Richard Lee
General Manager
Pandox UK OpCo Ltd
Hilton Garden Inn Heathrow
Eastern Perimeter Road
Hatton Cross
Hounslow
TW6 2SQ

20th March 2024

RE: Response to CAP 2618, Setting Future Price Controls, Review of Approach

To whom it may concern:

I write on belhalf of Pandox UK OpCo Ltd, the owner and operator of Hilton Garden Inn London Heathrow Airport. The hotel is a non-airline ORC user as the electricity and waste water services are provided by Heathrow Airport Limited.

Pandox also own the Hilton Heathrow Terminal 4 which is operated by Hilton Worldwide on a long term leasehold basis. This asset is also an ORC user for waste water although it is Hilton Worldwides responsibility to respond to the review for this property.

Summary

We note that the CAA is consulting on how it should set future price controls with respect to Heathrow Airport Limited (HAL). Pandox has little direct interest in how the CAA sets charges for airlines, save where its approach directly impacts Pandox. As such, we have not answered each of the questions set by the CAA. The points we wish to make are as follows:

- Insufficient regulation of ORCs
- Not enough engagement with non-airlines ORC users
- No consideration of Fixed Costs calculations
- Delays to H7 decision

The CAA should treat our response to the question on ORCs included in paragraph 2.55 albeit that we have taken the opportunity to make a number of wider points.

Insufficient regulation of ORCs

As the CAA will be aware, there are a number of stakeholders at Heathrow who are compelled to take ORC services from HAL. The CAA has confirmed that HAL has a position of market dominance. However, despite the fact that ORCs are called “regulated charges”, and previously were called specified activities, there seems to be no appetite on the part of the CAA to regulate these charges properly. The function of the single till means that increased revenues from ORCs leads to lower charges for airlines. We do not believe that the CAA should ignore the presence of non-airlines when setting airport charges. The lesson of H7, and the repeated requests by Pandox (and others) for the

CAA to regulate ORCs fell on deaf ears. We have little confidence that the CAA is preparing to take a more direct interest as it considers setting the H8 price control.

Engagement with non airline ORC users

Other than the regular consultations issued by the CAA, there was, as far as we were aware, no engagement by HAL with the non-airline ORC users. We believe that constructive engagement did engage the airlines over the forecast of ORCs. However, that insight was not extended to non airlines. As such, our interests were not factored into the H7 decision. This is to be regretted. We hope that the CAA will ensure that HAL is required to involve non airlines in its setting of ORCs for H8.

No consideration of ORC fixed costs

It appears to us that there was no direct examination by the CAA over the fixed costs (including annuities) that are included in HAL's calculations with respect to ORCs. Indeed, it is clear in the report by CEPA / Tailor Airey that electricity costs, that impact directly on Pandox, were not reviewed at all by CEPA / Tailor Airey[1] or the CAA. This is simply unacceptable. It is due to the high, unexplained cost of electricity supplied by HAL that Hilton T4 has already bypassed the HAL electricity system and Pandox is exploring a further bypass at Hilton Garden Inn. The cost inefficiency that duplication of networks leads to amounts to a failure of regulation by the CAA.

The CAA will be aware that we have continually asked HAL to provide more transparency over the direct costs, including annuities, underpinning the ORC calculations. HAL has, after many requests, given one page explaining the fixed costs and annuities underpinning the calculation of ORCs. We were surprised to learn that ORCs are based on a calculation arising in 2013, which has not been revisiting by the CAA in either Q6 or H7. We have repeatedly asked HAL to explain these costs in numerical terms based on generally accepted accounting principles, but this has not been forthcoming. This demonstrates the lack of investigation by the CAA into the calculation of ORCs.

Delays to H7 decision

The interaction of HAL and the CAA has led to HAL's ORC proposals resulting in an under recovery that will negatively impact Pandox for the remainder of H7.

As a result of the delays in the setting of H7, HAL was forced to set ORCs without final knowledge of the H7 methodology. As a result, it chose to remove the fixed costs from ORC calculations as set out in their draft proposals. The CAA subsequently concluded that this was not an appropriate allocation of costs and made an assumption that £18m a year was to be recovered from non-airlines, including recovering costs allocated by HAL to airlines in 2022 and 2023. This has led to a significant increase in ORC charges for non-airlines in the remained of H7. Despite many requests, we still have no insight as to how this figure of £18m has been calculated or whether it has been assessed by the CAA.

The independent review

The CAA asks for views on the proposed independent review. Pandox is broadly supportive of such a review. However, the CAA must ensure that there is an appropriate level of transparency provided by HAL. This will require attendance by the CAA at any relevant meetings and clarity as to what the CAA expects from HAL. We were heartened that the CAA confirmed in our December 2023 meeting that the review will cover not just the allocation of fixed costs, but also the calculation of level of

[1] Paragraph 7.1.3 of CAP2366I

fixed costs. We trust that the CAA will ensure that this policy objective is delivered as we proceed through the independent review.

As always, we are happy to provide more information if that would be useful to the CAA.

Yours Sincerely,

Richard Lee
General Manager
Hilton Garden Inn London Heathrow Airport
For and on behalf of Pandox UK OpCo Ltd