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Dear John

Review of economic regulation of airports

We are most grateful for the interest which you have shown in the review process to date.

We recognise the importance of ensuring that airport operators are able to finance themselves and you will see from the consultation document published today that we have included a package of measures designed to promote financial and operational resilience of operators.

Key features set out in the document include:

A more flexible and targeted process for setting price controls, in line with other regulated sectors which gives the CAA greater freedom to decide details of the price control but with the CC as an appellate body (chapters 7 and 8).

A more familiar and transparent financial framework including a clear duty on the regulator to ensure that airports can finance their licensed activities, complimented by licence conditions including financial ring-fencing of the regulated business and an obligation on the licensee to maintain an investment grade credit rating (chapters 6 and 9).

We are also seeking views on the relative merits of introducing a Special Administration regime for certain major airports (chapter 9).

The precise terms of the Special Administration and ring fencing regimes and the timetable and process for the implementation of such regimes, if endorsed following consultation, have not yet been finalised but we would intend to build on the positive features in sectors where these are tried and tested .


The terms of the initial licences will be subject to a further specific consultation.

For the avoidance of doubt, the consultation document does not propose that the introduction of the new licence-based regime for economic regulation in the airports sector would terminate, revoke, suspend or modify the existing permissions to levy airport charges at Heathrow and Gatwick airports or the basis on which the current price caps at Heathrow

and Gatwick airports are set, including the price cap which will be applicable at Stansted airport with effect from 1 April 2009.

We are very keen to hear the views of investors in the industry in relation to these issues and hope that you will respond to the consultation in respect of both the principles and implementation. Please contact me if you would like to discuss further.

Yours sincerely,

A handwritten signature in blue ink that reads "Kate Mingay". The signature is written in a cursive, flowing style.

Kate Mingay
Director of Corporate Finance