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Civil Aviation Authority
Westferry Circus
Canary Wharf

Sent by email to: economicregulation@caa.co.uk

March 28th, 2024

Aer Lingus response to CAP2618
Setting future price controls – review of approach

Dear Stewart,

This document presents Aer Lingus' response to the recent review conducted by the Civil Aviation Authority (CAA) concerning the methodology for establishing future price controls for Heathrow Airport Limited (HAL) and NATS (En Route) plc (NERL), as well as insights gleaned from the recent H7 and NR23 price control reviews.

We appreciate the CAA's initiative in conducting this review, prompted by the Department for Transport's (DfT) 2023 Newman review recommendation to evaluate aspects of economic regulation processes.

We have reviewed the correspondence from our partner airline, British Airways, regarding this matter and fully endorse their arguments and recommendations.

Aer Lingus echoes the concerns raised by British Airways regarding the current framework's unintended consequences, including HAL's position as the world's most expensive airport without a corresponding level of service, HAL's accumulation of £1.6 billion in excess returns beyond its allowable limits over the past decade, which effectively transfers wealth from consumers to HAL shareholders, and the premium at which Ferrovial sold its HAL stake, indicating an anticipation of continued excess returns. Additionally, HAL's inefficiency relative to other European hubs is noted.

In alignment with British Airways' proposals, Aer Lingus supports targeted enhancements to the framework, focusing on:

- Refining the price control process and governance to ensure transparency and meaningful user consultation, including a thorough review of the Constructive Engagement process.
- Strengthening the CAA's proactive monitoring and enforcement, with earlier and more substantive involvement by the regulator throughout the price determination and implementation phases, necessitating enhanced resources to meet the proposed timelines effectively.
- Targeted revisions to the estimation of key cost components driving charge levels, such as the Regulatory Asset Base (RAB), Weighted Average Cost of Capital (WACC), incentives, operating expenses (opex), and commercial revenues. Given that HAL's charges are heavily influenced by its RAB, the CAA should prioritize evaluating its size and growth trajectory.

We would be happy to discuss any of the views laid out in this letter if that would be helpful.

Yours sincerely,



Marta Drozd
Airports Commercial Manager