

APPENDIX 5.1  
(referred to in paragraph 5.13)

### Incentive effects of system formula

1. For illustrative purposes only, Table 1 shows the effect of cutting charges to zero at an airport with elastic demand (Stansted) and a single cap on revenue yield at two airports (Heathrow and Stansted). The table assumes constant passenger numbers at Heathrow (for example, because of capacity constraints). Under these assumptions, charges at Heathrow could be increased not just to compensate for lost income at Stansted, but also to cover additional Stansted traffic multiplied by revenue yield. As illustrated in Table 1, cutting charges to zero would be profitable as long as marginal cost (net of marginal commercial revenue) at Stansted is less than allowable revenue yield.

TABLE 1 Effect of cutting charges at Stansted to zero under revenue yield formula

	<i>Charges</i> £/PAX*	<i>Cost</i> £/PAX*	<i>Traffic</i> mppa	<i>Revenue</i> £m	<i>Profit</i> £m
<i>Stansted charge equal to cost</i>					
Heathrow	4	3.5	50	200	25
Stansted	<u>3</u>	3	<u>4</u>	<u>12</u>	<u>0</u>
Total	3.926†		54	212	25
<i>Stansted charge at zero with increase in traffic</i>					
Heathrow	4.554	3.5	50	227.7	52.7
Stansted	<u>0</u>	3	<u>8</u>	<u>0.0</u>	<u>-24.0</u>
Total	3.926†		58	227.7	28.7

Source: MMC.

\*Passengers per year.

†Average revenue yield: revenue divided by total traffic.