



CONFIDENTIAL

Response for BAA Limited
Putback to Ryanair Hearing

BAA/CC2008/1119

BAA Limited
August 2008

BAA's Response:

1. This document provides BAA's response to the Commission on the points made by Ryanair based on the summary of the hearing held on 11 June 2008.
2. The concern put to the Commission by Ryanair is presented in italics alongside a paragraph reference from the Commission's summaries of the hearing.

Even if BAA increased its prices to £12.50 at Stansted, Ryanair would have no choice but to pay it, as it had paid the increase in charges in 2007 [5].

3. First, the figure £12.50 referred to by Ryanair appears to come from initial analysis undertaken by the CAA thus far in the quinquennial review. This figure needs to be put into context. Out of the 6 options included in the CAA reference document, £12.50 is an indicative figure, at the upper end of the range identified in 2 out of the 6 options put forward by the CAA; the Market-led Price Cap and the Precautionary Price Cap.
4. Secondly, in the event that £12.50 was the price set at Stansted for Q5, it would have been set subject to regulatory oversight by both the CAA and CC.
5. Third, as is well documented, the price rise in 2007 followed 4 years of heavily discounted charges to which Ryanair benefited.

Ryanair's long-term strategy for Stansted would be to build a new runway and terminal there for around £500 million, either funding this itself or guaranteeing to deliver another 20 million passengers. It had offered these terms to BAA. [5]

6. There are two fundamental issues that need to be addressed in the above statement. Firstly Ryanair, despite repeated public announcements concerning their £500m scheme have singularly failed to demonstrate any evidence to either BAA, CAA or the CC's own consultants ASA, that a scheme actually exists for a new runway and terminal that would successfully achieve planning approval and be delivered for £500m.
7. BAA is therefore surprised at the extent to which the CC have placed weight on the testimony of Ryanair on this issue, whilst showing little interest in scrutinising the validity or even existence of the Ryanair scheme.
8. It is illuminating to contrast this position and the status of BAA's own proposals. Following scrutiny by their own consultants, the CC is now aware that:

- BAA's decision on its preferred option took into consideration the required regional and local planning policies, the need to present a proposal of adequate design quality, the need to accommodate all expansion including associated services 'on-airport', with sustainability in mind;
 - BAA made the correct decision in preferring its Option A layout; and
 - Option A in segregated mode is the least cost option.
9. The CC's consultants, ASA, also highlighted the ACC's preferred development option (Option D) was outperformed by BAA's option in the following key categories:
- Operational performance in terms of taxiing times;
 - Potential delay performance;
 - Relative noise exposure;
 - Overall capital cost; and
 - Passenger experience.
10. Secondly, and as BAA have stated on a number of occasions, BAA has no correspondence from Ryanair relating to an offer to build the runway and terminal.
11. The only documentation that exists is a note of a meeting between Mike Clasper and Michael O'Leary that penned by the Ryanair Chief Executive and not circulated to BAA. Mike Clasper has subsequently refuted that the offer was made at this meeting.

BAA had been skilful at playing the regulatory regime to date, having benefited from a regulator which would rubber-stamp whatever they wanted to build. [8]

12. The Commission is fully aware that all BAA investment is subject to ex-ante and ex-post regulatory scrutiny and indeed the Commission's own views on these issues are key inputs into the determination of what is allowed to enter the Regulatory Asset Base. To meet the criteria established by the CAA, BAA has to demonstrate that its investments have been delivered efficiently and that it has consulted effectively.
13. The CAA will also take into consideration the level of airline support for investment proposals in established the level of future prices. In the main, BAA has been able to successfully meet these tests, although expenditure of £25m on the PRT scheme at Heathrow was disallowed from the Q5 RAB. The Commission will also be fully aware that to date BAA has not received regulatory support or remuneration via airport charges for the expenditure it has made to date in developing the SG2 project.

Ryanair had designed a modular terminal at Stansted and Dublin. The Dublin terminal was costed at €140 million for a capacity of 25 million, and might be built at

Stansted for £150 million to £200 million. It was fully specified and complete. Ryanair was not discussing this with BAA, though it would expect to do so in a normal commercial environment. [9]

14. As stated above, to date BAA has not seen any evidence supporting Ryanair's claims.

15. BAA does however find it curious that Ryanair would have withheld the work they have done to date from discussions with BAA, given the obvious benefit knowledge would have brought to the development of BAA's options or the scrutiny of the SG2 proposals recently undertaken by the Commission's own consultants, ASA.

If Ryanair funded the construction of a second terminal and runway at Stansted, it could either own and operate the terminal, or it could recoup its outlay through discounted charges. It agreed to provide the CC a summary of the models it used for financing terminal construction [11]

16. BAA would be interested in any submission provided to the CC from Ryanair on this basis.

The tracked transit system should be closed down as quickly as possible. It cost around £1 million/week. [22]

17. This statement is simply not true. BAA is extremely pleased to observe that on this issue the Commission took steps to verify the claims being made by Ryanair and as the Commission themselves observed:

- The costs of the TTS are much nearer to £1 million per annum, rather than the £50 million per annum claimed by Ryanair;
- The cost of continuing to run the TTS to Satellites 1 and 2 appears to be of a similar magnitude to the alternative of transferring passengers by bus to Satellite 1; and
- Overall, given that the existing capital costs of the TTS are sunk, there does not appear to be an economic argument for closing it down and replacing it with either buses or fixed walkways.

18. BAA would encourage the Commission to take similar steps to interrogate other allegations and claims made by Ryanair in order to ascertain the truth.