

Specific services to which Transparency Undertakings apply

Introduction

1. This appendix provides further brief details of BAA's pricing of some of those specific services to which the transparency undertakings following the 1991 MMC report apply, the income and costs of which are shown in Table 8.6.

Electricity supply

2. The electricity price at Heathrow was previously based on profit centre report costings. In 1993 HAL sold its electrical distribution system to LES Ltd (LES). An undertaking was given to Heathrow AOC that no user would be disadvantaged by the sale. In order to ensure and demonstrate that this was the case, the pre-sale position (1992/93) was subsequently used as a base, and indexed forward for future years. The indexing applies to the capital charge and overheads, while the actuals are used for income, electricity costs and additional investment by LES. In 1994/95 an over-recovery was made against the forecast break-even position because of higher consumption than forecast; as a result, the medium voltage price has been reduced by 1 per cent and no increases were made to high voltage prices in 1995/96. Similarly, at Gatwick the electricity distribution system was sold to LES, with an undertaking to GAL's customers that they would be no worse off as a result: calculation of the unit price therefore excludes the use of system charges now payable by GAL to LES.

Staff car parks

3. Prices at HAL are set using profit centre reports as a base, adjusted to include an annuity in respect of the assets used to support the activity. The 1994/95 actuals show an under-recovery against a forecast break-even position, since the forecast for that year had not taken account of the provision of a crew bus from Northside. It had been proposed therefore to increase all pass prices by 7 per cent for the year 1995/96 to achieve forecast break-even. GAL reduced charges marginally to achieve break-even in 1995/96. The costs of both airports include a 6 per cent yield on land values.

Identity cards

4. Machine-readable identity cards at Heathrow are priced by means of a life-cycle model, the current cycle for which began in 1994/95 following the refurbishment of the identity unit and the purchasing of new video imaging equipment. The deferral of the major reissue programme led to significant under-recoveries in the last three years; consequently it is intended to begin a new life-cycle starting in 1995/96 for staff of the reissue programme.

Water and sewerage charges

5. HAL over-recovered by about £200,000 in this area in 1994/95. Based on the assumption of a 3 per cent increase in water consumption and a 9.6 per cent reduction in water costs in 1995/96, HAL reduced water prices from 1995/96 to achieve a break-even position.

Fixed electrical ground power

6. The charge per quarter hour at Heathrow was reduced by 3.5 per cent from 1 July 1994, and the policy is to continue to reduce prices over a period of time until a nil residual income is achieved.

Check-in desks

7. The methodology for calculating check-in desk rents at Heathrow is based on a three-part charge: first, by a site rental set at negotiated market rates; secondly, a maintenance recovery charge, based on estimates made by the terminal engineering departments, which after discussions with the airlines it was agreed would include recovery of a limited amount of overheads; and thirdly, an annuity charge to cover the amortized capital costs of the outward baggage handling facilities. The annuities differ for each terminal and are based on a ten-year life and Heathrow's risk-free post-tax discount rate, currently at 9.25 per cent. Leases are normally for a two- to three-year period and are negotiated on an individual contract basis. GAL negotiates check-in desk charges with each of the individual handling agents, and there is not a standard charge for the facilities: income at the South Terminal is primarily turnover-related, but at the North Terminal is mainly unrelated to turnover.

Other desk licences

8. At Heathrow these include airline departures, arrivals, transfer and ticket desks, together with desks for non-airline organizations such as British Rail. They are priced in a similar way to check-in desks, in so far as they contain sight rental and maintenance recovery allowance.

Airside licences

9. This income relates to the sale of licences to trade airside. Licence income is usually set at 6 per cent of a trader's turnover. The principle sources of revenue are in-flight catering and aircraft cleaning, which together account for about 96 per cent of HAL's income from airside licences and 98 per cent of GAL's income from this source. Remaining income at GAL is generated by a 6 per cent turnover levy on crew transportation and a fixed charge on security companies.

Boilerhouses/heating

10. Heating from the major boilerhouses at Heathrow is generally charged at a rental per square foot, but some is charged at a unit price per therm. Rates vary from contract to contract, but each contains provision for a supplement charge or credit based on the results for each calendar year to compensate for any over- or under-recovery. Of the particular boilerhouses, Boilerhouse 523 serves the cargo area and prices are governed by individual long-term contracts negotiated with each tenant, based on the estimated cost to each using a gas alternative. The charge for heating from the Terminal 4 boilerhouse was set at £1.20 per square foot in 1986 and has not changed since. With the exception of Terminal 4, profit centre report trading statements are used as the basis of calculating heating repayment/supplements. At Gatwick, heating and ventilation charges are calculated annually in arrears; until actual costs are known, the previous year's prices are charged and then supplementary invoices are raised to reflect actual costs.

Bus and coach services

11. The cost statements include an annuity in respect of capital and, at Heathrow, the yield on land. Public bus services at Heathrow significantly under-recover due to lower than forecast income and also because of the policy of not charging for local bus services, but these services would still under-recover even if an adjustment were made for 'notional income' on local buses. Charter coach operations are still some way from reaching full cost recovery. The unit charge at Gatwick seeks to recover the cost of capital investment and of providing dedicated staff: unlike Heathrow, there is an annual charge for local bus services at Gatwick.