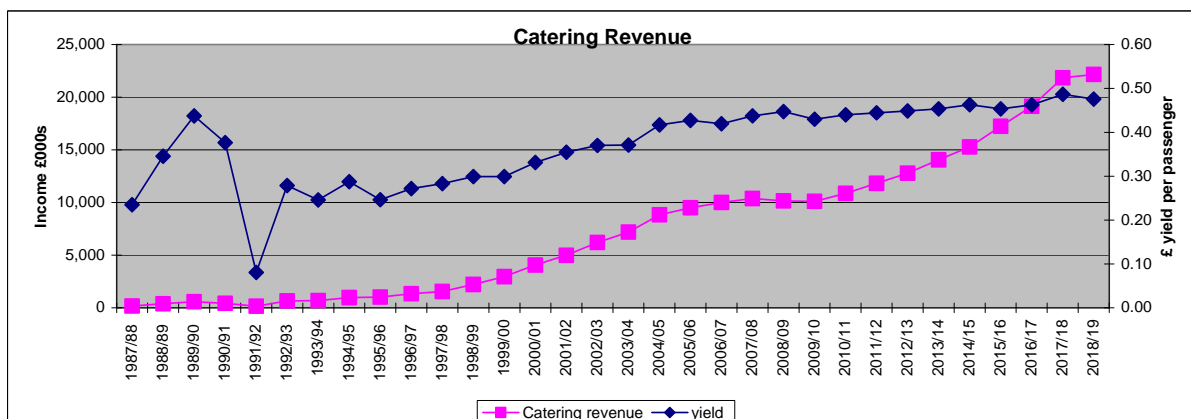
Bureau de Change Revenue
Chart 13.7



	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Income	91.2%	22.9%	23.5%	9.2%	-39.5%	6.7%
Yield/IDP	50.1%	5.0%	-2.9%	5.1%	-43.9%	-1.6%

13.35 Bureaux de Change revenue at Stansted has grown steadily as the airport has developed. In 1997/98, there was a significant increase in landside bureau de change revenue due to the opening of additional units supporting passenger growth. There is an increase in 2005/06 due to the negotiation of new bureaux contracts. Into the medium to long-term, it is assumed that growth in bureaux revenue remains broadly static due to the increase in use of ATMs and cash withdrawals in local currency. The reduction in 2013/14 is primarily due to a 90% fall in yield per IDP when it is assumed that the UK will join the Euro.

Catering Revenue
Chart 13.8

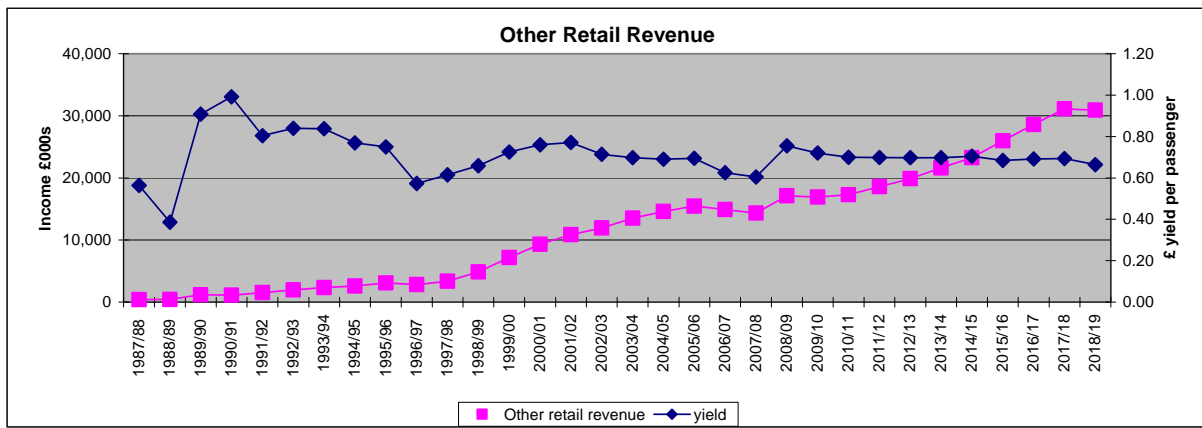


	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Income	-2.3%	19.5%	32.0%	7.1%	8.6%	9.7%
Yield/PAX	-23.5%	-0.6%	5.5%	3.8%	1.3%	0.7%

13.36 Catering revenue remained broadly static through the 1990's. The increase in catering revenue between 2000/01 and 2002/03 is due to the introduction of 6 new catering units in the IDL extension and the longer dwell times in the terminal post 11 September 2001. The general increasing trend in the forecast period reflects the emphasis on 'grab and go meals' and the upturn in dining out. This has been aided by improvements in catering facilities. As above, it is predicted that the new terminal facilities associated with SG2 will eventually drive a 10% increase in yield per passenger for in-terminal retail activities for G2 passengers, including catering, but this level of performance will only be achieved once passenger throughput in the new terminal has reached more than 15 mppa.

Other Retail Revenue

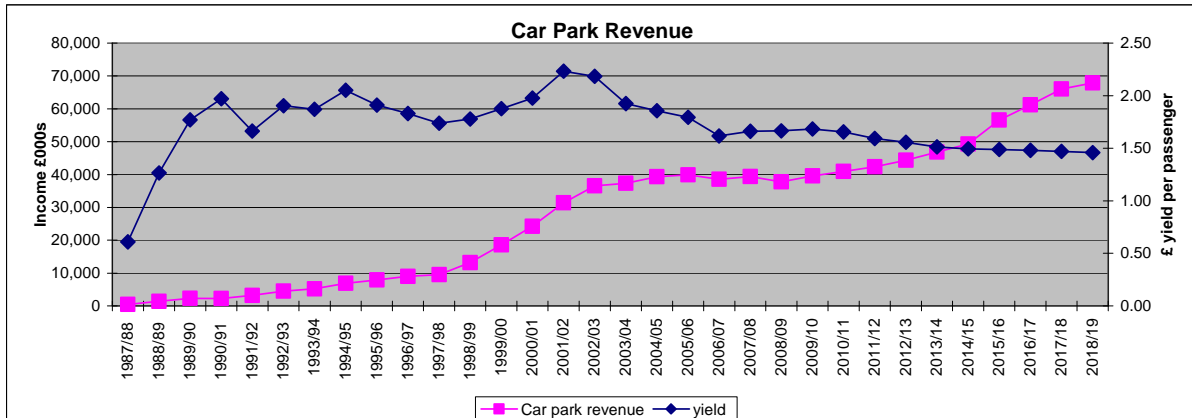
Chart 13.9



	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Income	39.4%	9.3%	28.9%	4.8%	6.3%	7.4%

13.37 Historically, other retail yields had been in decline for the early part of the 1990s. In the last few years there has been strong growth in Landside Specialists, Bookshops, Car Rental and especially Advertising income due to favourable contractual conditions and new space initiatives. As above, it is predicted that the new terminal facilities associated with SG2 will eventually drive a 10% increase in yield per passenger for in-terminal retail activities for G2 passengers, including other retail revenue, but that this level of performance will only be achieved once passenger throughput in the new terminal has reached more than 15 mppa. On opening, yield per passenger for G2 passengers will be 20% lower than for G1 passengers.

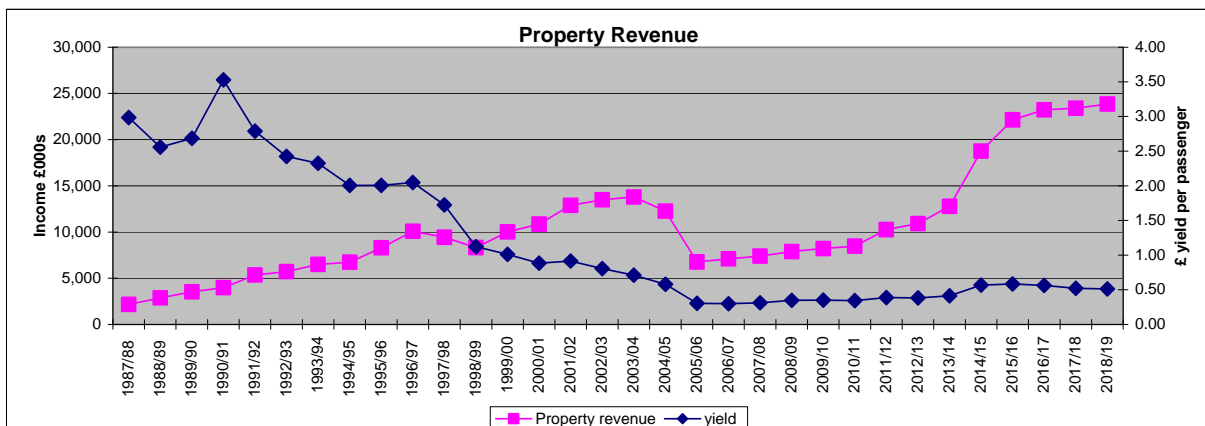
Car Park Revenue
Chart 13.10



	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88	1992/93	1997/98	2003/04	2009/10	2014/15
1991/92	1996/97	2002/03	2008/09	2013/14	2018/19	
Income	64.0%	19.0%	30.9%	0.2%	4.3%	8.3%

13.38 Income from car parks has risen throughout the 1990's with the growth in passenger numbers. New mid-stay car parks opened during 2001/02, which increased capacity and transaction values as passengers switched from long-stay car parks. The increase in off airport illegal parking is a factor that Stansted are working with local authorities to address. In the forecast period there is a reduction on a per passenger basis as the real growth in tariff is offset by a penetration reduction. It has been assumed that G2 passengers will achieve the same yield per passenger as SG1 passengers over the forecast period.

Property Revenue
Chart 13.11

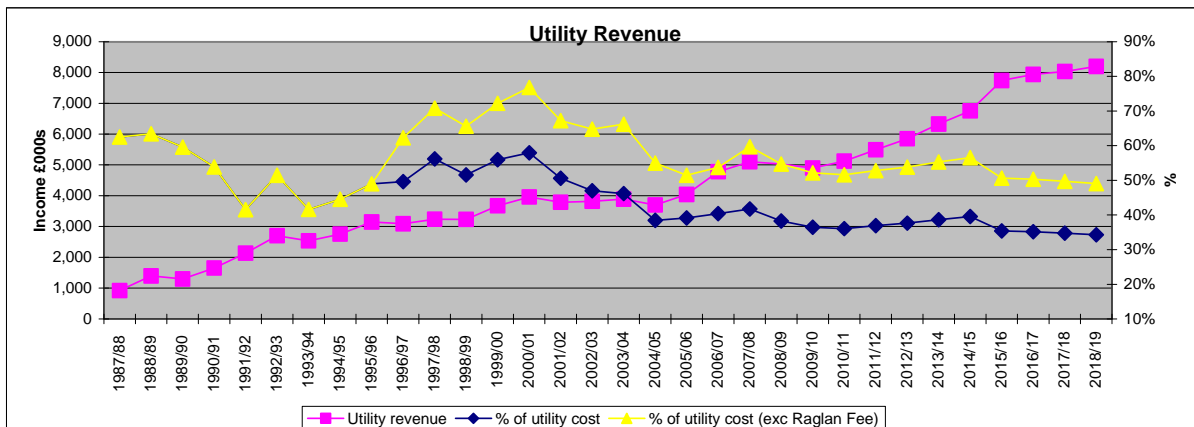


	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88	1992/93	1997/98	2003/04	2009/10	2014/15
1991/92	1996/97	2002/03	2008/09	2013/14	2018/19	
Income	25.5%	15.3%	7.4%	-10.6%	11.7%	6.2%

13.39 Whilst total income increased with the expansion at Stansted up to 2003/04, the yield per passenger reduction illustrates that property revenues from a constant property portfolio are not essentially passenger driven. This yield trend reflects the growth of, low cost carriers, who are less likely to take up or increase on airport office space and do not generally use CIP Lounges, and this trend is likely to continue. The reduction in 2005/06 relates to the property disposed of in the APP transaction. The step increase in 2014/15 relates to the opening of hangars and a cargo extension, whilst a further increase in 2015/16 is due to the opening of phase 1 of SG2, and the resulting increase in property revenue from rental of G2 operational space. However, the property income per passenger associated with G2 is significantly lower than G1 given the more limited regulated property portfolio that is planned for the G2 development.

Utility Revenue

Chart 13.12

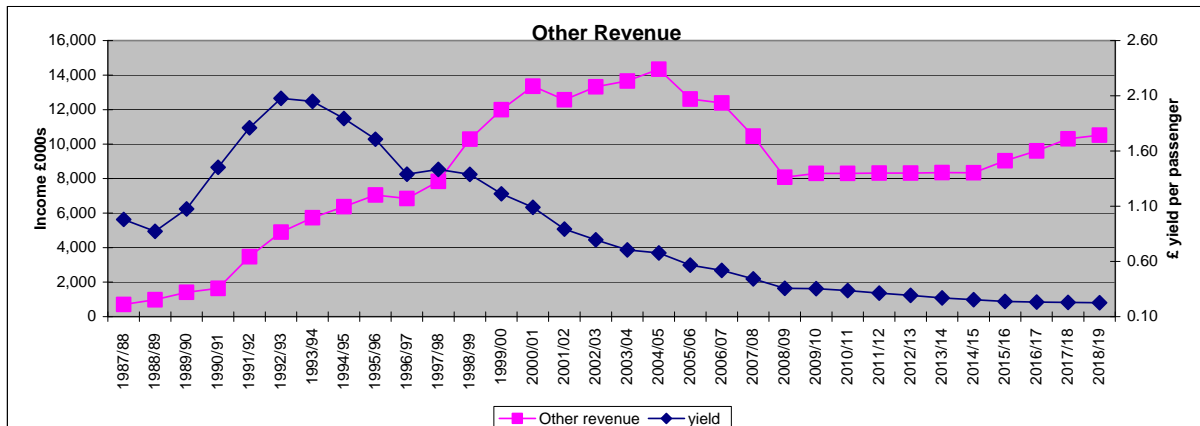


	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88	1992/93	1997/98	2003/04	2009/10	2014/15
Income	23.3%	3.4%	3.3%	5.3%	6.6%	4.9%

13.40 The majority of this income is generated from electricity and water recharges to tenants, representing recovery of third party usage of utilities provided by the airport. During the earlier years the revenue as a percentage of utility costs was relatively high and gradually reduced as more projects were completed, such as a Terminal extension and Satellite 3, which increased Stansted’s own usage. There is a gradual rise in revenue which reflects the increased costs of utilities passed on to users. The opening of new hotels increased revenue in 2005/06, whilst increases in 2006/07 and 2007/08 reflect recovery of large cost increases. Again the opening of phase 1 of SG2 impacts this revenue stream in 2015/16.

Other Revenue

Chart 13.13

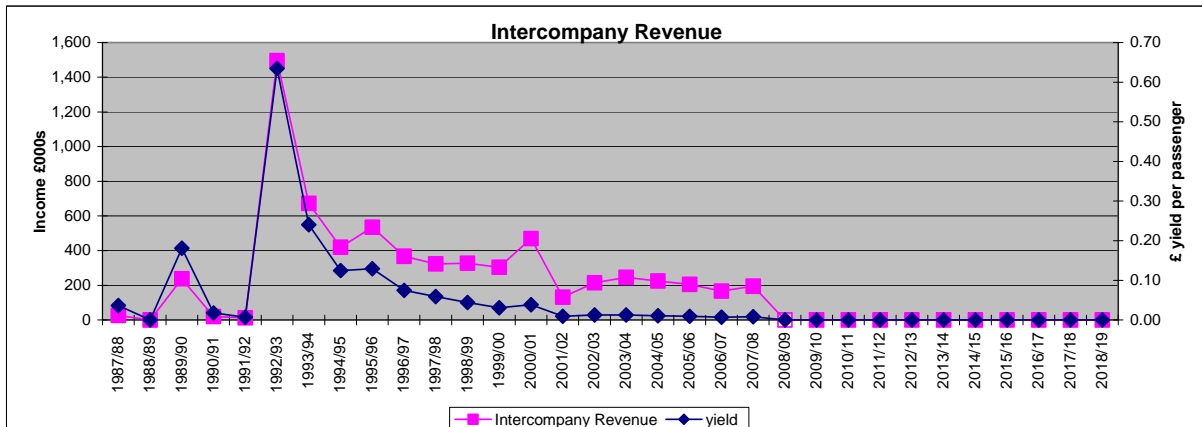


	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Income	48.8%	8.7%	11.2%	-10.0%	0.1%	6.0%

13.41 This category includes (staff) car park passes (c.10%), vehicle fuel (c.17%) and operational facilities income (c.60%). There was a 20% drop in 1996/97 yield when In-Flight Catering income ceased, following the CAA ruling in the regulatory review. The decrease in 2001/02 is due to the drop in income from vehicle fuel and oil. The decline in 2005/06 reflects the reduced tariff for aviation fuel, and check in desk income reducing due to impact of internet check in. There is a further decline in 2006/07 due to the outsourcing of supply of vehicle fuel to third parties, which is also apparent in the reduction in maintenance and equipment costs. The reduction in 2008/09 reflects the end date (31st March 2008) of the current agreement for the aviation fuel user charge. From 1st April 2008 the forecast for the user charge is at a lower rate. G2 assumes the same yield per passenger as G1. There is a step change in 2015/16 due to the inclusion of forecourt charge revenue from the opening of G2.

Intercompany Revenue

Chart 13.14

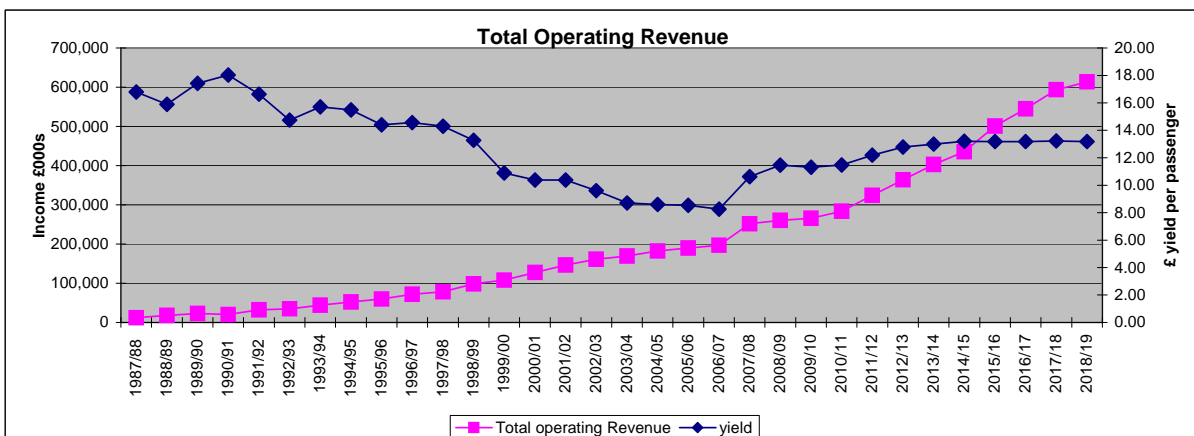


	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Income	-16.2%	-29.6%	-7.8%	-100.0%		

13.42 Intercompany revenue peaked in 1992/93 due to a reallocation of costs such as marketing to Scottish airports, reducing year on year until 1996. Charges to Gatwick for rental of a building phased out in 2001. Costs relating to World Duty Free using the facilities at Stansted are then charged back to them until 2008. However, this will cease with the sale of World Duty Free although the revenue (c.£0.2m) will be recovered within other income.

Total Operating Revenue

Chart 13.15



	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Income	27.3%	19.8%	15.5%	9.0%	11.0%	9.0%

13.43 The trend since the opening of the Stansted terminal in 1991 shows sharply increasing revenues and declining yields per passenger through to 2006/07. This latter reflects heavy

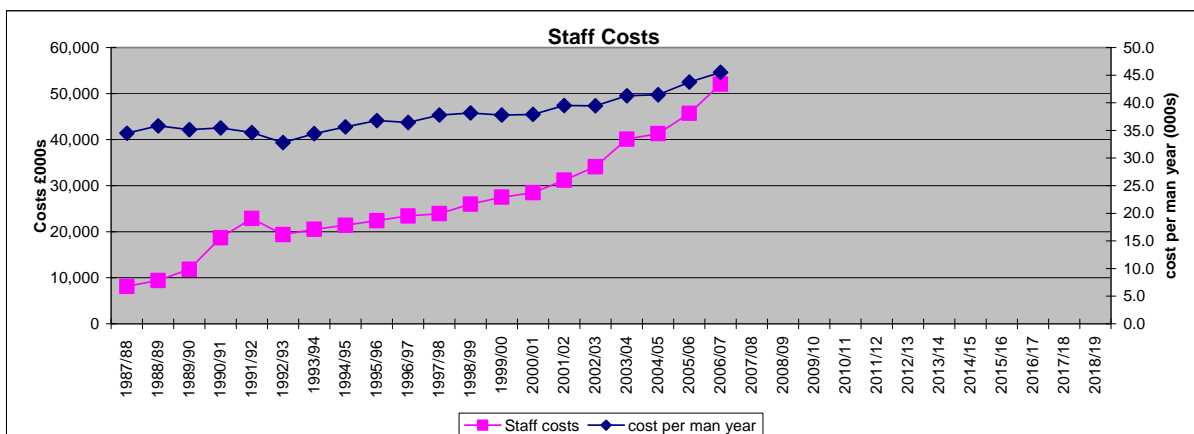
discounting of airport charges coupled with revenue streams which are not passenger driven rising at a slower rate than passenger growth. From 2007/08, there is a step change as discounts previously given are unwound.

Table 13.2 - BAA Stansted Forecast Operating Costs

£million (2007/8 prices)	07/08	08/09	09/10	10/11	11/12	12/13	13/14
Staff	54.8	55.5	[E]	[E]	[E]	[E]	[E]
Police	7.2	7.2	[E]	[E]	[E]	[E]	[E]
Rent & Rates	10.8	11.7	[E]	[E]	[E]	[E]	[E]
Utilities	12.2	13.2	[E]	[E]	[E]	[E]	[E]
Maintenance & Equip.	10.9	10.2	[E]	[E]	[E]	[E]	[E]
Other	7.6	23.6	[E]	[E]	[E]	[E]	[E]
Inter Company	26.3	27.4	[E]	[E]	[E]	[E]	[E]
TOTAL	129.8	148.8	[E]	[E]	[E]	[E]	[E]

Staff Costs

Chart 13.16



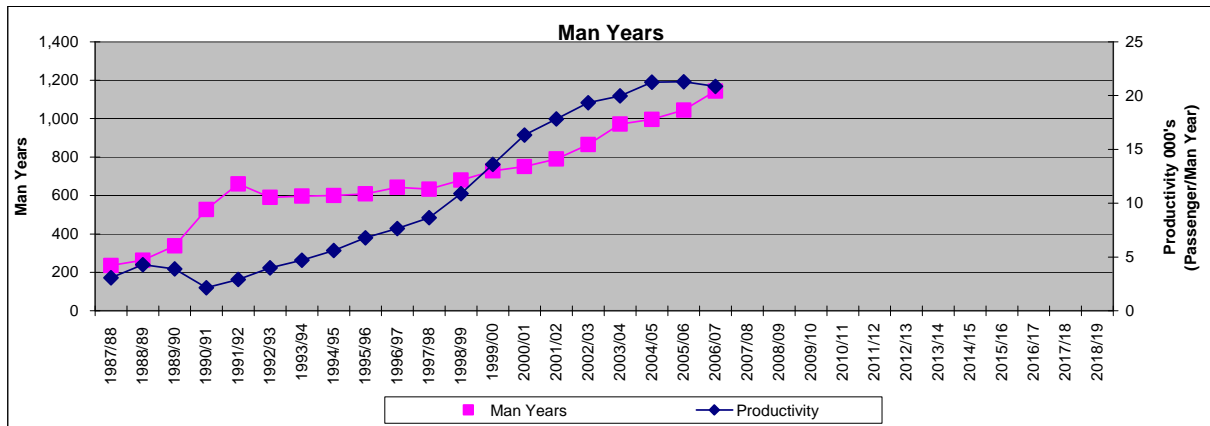
	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Costs	29.5%	4.9%	7.4%	[E]	[E]	[E]

13.44 Staff costs increased on average by 4.9% in Q2, 7.4% in Q3 and projected 6.7% in Q4. This is significantly below the growth in passengers over the same period. Costs per passenger have accordingly fallen over this period from £8.22 to £2.45 (i.e from 1992/93 to 2008/09). Several factors have impacted staff costs in the period. The Competition Commission reported that up to 2000/01 'the large number of staff in fixed posts, being mainly in overhead functions were relatively unaffected by increasing passenger volumes, and that any such increases could be handled with little increase in staff overall'. This helps to explain the rising productivity trend at that point, which continued through 2001/02. The impact of 11 September 2001, particularly on the levels of security staff, however, increased staff numbers and costs in 2001/02, with the result that productivity growth has not been as marked since 2001/02. In future years, cost per man year is forecast to rise by [E] per annum in real terms. The increase in 2006/07 and 2007/08 is mainly due to the increased

security costs post 10 August 2006 and pension costs. Following absorption of the new security requirements staff costs are forecast to stabilise during Q5 and Q6, though there is a step increases in 2014/15 and 2015/16 for the opening of G2 .

Man Years

Chart 13.17

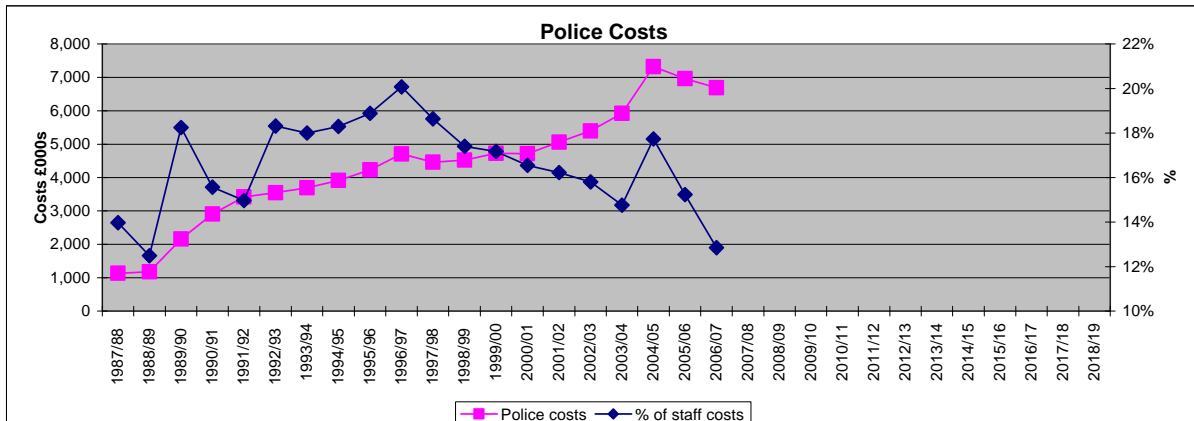


Average Annual Growth Rates					
Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
1987/88	1992/93	1997/98	2003/04	2009/10	2014/15
1991/92	1996/97	2002/03	2008/09	2013/14	2018/19
29.4%	2.2%	6.5%	[E]	[E]	[E]

13.45 Man years (total number of staff including overtime worked) is reflected in staff costs (see above). Productivity is measured in passengers (in '000s) per man year. After a long period of significant productivity increases, productivity decreases in 2006/07 as a result of the additional security staff required (87 man years) due to the changing security regime and recent government directives. The security productivity assumption in the forecast is an annual productivity improvement from 2009/10 of half the rate of traffic growth. The increase in man years in 2014/15 reflects the additional manpower that will be required to carry out trialling and commissioning for the opening of SG2. This has a short-term impact on productivity levels, as staff numbers increase without a matching increase in passenger throughput. From 2015/16 onwards the increase in manpower requirements is predominantly linked to the increase passenger throughput associated with the G2 project.

Police Costs
Chart

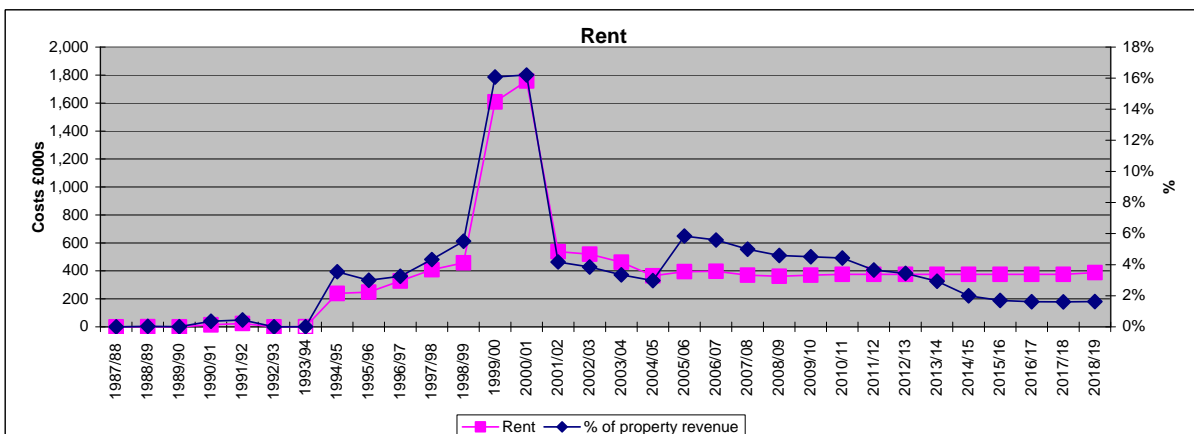
13.18



	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Costs	31.8%	7.3%	3.9%	E	E	E

13.46 Policing of airports is based on threat and demand as perceived by the police. Negotiations take place annually with the police. The increased terrorist threat post 2001 and increased area due to terminal extension required more patrols from 2002 onwards. Both these factors mean that it is continually more difficult to hold policing costs down in an environment of increased security threat. Over Q5 and Q6 police costs are forecast to average around 15% of Stansted's staff costs. The second runway and associated infrastructure is forecast to lead to an increase in police manpower requirements, starting in 2014/15.

Rent
Chart 13.19

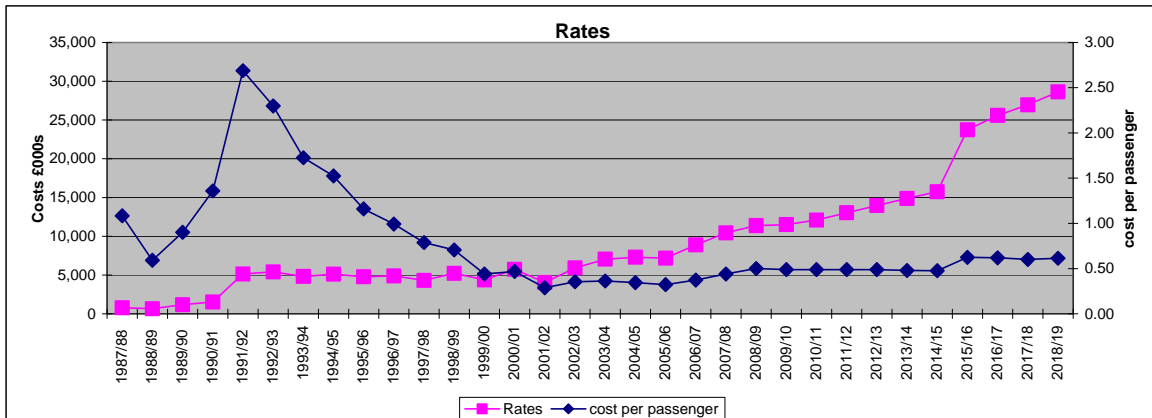


	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Costs			4.9%	-4.8%	0.3%	0.9%

13.47 The peak in 1999/2000 & 2000/01 relates to rents for Endeavour House, which was subsequently transferred as an investment property to BAA's property company. From 2001/02 to 2004/05, therefore, rents were charged through the intercompany account. From 2004/05, Stansted airport did not occupy Endeavour House and therefore has not incurred large rent cost.

Rates

Chart 13.20

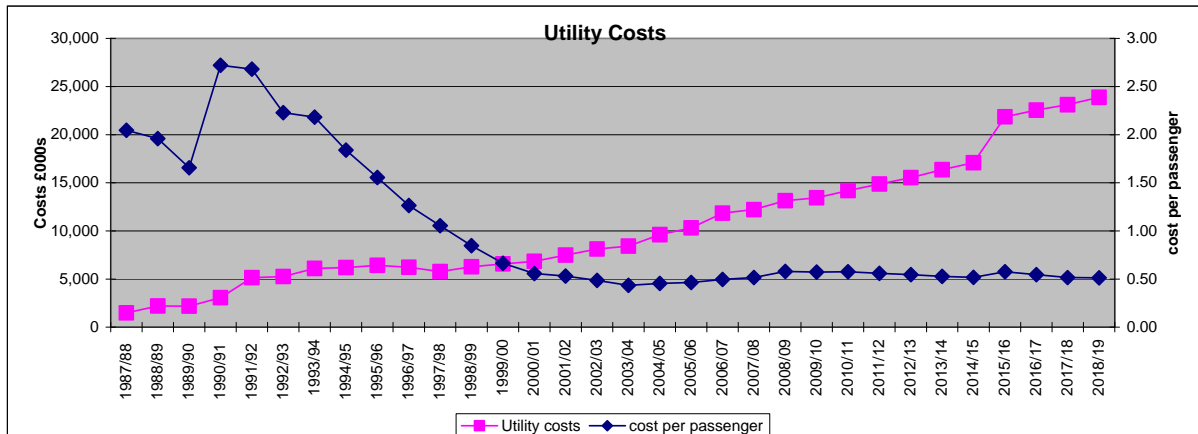


	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Costs	60.2%	-2.5%	6.6%	10.1%	6.6%	16.1%

13.48 Rates is subject to five yearly valuations. This can typically produce increases in rates liability, followed by a rebate upon appeal, which can lead to the peaks and troughs in actual results. The increase in rates is linked to the capital investment undertaken, though the actual costs also reflect the benefits of successful management in minimising the airport's rates liability. The absolute increases from 2002/03 result from the completion of the terminal extension, Satellite 3 and additional apron areas. The gradual increase from 2005/06 to 2010/11 is due to transitional phasing allowances to reflect increased utilisation of property assets. The increase in 2015/16 relates to the opening of phase 1 of SG2.

Utility Costs

Chart 13.21

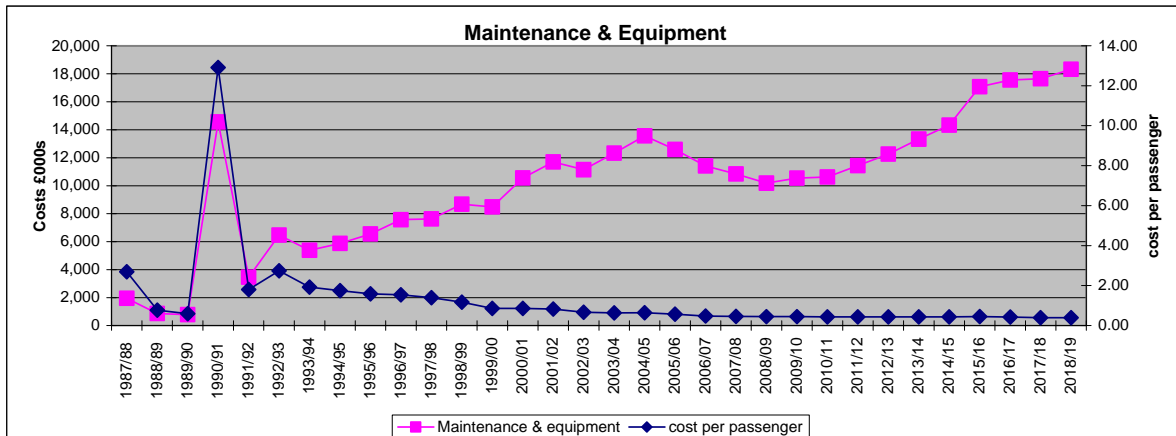


	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Costs	36.6%	4.3%	7.1%	9.3%	5.1%	8.7%

- 13.49 Utility costs per passenger declined significantly in the latter part of the 1990s as a result of one-off price cuts due to increased competition in the energy sector. In 1997, Stansted airport combined its buying power with Heathrow airport which resulted in the airport enjoying more competitive prices. In 2000/01, BAA purchased electricity as a group for the first time, having co-terminated uncompetitive agreements at other airports. In 2001/02 prices increased due to climate change levy (CCL), which added approximately 16% to electricity and gas costs. Increases in costs from 2002/03 are due in part to increased consumption following the completion of the terminal extension and Satellite 3. In 2003/04, costs were broadly in line with the previous year due to improved conservation and the linking of environmental objectives to business targets. In 2004/05 and subsequently, costs increased due to increasing prices in oil, coal and gas combined with environmental legislation, global and local supply/demand imbalance, and in the long term this trend is set to continue.
- 13.50 BAA invoked the mid term market review agreement for the firm gas contract, which allowed BAA to take advantage of the lower unit rates in return for an extension of the contract out to March 2010. The reduction in price takes effect in 2008/09 and 2009/10. Electricity and gas prices are assumed to increase by 1% p.a. (outturn) in the longer term. New facilities drive increases in volume. The electricity distribution management fee also increases to reflect growth in required infrastructure. The water and sewerage unit rate increases at 5% per annum, with volume linked to passenger growth. Waste cost increases at 8% per annum.
- 13.51 The opening of phase 1 of SG2 in 2015/16 accelerates this cost increase as consumption also increases.

Maintenance & Equipment Costs

Chart 13.22

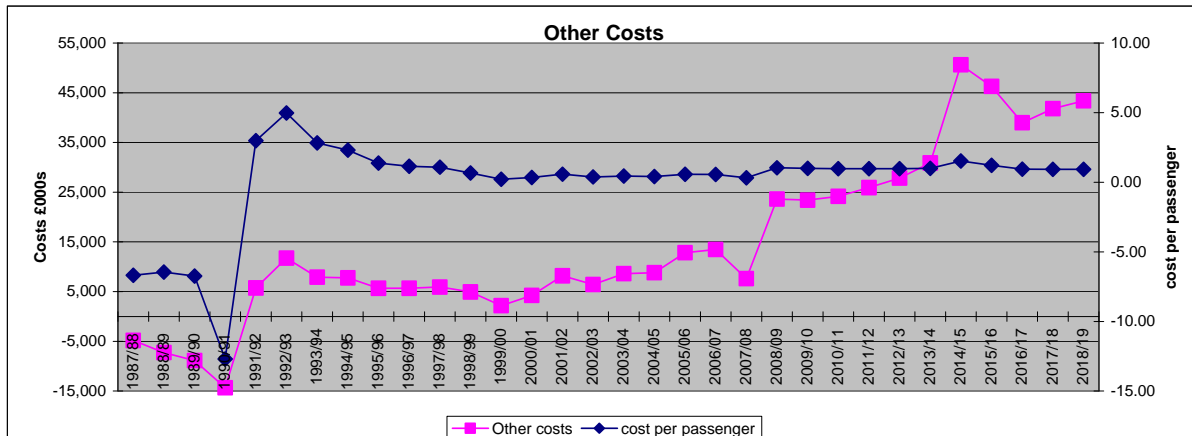


	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Costs	15.4%	4.0%	7.9%	-3.7%	6.0%	6.3%

- 13.52 Maintenance and equipment costs include both normal and rechargeable maintenance, and computer service costs and equipment costs. The latter includes the costs of airport vehicle supplies (repairs, fuel costs etc), general engineering supplies and equipment costs. The increase in 1990/91 relates to the move from the old terminal to the new terminal in 1991, most of which was capitalised within other costs. Equipment costs increased from 2000 primarily due to the increased use by the car rental companies and taxi services of Stansted fuel facilities, i.e. taking more fuel.
- 13.53 These costs have however been recharged and reflected in the airport's revenues. As the main terminal building and associated assets begin to age, being 10 years old in 2000, with the addition of further facilities, and with increased usage through the growth in passenger numbers, maintenance costs have shown an expected increasing trend. Costs have dropped in 2006/07 and 2007/08 due to the decrease in vehicle fuel, a result of outsourcing third party sales.
- 13.54 Pressure on costs of maintenance will continue as the airport strives to maintain service levels and increase capacity while facing calls from users for capital expenditure restrictions. In 2007/08 around £2 million of additional cleaning and maintenance costs were incurred as part of the "Fix the Basics" project, but offsetting this was a reduction of around £2.5 million from the sales of vehicle fuel to third parties, now outsourced. From 2008/09 these cleaning costs are included within "Other Costs".

Other Costs

Chart 13.23



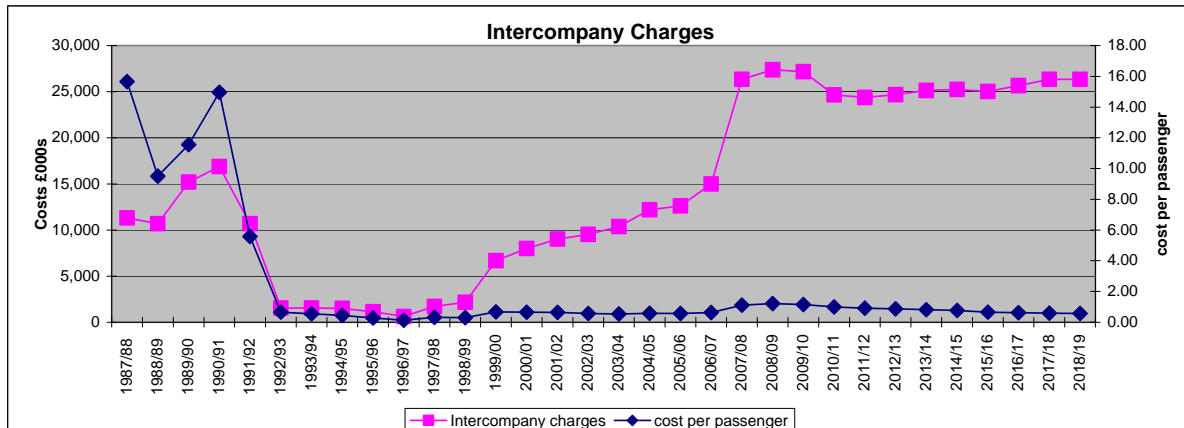
	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Costs		-16.6%	1.6%	22.4%	7.2%	-3.8%

13.55 Other costs include cleaning, marketing, ground transport operations, general expenses and capitalisation of revenue costs. In 1990/91, accounting adjustments, mainly high capitalisation of inter group charges related to the move from the old terminal building to the new terminal, resulted in a negative figure being reported. Marketing and advertising expenditure were high in the early 1990s as a result of marketing support to attract traffic to Stansted. Costs then stabilised at around £5 million p.a. until 2001/02, when insurance costs increased significantly due to the effects of September 11th. Stansted also increased marketing support to the low cost airlines during this difficult period for air travel, helping to maintain the strength in passenger volume growth. Exceptional costs of £3 million are included in both 2005/06 and 2006/07. In 2008/09 an additional c.£16 million is mainly attributable to the ANS and PRM contracts, whilst cleaning costs have risen as a continuation of the service levels established by the “Fix the Basics” project in 2007/08. G2 other costs per passenger are assumed to be at the same level as for G1.

13.56 It has been assumed that there will be £30 million of opening costs for G2 Phase 1 facilities. These have been split £20 million in 2014/15, with remainder in 2015/16. These costs are intended to cover operational readiness costs (other than those specified elsewhere, e.g police, utilities etc) associated with trialling and commissioning the new facilities/ infrastructure.

Intercompany Charges

Chart 13.24



	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Costs	-1.4%	-20.1%	41.0%	21.4%	-1.9%	1.1%

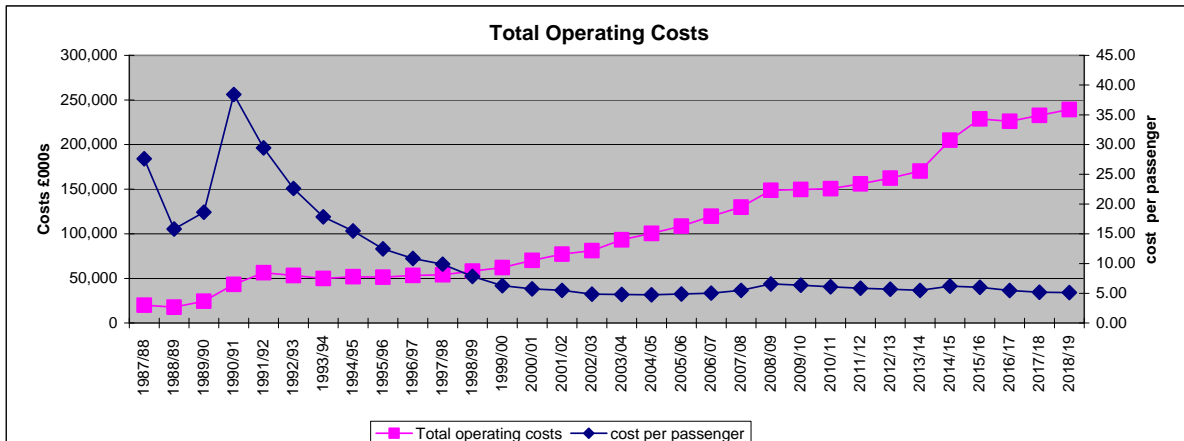
- 13.57 Corporate allocation represents approximately 75% of the intercompany charges in the long-term forecast. The corporate allocation comprises the allocation of Centralised Airport Services costs (e.g. IT, Capital and Supply Chain, Research, etc.) and of Corporate head office costs (e.g. Finance, Human Resources, Legal, etc.). IT costs (primarily staff costs and asset charges) represent approximately 50% of Stansted's corporate allocation and the forecast reflects the IT functions forecast of the annual lease charge associated with Stansted's usage of group IT assets. The staff cost elements of the corporate allocation are assumed to rise in line with the assumptions for the group as a whole.

- 13.58 Intra-group costs also include costs recharged from other group companies. In 1999/2000, costs increased as a result of the transfer of IT, retail and project construction team costs from airports to central departments. As Stansted moved into profitability over the period, its share of central costs has increased in line with the allocation methodology adopted by the Group. From 2000/01 major IT programmes were introduced, principally new 'Enterprise' IT systems which included new Finance and HR systems, and airport operating systems. Costs are charged to airports according to their usage of these systems. Costs of maintaining IT systems, including technical management and support, have correspondingly increased.

- 13.59 The increase in 2007/08 represents the removal of the corporate allocation "cap" that previously applied to Stansted.

Total Operating Costs

Chart 13.25

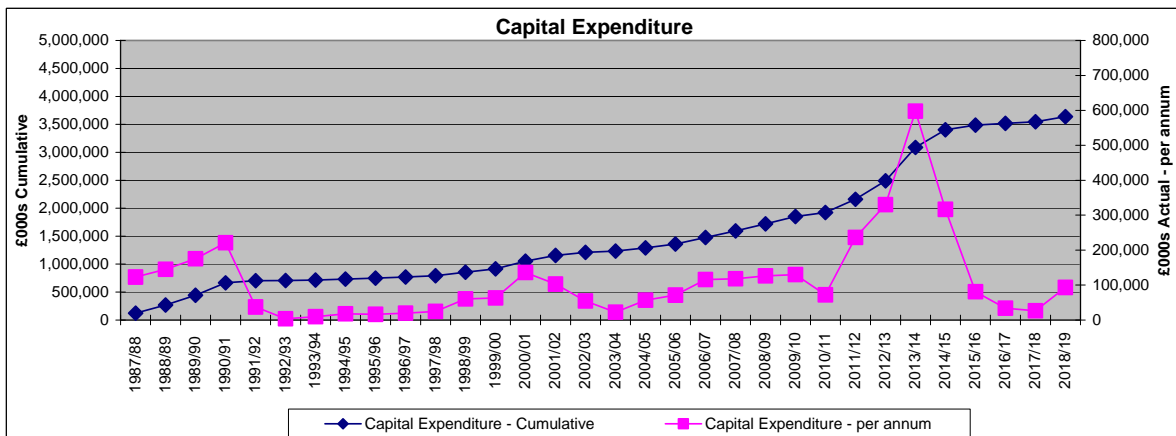


	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Costs	29.7%	0.1%	8.4%	9.8%	3.3%	3.9%

13.60 Cost per passenger since the opening of the Stansted terminal in 1991 has declined for most cost categories due largely to the significant growth in passenger numbers. In this period, there have been significant increases in productivity as well as fixed costs being spread over rapidly increasing passenger numbers. Into the future, cost per passenger is assumed to decline gradually as the passenger growth becomes more modest.

Capital Expenditure

Chart 13.26



	Average Annual Growth Rates (real)					
	Act Q1	Act Q2	Act Q3	Act & GSM Q4	GSM Q5	GSM Q6
	1987/88 1991/92	1992/93 1996/97	1997/98 2002/03	2003/04 2008/09	2009/10 2013/14	2014/15 2018/19
Capex p.a.	-25.7%	52.6%	17.3%	41.7%	46.4%	-26.4%

13.61 Capital expenditure increases significantly in 2011/12 to 2013/14 as phase 1 of SG2 occurs.

13.62 Within SG1 the main areas of capital expenditure are the Arrivals Extension (2006/07 - 2008/09), the Fedex Cargo Extension (2012/13 - 2013/14), the Departures Extension (2008/09 - 2010/11) and Satellite 4 (2014/15 - 2015/16). Construction of the first phase of the second runway and associated infrastructure is assumed to begin in 2011/12, at a total cost for the airport-related infrastructure of around £1.5 billion (2007/08 prices, excluding wider roads and rail costs).

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Chapter 14 The Q5 Opening RAB

Introduction

- 14.1 This chapter presents the Regulated Asset Base (RAB) for Stansted that has been calculated according to the 'roll forward' methodology laid out in Annex 6 of the CAA Decision document of February 2003, following the last regulatory review¹⁶. It includes a forecast of the year ending 31 March 2009, following the CAA decision to extend the Q4 period from five to six years.
- 14.2 The following table summarises the calculations for the revised opening balance as at 1 April 2003, and for the closing balances for the financial years ending 31 March to the end of the current quinquennium (Q4), together with appropriate explanatory notes. Figures in the tables are extracted from the regulatory accounts of the airport for the four years ended 31 March 2004 to 2007, and from the long-term financial forecasts for the final two years of Q4.
- 14.3 The closing RAB figures at 31 March 2007 shown below are the opening figures used within the forecasts in this submission.
- 14.4 The closing RAB in the regulatory accounts as at 31 March 2007 was £1,071.5m.

¹⁶ "Economic Regulation of BAA London Airports (Heathrow, Gatwick and Stansted) 2003-08, CAA Decision", CAA, February 2003, Annex 6

Table 14.1 Opening RAB for Stansted

£m	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Forecast per CAA Decision	814.3						
Less capital expenditure forecast for 2002/03	-36.7						
	777.6	863.6	873.7	862.0	912.1	1,028.3	1,134.0
Add RPI to year end	39.0	22.5	27.9	20.3	44.0	32.4	26.4
	816.6	886.1	901.6	882.3	956.1	1,060.7	1,160.4
Add actual capital expenditure in year	46.4	19.4	51.4	65.9	111.4	118.2	131.8
Less assumed ordinary depreciation		-31.7	-31.8	-36.4	-40.5	-45.8	-41.7
Less proceeds of disposal			-59.4		-0.1		
	863.0	873.8	861.8	911.8	1,026.9	1,133.1	1,250.5
Add uplift on capital expenditure/depreciation	0.6	-0.1	0.2	0.3	1.4	0.9	1.5
Closing Basic RAB at year end	863.6	873.7	862.0	912.1	1,028.3	1,134.0	1,252.0
Profiling adjustment (cumulative)		12.5	19.3	31.2	43.2	51.4	56.7
Closing RAB after profiling	863.6	886.2	881.3	943.3	1,071.5	1,185.4	1,308.7

14.5 The following notes apply:

- Indexation of CAA forecasts from 2000/01 price levels is based on published RPI statistics to March 2007 and forecast RPI thereafter. The relevant indices are those shown below:

Table 14.2 RPI indexation

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Within year RPI growth	1.0134	1.0116	1.0125	1.0098	1.0204	1.0121	1.0163
Annual RPI growth to 31 March	1.0309	1.0261	1.0320	1.0236	1.0482	1.0315	1.0233

- Capital expenditure is as reported in the airport statutory accounts and long term financial forecasts, as appropriate, and includes capital expenditure in respect of the development of a second runway and related infrastructure;
- Assumed Ordinary Depreciation is as stated in the CAA Decision for the years ended 31 March 2004 to 2008, indexed from 2000/01 prices to actual or forecast in year prices. For the year ending 31 March 2009, regulatory depreciation is taken from the long term financial forecast;
- Proceeds of asset disposals are actual proceeds for the years to 31 March 2007. No proceeds from disposal are forecast for the remaining two years of Q4. In 2004/05, proceeds from disposals comprised amounts from the sale of operating assets and amounts from the transfer of a portfolio of property to BAA Partnership Limited as part of an overall group transfer of property and property related assets to the Airport Property Partnership. The airport has adopted the most conservative basis, net of an allowance for capital gains tax, for this transaction. This is consistent with the treatment by the CAA of disposals at Heathrow and Gatwick airports which formed part of the same transaction; and
- The cumulative profiling adjustment is as stated in the CAA Decision, for the years to 31 March 2008, appropriately indexed from 2000/01 prices to actual/forecast in each year. For the year ending 31 March 2009, the cumulative profiling adjustment is taken from the CAA's model for Q5 underlying the Q4 price control decision. This assumed that the profiling adjustment in Q4 (originally to 31 March 2008) would unwind by the end of the (original) Q5 period, though this did provide for an increase in the profiling adjustment for 2008/09.

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Chapter 15 BAA pension scheme

Introduction

- 15.1 In this Chapter we update the details of the BAA Group pension scheme, which were provided in Chapter 15 of BAA/CC2007/100, the regulatory submission for Heathrow and Gatwick airports, in May 2007. This includes the latest 15 year forecast from the group's actuaries and advisers, Mercers Consulting, and takes into account the proposed changes to the main scheme since May 2007. We also provide the pension costs included within the operating costs in this submission for Stansted airport.
- 15.2 The pension cost forecast takes into account the proposed change to the scheme to close the main scheme to new entrants and introduce a defined contribution scheme for new employees. This assumes an annual reduction of 10% in the active membership of the defined benefit scheme and that these are replaced by new entrants on the new defined contribution arrangement. A final offer was proposed by BAA to the trade unions on 16th May 2008 which will now be subject to a consultative ballot.

Accounting principles

- 15.3 Company costs for pension provision (the service cost) continue to be assessed in accordance with the requirements of IAS 19, as explained in BAA/CC2007/100. The level of company contribution to the scheme in accordance with this accounting standard is 19% compared to 33% previously advised.

Experience gains and losses

- 15.4 The scheme's expected long term asset disposition continues to be 40% equities and 60% bonds.

Cash contributions

- 15.5 It is assumed that Company contributions are the lower of the annual service cost and £70 million p.a. and that total annual pension payments increase in line with assumed pension increases plus 5% p.a. (to make a broad allowance for retirements). However, please note that these contributions are under review by the pension trustees and refer to section 15.7 below for further detail.

Key assumptions

- 15.6 Mercers' January 2008 forecast, and assumptions, which underlie the Stansted pension cost forecast, is given below in Table 15.1. This takes into account the proposed change to the scheme to close the main scheme to new entrants and introduce a defined contribution scheme for new employees. This is described further below. The forecast should be read in the context of the note provided to the CAA in BAA/Q5/728 – Annex 4 in April 2008.
- 15.7 The application of the pension accounting rules is resulting in a decrease in the pension cost of service for BAA in the upcoming years. However, the pension cash contributions are expected to increase significantly in the future. At the moment, the pension trustees

are undertaking a new valuation exercise. The initial indications that we have received from them states that the estimated deficit and the annual contributions would potentially be around [E] million and [E] respectively.

- 15.8 The basis for the increases is that in their preliminary assessment of the covenant of BAA it is described as "negative to weak". As a result they are applying more conservative assumptions in the calculations of the technical provisions associated with the BAA pension scheme.
- 15.9 Although this is currently work in progress and by no means is the company accepting or signing off on this preliminary indication, this does give a clear indication of the trend that can be expected in the cash pension contributions in the coming years. We will be happy to update the CAA (and the CC) as the valuation process moves ahead in the future.

Basis of charge to subsidiaries

- 15.10 It is the service cost which directly reflects the expense to BAA and, in turn, the airport companies. It is therefore the actual service cost that is used in the forecast. The reality is that should equity markets fall significantly or there were to be a major shift in the scheme's investment strategy to a predominantly bond based position then cash contribution requirements would move sharply upwards. The allocation of the pension cost to BAA's subsidiaries (and hence the regulated airports) is by means of a corporate recharge based on the service cost and hence, for the subsidiaries, the pension cost represents a cash cost.
- 15.11 We note the CAA's decision for Heathrow and Gatwick includes an allowance for the cash cost of pensions at those airports, rather than the service cost. Our view remains that the service cost is the most appropriate basis for setting the allowance for pension costs, and this was discussed in Appendix 2 of our submission to the CAA, BAA/Q5/400. However, we noted in our submission BAA/CC2007/464 that, under the current refinancing proposals.

'The pension costs payable by the airports will include: cash amounts payable by BAA on a monthly basis in accordance with the scheme schedule of contributions'

and that

'On this basis, the Competition Commission may conclude that there are stronger grounds for a move to a cash contribution (albeit without a cap) than had been the case previously'...

Recent developments

- 15.12 Table 15.1 below sets out Mercers' January 2008 forecasts.

Table 15.1

Year Ended 31 March	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Profit and Loss											
(1) Service cost (including past service cost in 2005/06 and 2006/07)	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]
(2) Interest cost	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]
(3) Expected return on Assets	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]
(4) Net Financing Item	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]
(5) Profit and loss	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]
(6) Assumption Changes Gain/(Loss)	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]
(7) Experience Gain/(Loss)	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]
(8) Return Gain/(Loss)	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]
(9) Actuarial Gain /(Loss)	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]
(10) Total net (gain)/loss	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]
Balance Sheet											
(11) Balance Sheet surplus	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]
Cash Contribution in each year											
Company contributions to DB scheme	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]
Company contributions to DC arrangement	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]
(12) Total Company Contribution	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]	[E]

Scheme Changes

- 15.13 As reported in BAA/CC2007/100, there have not been any changes to the benefits provided by the scheme since the 2002 review. However some calculations, such as those underlying the tax free cash sum at retirement, have been changed in accordance with the Inland Revenue's Pensions Simplification (A-Day) effective from 6 April 2006.
- 15.14 Since May 2007, the only relevant change is the proposed change to close the main scheme to new entrants in 2008 and introduce a defined contribution scheme for new employees. This assumes an annual reduction of 10% in the active membership of the defined benefit scheme and that these are replaced by new entrants on the new defined contribution arrangement.

Impact of previous contribution holiday on current costs

- 15.15 The CAA determined, for Heathrow and Gatwick, that there should be a RAB adjustment at each airport in respect of the Q3 pensions contribution holiday. We reaffirm our disappointment at this decision, which reopened decisions taken in previous reviews, and which introduces further risk, uncertainty and asymmetry into the regulatory process.

Pension costs included in price control business plans

- 15.16 The following table shows the pension costs contained within staff costs for Stansted:

Table 15.2 Airport pension costs

£ million (07/08 prices)	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Stansted	6.6	6.0	5.5	5.0	4.6	4.2

Key assumptions provided by Mercers

- 15.17 Asset figures used are based on bid market values, as opposed to mid market values, in line with IFRS and the figures quoted in the quarterly and year end disclosures.
- 15.18 Mercers have used the assumptions applicable as at 31 December 2007 to value the year end liabilities and value each future year's accrual of benefits (the current year's accrual is based on the previous year end assumptions). The assumptions used are:

Table 15.3

	31 December 2007 %
Discount rate (p.a.)	5.80
Inflation (p.a.)	3.40
Increases to deferred benefits during deferment (p.a.)	3.40
Increases to pensions in payment (p.a.) (closed)	3.40
Increases to pensions in payment (p.a.) (open)	3.40
Increases to salaries (pa)	4.90
Asset return (p.a.)	6.30

- 15.19 In determining the development of the position of the Scheme during the projection period, Mercers have adopted the following expectations of future actual experience.

Table 15.4

	2007/08 %	2008/09 %	2009/10 %	2010/11 %
Actual inflation	4.00	2.23	2.43	2.50
Actual increases in deferred benefits	4.00	2.23	2.43	2.50
Actual pension increases	4.00	2.23	2.43	2.50
Actual salary increases	5.50	3.73	3.93	4.00
Actual investment return	6.30	6.30	6.30	6.30

- 15.20 The investment return assumption is the same as the expected return on assets which will be used for the 2008 P&L charge under IAS19.
- 15.21 **[E]**
- 15.22 As with any projection, the figures are highly dependant on the assumptions made. As the projection period lengthens there is a greater chance that the projections will deviate significantly from the true position as it develops. Any future differences between experience and the assumptions will lead to a variation from the estimated position.
- 15.23 Mercers have allowed for the membership totals provided by BAA and have made an allowance for members leaving the existing scheme and being replaced by new members of the proposed defined Contribution scheme.

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Chapter 16 Depreciation calculation

Introduction

- 16.1 In setting the price caps for Q4, the CAA projected a level of underlying depreciation for Q4. The CAA specified that in rolling the RAB forward in Q4 that this projected depreciation is to be used, as opposed to actual depreciation¹⁷.
- 16.2 In the current forecasts, the opening RAB for Stansted has been calculated using the projected depreciation (adjusted to outturn prices). The depreciation for 2007/08 has been based on the projected depreciation used by the CAA for Q4 (adjusted to outturn prices).
- 16.3 The remainder of the depreciation forecast in the long term forecast (i.e. from 2008/09) is based on BAA's projections for depreciation. These are based on the regulatory value of the existing fixed asset base and future capital expenditure and hence, for 2008/09 and for Q5, will reflect actual (and currently forecast) variances in capital expenditure in the first 5 years of Q4.
- 16.4 BAA's forecast depreciation is calculated from two sources. First, a forecast is calculated based on the assets contained within the regulatory fixed asset register, based on the individual asset lives and the remaining net book values of the individual asset records. This provides a depreciation forecast for the existing assets of the airport. The asset lives used to calculate depreciation are consistent with statutory asset lives (It should be noted that investment properties are not depreciated in the statutory accounts. They are however depreciated in calculating the RAB and appropriate asset lives are applied to determine the regulatory depreciation). The depreciation forecast is subject to indexation as applied by the model.
- 16.5 Second, depreciation is calculated by the GSM for capital expenditure in the forecast period based on input asset life and completion date assumptions. Capital expenditure is input into the model either as major projects or "rump" capital expenditure (minor projects). For major projects, the phasing of the capital spend is input annually along with asset life and quarter completion (the quarter in the year that the project is completed) assumptions. From these (and assumptions for COPI and RPI), a depreciation forecast for the project is calculated by the model. For rump capital expenditure, the model assumes a full year's depreciation is incurred in the following year based on an average asset life assumption.
- 16.6 Any forecast disposals in the model will result in reductions in the depreciation forecast based on the net book value of the asset forecast to be disposed of (essentially to offset the amount of depreciation contained in the run-off depreciation forecast related to this asset).
- 16.7 A manual adjustment is then made to the depreciation forecast for assets in the course of construction (AICC). Spend to date (at 31 March 2007) on major projects is entered into the model, and hence is reflected in the depreciation forecast calculated by the model. An adjustment is required to depreciate the remaining AICC relating to projects not identified as

¹⁷ Economic Regulation of BAA London Airports (Heathrow, Gatwick and Stansted) 2003-08, CAA Decision, CAA, February 2003, Annex 6

major projects going forward. This is calculated using the average asset life for rump capital expenditure.

- 16.8 The following table illustrates the difference between the depreciation projected by the CAA for Q4 and the actual depreciation (on a regulatory basis) incurred during the 4 years 2003/04 -2006/07. At the time of preparation of this forecast, the regulatory fixed asset registers have not been completed for the year to 31 March 2008. The 'actual' figure for 2007/08 in the table below has therefore been taken from the financial forecast model underlying the forecast.

Table 16.1
Actual vs forecast depreciation (for original Q4 period)

Outturn prices £m	2003/04	2004/05	2005/06	2006/07	2007/08	Total
CAA projected	31.7	31.8	36.4	40.5	45.8	186.2
Stansted actual	33.1	35.7	35.4	36.3	37.9	178.4
Variance	1.4	3.9	(1.0)	(4.2)	(7.9)	(7.8)

- 16.9 The lower than forecast depreciation allowance at Stansted is consistent with the lower than forecast capital expenditure during Q4. As reported in Table 4.2, expenditure on SG1 was forecast to be £140 million (in outturn prices) less than forecast (but note also the comments in paragraph 4.18, in respect of actual expenditure in 2007/08, which increases this variance to £157 million). No allowance was made in the Q4 forecasts for preliminary expenditure on SG2, which would not, in any event, have given rise to a depreciation cost in Q4.
- 16.10 Under the CAA methodology, the RAB is rolled forward in Q4 using the projected depreciation allowance. Therefore the opening RAB in Q5 is impacted by these differences in depreciation. The CAA has reaffirmed this policy for Q5 in its March 2008 Decision for Heathrow and Gatwick, in line with the CC's support for continuation of this policy.
- 16.11 As the CC pointed out in the Q4 review, however, the over- or under-depreciation of assets will have consequential effects on the RAB after the assets are life-expired with the result that the profile of prices may be distorted¹⁸. In the Q5 review, the CC noted that for a company subject to continuous regulation, depreciation only affected the amounts that different generations of users pay.¹⁹ It did not see any reason to change the CAA's existing policy.
- 16.12 The CAA has not indicated its policy for dealing with these distortions as part of the Q5 calculation.
- 16.13 The current forecasts have not assumed any adjustment for these distortions and have simply rolled the RAB forward to Q5 in accordance with the stated CAA policy and then applied BAA's depreciation forecasts for future periods based on the forecast regulatory

¹⁸ A report on the economic regulation of the London airport companies (Heathrow Airport Ltd, Gatwick Airport Ltd and Stansted Airport Ltd), Competition Commission, October 2002, paragraph 10.19.

¹⁹ A report on the economic regulation of the London airports companies (Heathrow Airport Limited and Gatwick Airport Limited), September 2007, paragraph 4.59

fixed asset register 31 March 2007 and the forecast capital expenditure for the remaining years of Q4, Q5 and Q6.

- 16.14 The CAA in its recommendations to the CC²⁰ has adopted BAA's projected depreciation forecast in modelling the price controls for Stansted.

²⁰ Airport Regulation, price control review – CAA reference to the Competition Commission for Stansted Airport, CAA, April 2008.

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Chapter 17 Public interest issues

Introduction

17.1 The CAA has identified three areas which respondents believed to be “public interest issues”. These are included in section 3 of its April 2008 reference to the Commission²¹. The CAA has not expressed a view on whether these constitute public interest issues, but has set out the views of respondents in its reference. It does not appear that these have been referred to the CC in accordance with Section 44(1)(a) of the Act. However, BAA’s comments on each of these areas are set out below. BAA does not consider that any of the issues mentioned by the CAA merit an adverse finding by the CC. Our considered and detailed views will be given at such time as the Commission invites us to comment on any matters it believes could constitute public interest issues. At this stage therefore, the comments here should be considered as preliminary responses to the points made by the CAA, and not as full and final responses on these matters, as it is unclear what the status of the areas mentioned by the CAA is, or what evidence has been put to the CAA.

The level of charges at the airport

The CAA’s reference to the CC

17.2 The CAA’s view is that charges at or below the cap ought not to be considered to be against the public interest. It says, in respect of Luton’s point regarding prices being set at artificially low levels, that it has not reached a view as to whether this has been the case, but that it notes that Stansted has covered its operating costs in each year of Q4 so far.

BAA’s initial views

17.3 Prices have been set in accordance with the CAA Decision on price caps during each year of Q4, i.e. prices have not exceeded the cap in any year. To that extent, there can be no evidence that the airport has acted against the public interest. Real increases in airport charges have been largely the result of the unwinding of discounts, which the airlines have been fully consulted on.

17.4 Stansted has not engaged in predatory pricing. As the CAA notes, Stansted has covered its operating costs throughout Q4, and its profitability has increased in each year.

Security and service quality

The CAA’s reference to the CC

17.5 The CAA has not made an adverse finding in respect of Stansted’s security and service quality performance, and has not reached a view on whether the performance amounts to conduct against the public interest. It accepts BAA’s argument that Stansted faces competition and that, accordingly, prices have to reflect quality. It has provided the Commission with information on Stansted’s service quality performance.

BAA’s initial views

17.6 We believe that the quality of service at Stansted does not provide any grounds for a public interest finding. The overall ratings for QSM scores show Stansted consistently at or above

²¹ Airport Regulation, price control review – CAA reference to the Competition Commission for Stansted Airport, April 2008.

4 (out of a possible 5, where 5 is excellent). The performance of security queuing (between January 2005 and January 2008), with the exception of the extraordinary period around August 2006, shows queues of less than 10 minutes consistently above 90% of the time measured. Measures around the availability of infrastructure are also *'for the most part high when compared to the standards set in the Standards and Rebates scheme for Heathrow and Gatwick'* (CAA reference, Annex D, para D30).

- 17.7 Stansted's report on service quality is in Chapter 7 of this submission. We recognise the importance of service quality to customers. This includes those measures which are important to airlines and passengers (e.g. in assisting airlines to achieve turnaround times), and those which passengers also value (e.g. toilet cleanliness).
- 17.8 Stansted is not averse to a regulatory scheme as applies at Heathrow and Gatwick. However, we agree with the CAA's assessment that *'any regulatory intervention ... has to be mindful not to distort unduly the factors that enable a low cost operation'* (see CAA reference para D34).

Information disclosure and consultation

The CAA's reference to the CC

- 17.9 The CAA has not specified this issue as a course of conduct against the public interest. The CAA notes the Cotterill report's conclusion that the fact that Constructive Engagement was not successful at Stansted was a big factor in the lack of progress at Stansted in complying with Annex 4 to the 2003 price control condition. The CAA also notes the conclusion that both sides could be more proactive.

BAA's initial views

- 17.10 Stansted has consulted extensively with its airline customers throughout Q4. The nature of the relationship with some airlines has been difficult, however, with the result that agreement on some major issues has been difficult to reach. Stansted is committed to improving the information disclosure and consultation process further, and will work with its airlines to establish an agreed approach to the provision of information. The revised Annex 4 arrangements at Heathrow and Gatwick could be introduced in a form appropriate to Stansted to assist this process.
- 17.11 We will respond in detail to the Commission's further requests for information in this area.

Chapter 18 Major Risks and Uncertainties

Introduction

18.1 The regulatory submission should be viewed as BAA's central forecast. However, there are a number of risks and uncertainties which BAA faces which are not fully reflected in this submission. The main ones, traffic mix change, security costs, efficiency programmes and financing were mentioned in chapter 2. This chapter identifies further risks and uncertainties.

Volume risk

18.2 Traffic volumes are driven by a wide variety of factors, the majority of which are outside BAA's control. Many of these factors may have a symmetrical effect on the forecasts; they could lead to higher or lower actual traffic than forecast. However, there are a number of events which are likely to have an asymmetrical effect on traffic, terrorism and health epidemics being two recent examples.

18.3 A feature of such events is that while traffic levels tend to recover to previously projected levels there is no evidence of 'catch up' of deferred journeys. Business is lost, not simply delayed.

18.4 These factors are not captured in the traffic forecasts included in the regulatory submission.

Environmental policy

18.5 The government's environmental policy will continue to have a significant impact on how airports and the aviation industry develop, the detailed future nature of which is subject to uncertainty. For example, the intended inclusion of aviation in the EU Emissions Trading Scheme (ETS) could take a number of forms, as could any government imposed taxes and charges. In our most recent traffic forecasts, we have taken more explicit account of ETS and the changes to Air Passenger Duty, both of which add to travel costs and therefore reduce demand for air travel and also affect throughput forecasts. These factors explain, in part, the adoption of lower traffic forecasts for Stansted in Q5. However, the risk remains that taxes or charges would be higher than assumed.

18.6 Taxes or charges are not the only option open to the government to address environmental concerns. For example, they could introduce more stringent planning criteria which could result in significant increases in the cost of developing airports or place increased operational restrictions on the airports.

18.7 This regulatory submission assumes that any change in the government's approach to environmental issues would be minor enough not to affect the most recent projected throughputs at BAA's designated airports.

Planning application

18.8 Stansted submitted an application to Uttlesford District Council in 2006 to grow the airport to 35 mppa. This was rejected and a public inquiry was held. We are expecting a favourable outcome shortly. Also, in March 2008 an application for a second runway (G2) was

submitted. The forecasts and assumptions in this submission assume a successful approval of both applications.

Construction price inflation (COPI)

- 18.9 Construction inflation (as measured by the COPI index) has been running significantly above retail price inflation (RPI) over the period of Q4. We estimate that this trend will continue throughout the period of Q5 as prices for the construction industry continue to reflect the heightened activity in the South East in the build up to the 2012 Olympics, amongst other factors. In this regulatory submission, we have factored in an allowance for construction inflation to run on average 2% higher than RPI in Q5.
- 18.10 Independent forecasts of construction activity suggest the true rate of construction inflation over the Q5 period could be far higher than our estimates. By adopting such a conservative estimate for construction inflation we run the risk that it will not receive full compensation for capital expenditure in Q5. If construction inflation is higher than our forecast and we elect not to reduce the size of the capital programme accordingly then, ceteris paribus, Stansted will earn a lower rate of return than allowed under the regulatory settlement.

Rates

- 18.11 The rates forecasts assume that the current approach to assessing the airports' rateable value and consequent liability is maintained. In 2010, a national rating revaluation will take place and the airports' assessments will be renegotiated with the Valuation Office (VO). There is a risk that the VO will seek to change its approach to airport valuation, and more specifically the treatment of concession areas. Currently, these areas are included in the airport's assessment and valued on a 'contractors basis'. The VO has previously argued that they should be valued separately from the airport to create their own assessments.
- 18.12 In forecasting rates, the basic assumption is made that national policy in respect of calculating liability remains unchanged in that rate poundage is set centrally and the basic formula of Rateable Value x Rate Poundage is fixed. Sir Michael Lyons has recently concluded his review of Local Authority funding and has indicated that Local Authorities should be given the power to levy an additional amount to the basic poundage. The government has not yet responded to this point and we have no indication around timescales. For the regulatory submission we have ignored any impact.

Industrial relations

- 18.13 BAA recognises four trade unions (Transport & General Workers Union, AMICUS, PCS and Prospect) and the relationship between the company and these unions is an important determining factor in the pace of change in the company. BAA and the unions have experienced fraught relationships over recent years, illustrated by strike ballots and protracted negotiations over even minor issues. The unions have a reasonable degree of power due to the scale of union membership in BAA and the nature of this union membership.
- 18.14 BAA faces the threat of industrial action if we are unable to reach agreement with the unions on issues such as pay and terms and conditions of employment. This industrial action could

lead to airport closures resulting in delays and cancellations to passengers and airlines which would have significant knock-on effects to the UK economy. It is difficult to accurately estimate the cost of industrial action but it is likely to run into millions of pounds of lost revenue every day.

- 18.15 BAA has to be mindful of this threat of industrial action when negotiating on pay and conditions and weigh the benefits of potentially lower pay rates against the heightened risk of industrial action. Further information on BAA's approach to pay negotiations is available in BAA/Q5/184-1.

Changes to government policy

- 18.16 Due to the nature of BAA's business, as a major gateway to the UK and as a highly capital intensive business, BAA is highly susceptible to changes in government policy at both a national and local level. For example, if the government changes the planning system and the compensation schemes associated with development, BAA may face significantly higher development costs. Another example would be costs arising due to the Mayor of London's ambitions for carbon neutrality in new developments.
- 18.17 There are a number of government decisions even within the last year which will have a significant impact on BAA's business, including the doubling of APD (which was introduced from 1 February 2007), which has led to a reduction in the BAA traffic forecasts; and a significant heightening in the security regime at airports. These changes have been introduced with minimal consultation. Additional security costs may arise due to either new security directives or changes in the DfT's approach to how existing security directives should be implemented.
- 18.18 Hence BAA faces significant cost risks from changes in government policy which it has limited ability to influence.

Olympics 2012

- 18.19 There are a number of areas where BAA is likely to face cost pressures, for example, providing segregated facilities for the Olympics' family. This cost could escalate significantly if we have to provide segregated facilities at each of the BAA London airports. The Olympics will increase the threat of terrorism and hence is likely to lead to increases in security and police costs. The volume of passengers over condensed time periods will prove challenging to manage in constrained airports. This may require significant increases in staff levels for these time periods to help in managing peak flows or the building of temporary facilities.
- 18.20 There is an additional risk that we are required by government or the Olympics committee to contribute financially to the cost of the games as a sponsor. This money has not been forecast within the submission but should be included as a risk.

Pensions costs

- 18.21 A forecast for pension costs has been included in the regulatory submission. As part of this forecast, a number of assumptions have been made relating to life expectancy, staffing levels and performance of the stock market. There is a high degree of uncertainty

associated with these assumptions and hence a significant risk that pension costs may be different than forecast.

Failure to pay aircraft charges

18.22 In response to the aeronautical tariffs announced for 2008/09, which included increases reflecting ANS charging and recovery of security costs (proposed as S factor), Stansted has received correspondence from Ryanair suggesting they will withhold part payment of the charges. BAA has written to Ryanair stating that the conditions of use do not allow withholding of payment. Not recovering the full amount represents a risk to the business plan, estimated to be [E] per annum. This has not been provided for in this forecast.

Chapter 19 GSM Forecast

Table 19.1 GSM Financial Forecasts 2008/09 – 2018/19

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