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23rd May 2024

Response to CAA Outcome Based Regulation (“OBR”) Mid-Term Review Consultation

Further to the consultation letter¹ setting out the CAA’s intended approach to the OBR Mid-Term review at Heathrow Airport, the airline community at Heathrow, as represented by the London (Heathrow) Airline Consultative Committee (LACC) and Heathrow Airline Operators Committee (AOC), collectively the “Airline Community”, welcome the opportunity to provide the CAA with comments on the questions raised within.

Please note, individual airlines, groups and alliances may make their own submissions detailing their specific views on the CAA’s proposals.

Overview

This response is designed to provide feedback to the CAA on four key areas for consideration that the Airline Community suggest requiring attention as part of the Mid-term review:

- The importance of a financial penalty on Baggage performance
- Movement to daily performance targets
- Appropriateness of service level bonuses. Calibration needed re Security alleviation example
- CAA greater role / engagement including on auditing

On the 9th May 2024, Thomas Woldbye, HAL CEO, and his team gave a comprehensive presentation to ‘Team Heathrow’ leaders on the airport authority’s new strategy. Significantly, the airline community were made aware that HAL had chosen to retain its title objective of ‘Making every journey better’. This is essentially HAL’s pledge to its customers that it will continuously improve. Whether the CAA agrees with this marketing slogan is somewhat superfluous, what is important however, is that HAL openly declares it will improve each and every journey.

Of course, whether HAL will be able to deliver on its promise is subject to the degree to which HAL deploys its resources allocated to it as part of the 5-year regulatory settlement. Regardless, consumers shouldn’t expect their journeys to be made any more expensive than they already are just so that HAL can meet its consumer promise. With the H7 settlement agreed, and HAL choosing to

¹ CAA (David Milford) Letter to Stakeholders, re “Outcome Based Regulation Mid-Term Review scope consultation”, dated 25th April 2024 (the “Consultation”)

maintain its commitment to improvement, we expect the CAA to both monitor HAL's ability to meet its marketing claim but also to set increasingly challenging targets to ensure that it does.

We would expect that performance targets are appropriately set and tightened before service level rebates apply. We continue to support the setting of outcomes that are measurable and measurement techniques which disincentivise service quality failures. Service level targets should equally reflect the delivery of capital projects with expected improvements in service. For instance, as capital is spent on facilities for customer comfort, the targets for the respective OBR measure should be adjusted. This is not currently the case for the Security Programme, Terminal 2 Baggage, any of the customer facility improvements or the airfield improvements. Improvements in service levels should be reflected in the OBR targets in the mid-term review and in H8.

Questions as set out in Appendix B of the Consultation

1. What do you consider would be an appropriate definition for a measure of Heathrow's carbon footprint? Please provide supporting evidence for this definition.

We would ask what the CAA is aiming to achieve with this measure? Clearly having an agreed method and tracking progress of both HAL and Heathrow to net-zero is important, but this also links with wider legislative and legal requirements to which HAL already report on.

The OBR objectives and measures should focus on HAL's operation of the airport for the benefit of the consumer. As per our response in CAP2618, the CAA need to be mindful of who / what it is seeking to regulate and the potential for unintended consequences.

2. In light of recent performance levels, what do you consider would be an appropriate target for:

(a) & (b) the airport departures and arrivals management measure

HAL have been reporting on the Airport Arrivals and Departures management measure since May 2023.

The number of minutes measured in the Airport Arrivals management measure (Average time taken (across all arriving passenger flights) between the wheels of aircraft touching down on a runway and roll-retarding chocks being placed against the aircraft wheels, after the aircraft's brakes have been applied on stands) has been stable across all the months measured at between 8.0 and 9.0 minutes.

The number of minutes measured in the Airport Departures management measure (Average time taken (across all departing passenger flights) between the Actual Start Request Time and the Actual Take-Off Time of an aircraft) has also been relatively stable across all the months measured at between 23.0 and 28.0 minutes.



2023 Data	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Arrivals Management time (mins)	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Departures management time (mins)	27.0	27.0	28.0	27.0	27.0	27.0	25.0	25.0

2024 Data	Jan	Feb	Mar
Arrivals Management time (mins)	8.0	8.0	8.0
Departures management time (mins)	23.0	24.0	25.0

In terms of an appropriate target for these measures the airline community believes that a target of 7.0 minutes for the Airport Arrivals Management measure and 24.0 minutes for the Airport Departures Management measure would be appropriate level for these measures. These targets will provide a stretch target for HAL, which should be achievable if the airports runways are managed effectively.

The airline community further recommend that this measure continues to be reported across H7 as a Reputational Measure and that during the H8 process, agreement is reached on whether this measure is included as a performance target under the Financial Measures or to continue as a Reputational Measure.

(c) the “an airport that meets my needs” measure

As stated before in our response to the Initial and Final Proposals the “Airport that meets my Needs” measure along with the “Overall satisfaction”, “Customer effort (ease)”, “Enjoy my time at the airport”, “Airport that meets my needs”, “Feel safe and secure” and “Helpfulness /attitude of airport staff” should be summarised with a Net Promoter Score (NPS) measure.

We would repeat our previous statement:

NPS is a common measure across industry types to understand overall customer satisfaction. This should be the ‘Hero’ measure, the North Star that is the overall outcome Heathrow’s Leadership Team should be aiming to improve. It is important to ask this question once customers have been able to experience the full extent of Heathrow’s services but this score helps to bring together all the touchpoints and elements of the customer journey into one simple question. Not only that, we feel that NPS is a great tool to be able to monitor and benchmark Heathrow against other airports and service providers.



At least 2 of Heathrow's closest comparable airports use NPS as a measure for customer satisfaction at Gatwick and Schiphol:

Measure:

On a scale of 0 – 10, how likely are you to recommend Heathrow to a friend or relative?

Airline suggested target: 40 pts

3. Do you consider there are any specific issues arising from the application of the new measures and targets that are important to address in this mid-term review? If so, please provide details of the issue and why it should be addressed as part of this mid-term review.

Issue of MTI Exclusions on the Next Generation Security Project:

The Next Generation Security project is a large infrastructure project that will replace all the existing X-ray machines used in security at LHR. Under Appendix 3 – Exclusions of HAL's Licence, the airline community are obliged to grant exclusion from measurement for A3.2(l) "equipment or stands taken out of service whilst a major investment project is undertaken in the vicinity".

This has resulted in a large number of days each month being excluded from calculations of security performance. The consumer will be experiencing significant queuing on these excluded days, however, as the Licence is currently constructed a bonus payment has been made in each of the months that exclusions have applied as only the non-excluded days have been reported on. We do not believe it is fair for the consumer to pay additional fees for a "bonus" level of performance when the true performance has not met those levels. We would ask the CAA to address this issue as a matter of urgency in the OBR mid-term review.

Service level bonus and security Bonus targets

As a general principle, we disagree with the principle of HAL awarding itself a bonus for maintaining service levels that are to be expected from an airport infrastructure provider, and the perverse effects this is generating. For the 2024 charges, HAL awarded itself a service level bonus of £0.11 per passenger for year 2022 (totalling almost £9 million) despite significant disruption at Heathrow after the pandemic owing to HAL's lack of resourcing of critical functions. We ask for the perverse incentives of this bonus to be addressed in the mid-term review and to be removed for H8.

A prime example of HAL's ability to reap the benefits of the bonus structure is with security. In our response to Final Proposals the Airline Community completely disagreed with the CAA's approach to setting bonus targets for H7 for Security Queue Time Central Search and Transfer Search, 5- and 10-minute standards.

The CAA set the below targets:

Heathrow Airport Limited Licence granted under the Civil Aviation Act 2012

Table 6b: Bonus calculation from May 2023 onwards

bm	Bonus measure	Metric	Additional condition	Time of day to measure performance	Lower bonus threshold LBT _{bm}	Upper bonus threshold UBT _{bm}	Maximum bonus MB _{bm}	Monthly bonus = MB _{bm} ÷ 12
F1	Cleanliness	Moving annual average QSM scores weighted by monthly passenger numbers		Unrestricted	4.35	4.65	0.36%	0.0300%
F2	Wayfinding	Moving annual average QSM scores weighted by monthly passenger numbers		Unrestricted	4.40	4.70	0.36%	0.0300%
F5a	Security queue time – Central search	Percentage of queue times measured once every 15 minutes that are less than 5 minutes	Targets for Helpfulness / attitude of security staff must be met in the same month	05:00 to 22:30	97%	99%	0.54%	0.0450%
F6	Security queue time – Transfer search	Percentage of queue times measured once every 15 minutes that are less than 10 minutes		05:00 to 22:30	97%	99%	0.18%	0.0150%

The standards of between 97% and 99% for both 5- and 10-minute performance at Central Search and Transfer Search are simply not sufficient to stretch HAL, do not represent exceptional performance and should not be set as the bonus standard for H7. As could be seen from the CAA’s commissioned Arcadis reports, HAL met or exceeded these standards across the whole of Q6. In our response we stated that the bonus standards would result in the consumer paying bonuses to HAL across H7 for standards of service that were no better than that experienced in Q6.

We note that HAL has achieved bonus payments of £2.2m in 2023 and £1.9m up to March in 2024. Since August 2023 HAL has exceeded the set targets in every month. This is as the airlines forecasted in our Final Proposals response. These targets do not stretch HAL and are producing perverse incentives. As stated in our Final Proposal’s response we would recommend the below targets be used as a bonus target for H7.

- Central Search: set a target in the month of zero days in the month when the queue time is more than 5 minutes for more than 2 x 15-minute periods in the day.
- Transfer Search: set a target in the month of zero days in the month when the queue time is more than 5 minutes for more than 2 x 15-minute periods in the day.

Clarity of Measurements reported on:

We are unclear as to what is being reported on in a number of the new measures, specifically:

- The Availability of Check-in Infrastructure- What items are being measured precisely (we have not seen a list), what criteria is used to decide whether an item is available or not, and how is this reported on and tracked?
- Airport Departures Management, Airport Arrivals Management measures – again how are these measures reported and tracked, what database is used, are any exclusions made, if so why?



- Timely Delivery from Departures Baggage System – We are not clear on what definitions HAL are using to decide whether a bag is part of this measurement or whether it is excluded and precisely what measurements are used to calculate the % delivered on time performance each month in each terminal.

We would request that the CAA conduct an annual audit of all measures so that full clarity is given as to what and how a measure is being taken by HAL and there is reassurance that measures are being reported correctly.

Timely delivery from the departing baggage system:

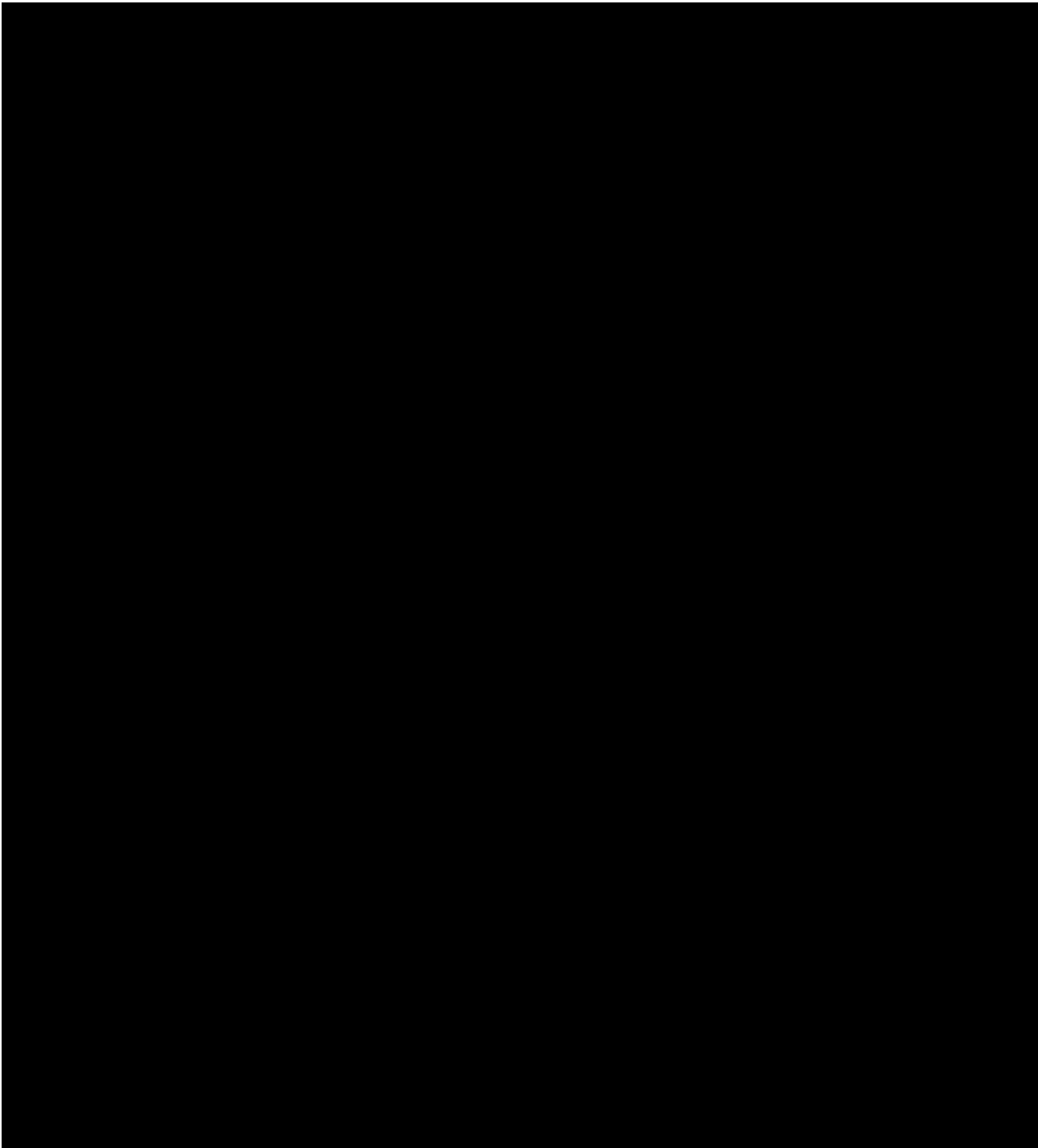
It is categorically in the consumer’s interest that HAL should be financially incentivised for ‘Timely Delivery from Departing Baggage System’.

[REDACTED]

[REDACTED]

HAL need to be held accountable by the OBR scheme for delivering bags to the airlines’ baggage handlers in time for passengers to travel with their bags. [REDACTED]

[REDACTED]



[Redacted]

[Redacted]

[Redacted]

Baggage Conclusion:

The above analysis has shown that although the significant majority of passengers travel with their bags there are still a considerable number of passengers who do not travel with their bags and as such it should be in the consumers’ interest to provide a financial incentive for HAL to improve this performance area.

The CAA states that the distinction between reputational and financial incentives should be made based on “the degree of control that HAL is likely to have over specific aspects of service quality”. If we reasonably allow for defined exceptions, the in-system performance for the vast majority of bags is totally within HAL’s control. Non-timely delivery from the system directly causes a negative consumer outcome.

The below table lists the performance delivered by HAL since MTI measurement began in May 2023.

Performance varies by terminal and by month, with the worst performance being recorded in the peak month of July 2023. Since recording began no terminal has fallen below 98.1%.

[Redacted content]

2023 Data	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Baggage system delivery (%) (lowest and highest percentage terminal performance listed for each month)	98.9%	98.5%	98.1%	98.2%	98.8%	98.9%	98.6%	98.3%
(Measure = % of bags delivered to make up area >30mins before the intended flight departure)	99.3%	99.1%	99.2%	99.2%	99.2%	99.5%	99.4%	99.3%

2024 data	Jan	Feb	Mar
Baggage system delivery (%) (lowest and highest percentage terminal performance listed for each month)	98.7%	99.1%	99.1%
	99.4%	99.5%	99.4%



(measure =% of bags delivered to make up area >30mins before the intended flight departure)			
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The airline community are convinced that HAL should be held financially accountable for the part it plays in ensuring passengers depart with their bags and that the measure should change from being reputational only to financial as part of the interim review. In order to make this happen and to ensure the total figure in scope and at risk across all OBR measures does not change, the airline community proposes to amend the hygiene testing measure to become reputational and switching the financial element to departing baggage performance instead. Now that we have left Covid-19 practice behind us, this measure has less importance, is clearly a simple hygiene factor and less relevant than it was when measures were initially developed. However, with more people flying than both HAL and the CAA forecast through H7, greater numbers of passengers are at risk of poor baggage system performance and should be protected accordingly.

We also point out that although HAL initially engaged reasonably with the airline community as the measure was being discussed originally (for example to consider the mechanics of how exceptions MIGHT be excluded), we have no insight as to how the measure has actually been implemented or is now being calculated. We ask the CAA to note this and we will reach out to HAL directly.

4. Do you consider there are any explicit changes required for new investment projects that should be addressed as part of this mid-term review? If so, please provide details and indicate whether these have been agreed by HAL and airlines?

Given the delivery of H7 projects will only just be coming through, this question is more relevant to those projects delivered in Q6. It is important for the CAA to understand what has been delivered since it calibrated the OBR targets, noting most will be addressing asset management projects. We would suggest that the CAA undertake an audit on G8s over the past few years (benefit realisation on recent projects) and consider the outputs of relevant investments.

As set out in CAP2618, this is a key area seeking greater improvements on, particularly in relation to continuous improvement. The CAA should consider how investment and benefit realisations feed into future setting of targets.

We would note that we recognise a difference between the incentives set out in Delivery Obligations – delivering to Output / Quality / Time vs on-going performance as measured under OBR. It is important to keep that cognizant but not mutually exclusive.

5. How do you consider we should address the likely consumer benefits of moving to a more granular measurement of security and control post queues, bearing in mind the importance of maintaining consistency with our Final Decision?

Assess whether moving to daily performance measures is beneficial to the consumer

In our response to the Final Proposals, we stated it would be beneficial to all consumers using LHR if the CAA were to introduce daily performance targets – in particular for queues at Security and Control Posts.

To understand whether demand is driving security (and Control Post) performance, and therefore answer the question as to whether moving to a daily performance standard would drive an increase in Op Ex (as HAL argue) – or whether improved performance could be achieved at no extra cost by moving to a daily standard - we need to analyse the data that is available.

If we find that security and Control Post performance varies at the daily level when the same levels of demand are placed on the system, then performance variations are not being driven by external factors. We can therefore be confident that introducing a daily standard would incentivise the management team to produce a more consistent daily performance, at the same cost as today and to the overall benefit of consumers.

Summary of evidence to date:

HAL provided 2019 security performance data at the daily level – so eg; for T5 CSA we were given the number of 5-minute queue performance breaches and the number of 10-minute queue performance breaches on each day of 2019. From the BA data we also had the number of passengers entering T5 CSA in each hour for each day for 2019.

The consultants ICF reported on their work with time series decomposition to investigate the correlations between the SQRB breaches and the number of passengers going through security. ICF showed that they had found no significant correlation between SQRB breaches and the number of passengers going through security. We then outlined how we should be analysing demand and SQRB performance at the 15-minute level to completely understand whether there is a correlation and we highlighted how this should be explored further as we conservatively estimated moving to daily performance targets could benefit ~ 600,000 consumers per year.

When the airline community requested that data from HAL, we were told by HAL that:

"At an overall level, the level of detail you are requesting is much more granular than we have ever provided to the Airline Community and includes a lot of detailed assumptions on issues such as resource planning. Many of these issues are our responsibility to manage within the bounds of service quality requirements and cost envelopes set by the CAA. Given this, we do not think it would be appropriate to share this level of detail."

On receipt of the lower level data, we are confident ICF can provide a revised report rapidly – which should then fully answer the question as to whether moving to a daily performance standard will require an increase in Op Ex and how many consumers are likely to experience improved levels of service.



In light of HAL's response we are requesting that the CAA instruct HAL to provide the below data within a CAA specified timeframe so that we can move forward on this issue in time to properly review it within the timeframes of the mid-term review. (Note we are not requesting HAL provide *any detailed assumptions on issues such as resource planning*).

The list of the data required is as below:

Data required:

For the whole of 2019 and 2023:

For each terminal (central search, staff search, transfer search),

At a 15-minute level:

No. of trays per passenger, No. of trays, No. of images per passenger, No. of lanes open, No. of security staff, No. of passengers, No. of trays in check lane, Average queue time, ATP gate data to show the exact time each passenger passes through the ATP gate (anonymised)

For each control post

At a 15-minute level:

No. of trays per person, No. of trays, No. of images per person, No. of lanes open, No. of security staff, No. of people, No. of vehicles, No. of trays in check lane, Average queue time, Actual queue time for each vehicle (anonymised).

Measurement of security performance

The prospect of finally being able to implement a robust method of security queue measurement is referred to at various locations within the CAA's documentation (e.g. CAP2274, 1.11; CAP2265D, 14.28; CAP2265D, 14.56). The airlines still feel strongly about this matter and our position is summarised as follows:

The requirement to provide an automated system for per passenger queue measurement was an obligation within the Q6 licence. With reluctance, the airline community agreed that the original implementation 2015 date could be pushed back. The combination of perceived difficulties in finding an appropriate solution and HAL's clear reluctance to implement such a solution made delays inevitable.

Every passenger matters, so it is essential that the queue time for each passenger is measured. This is as true now as it was back in 2013 when the Q6 licence obligation was conceived.

Technology is now in place in limited locations at LHR to monitor passenger queues; we therefore know that it is easily possible for HAL to meet this obligation, given appropriate investment and an operational programme.



Security Compliance/Transformation is the largest capital project in H7. It is essential that all parties fully understand all aspects of the current performance of HAL's security operations and to be able to compare this to the performance during and after this huge change programme.

Although HAL has made some progress with the project which will implement the technology, this progress has been unreasonably slow and we still don't know the schedule for delivery across the various security search locations. It is concerning that both HAL and the CAA appear to be proposing that the implementation of queue measurement technology should not take place until after the change programme is complete. With every month that goes by, this would mean another unreasonable delay in implementing the technology, with the security experience of millions of individual passengers not being fully measured over this period.

HAL's initial survey work has shown that implementation of the technology in some locations can easily be accommodated alongside the security infrastructure works. In these locations, implementation should commence immediately. For those locations where this is not possible, HAL must plan to deliver those works as soon as practically possible.

Harmonised queue standards for Security Queue Time - Transfer Search

We would also note that, as per our previous responses, the Airline Community believes it would be best in the best interests of consumers if the queue standards for Central Search and Transfer are harmonised. For the Q6 licence obligation (as referred to above), it was agreed that harmonisation of these standards should coincide with the implementation of automated queue measurement.

We believe this continues to be a sensible approach and propose that this harmonisation standard should be re-instigated alongside automated queue measurement as a key part of the H7 licence during the Mid-Term review.

6. Do you consider there is any evidence yet to suggest that changes to reflect the impact of the security transformation programme or new queue measurement systems should be considered as part of this mid-term review?

The Queue measuring project is only just rolling out but it is important for CAA to be across this with a view to implementing any required changes to security queue measurement in full in H8 when it should be in place. I

Furthermore, the security programmes new equipment should be in place for H8 and will have real data, including on flow-rates for consideration in H8. The "transformational" elements of the security programme are currently unclear, but we would request that the CAA require HAL to share information on this part of the programme with the CAA and airlines as soon as it is available.

7. Do you consider that there is scope for relatively rapid agreement between HAL and airlines on an alternative way to apply asset availability targets? If so, please outline the agreed way this could be applied.

The airlines are comfortable with the current methods of applying asset availability targets (with the qualifier that we need more clarity and auditing of how such measures are calculated and reported). We do not currently see any requirement to investigate alternative ways to apply these targets.

8. Do you consider that recent performance levels do or do not support an increase in:

We note the HAL has delivered the below performance to date in H7 on WIFI performance, check in infrastructure and PCA Availability: (note each month lists the lowest score by Terminal and the highest score by terminal).

2023 Data	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
WIFI Performance (moving Annual Average)	4.11- 4.22	4.11- 4.22	4.17- 4.23	4.12- 4.25	4.16- 4.26	4.13 -4.27	4.15- 4.26	4.15- 4.26
Check in Infrastructure availability (%)	98.7- 98.99	98.2- 98.9	98.5- 99.1	98.6- 99.3	98.6- 98.7	98.4- 98.9	97.1- 98.9	97.9- 99.1
PCA Availability (%)	99.9- 100	99.7- 100	98.1- 100	99.9- 100	99.7- 99.9	99.8- 100	99.9- 100	99.9 -100

2024 Data	Jan	Feb	Mar
WIFI Performance (moving Annual Average)	4.17- 4.27	4.16- 4.28	4.19- 4.30
Check in Infrastructure availability (%)	98.2- 98.9	98.4- 99.05	98.7- 99.1
PCA Availability (%)	100	100	99.98- 100



(a) the wi-fi performance target to 4.10

As can be seen in the above table of performance that HAL has delivered over the first part of H7, HAL has exceeded 4.1 in every month since May 2023. We would also note that HAL's performance on this measure has steadily improved from May 2023 to March 2024. We would therefore support an increase in the target for WIFI Performance from 4.05 to 4.10.

(b) the availability of check-in infrastructure target to 99%

This is a critical area of the consumer experience. Any failure of this infrastructure will immediately cause queues and consumer stress and also impact punctuality. In our previous response to the Final Proposal's we urged the CAA to adopt a performance target of 99.5% Availability each day from 0500 – 2300. This would equate to one or fewer 5 minute periods of down time for check in each day.

We note over the period May 2023 to March 2024 HAL has only missed its performance target of 98% availability in each terminal in each month in two instances. We also note that if the target is maintained at 98% availability, then that would equate to 4 x 5 minute periods of check-in down time on each day on each day of the month measured (ie over 10 hours of downtime per terminal per month). This is too much downtime and if this standard is continued across H7 will cause unnecessary stress to consumers and unnecessary delays to departing flights. As such the airlines continue to argue for a target of 99.5% - which would equate to only 1 x 5 minute period of downtime each day across the month. We are therefore strongly supportive of the CAA increasing this target to 99%.

(Note: we would include check-in baggage input feeds in the category check-in infrastructure as these are essential to ensuring the smooth operation of check-in.)

We would also highlight that the Airline Community has had no engagement with HAL on the practical implementation of this new measure and we therefore have no visibility that the reporting of the measure is accurate and fit for purpose. For example, we don't know how HAL has weighted the hundreds of assets being measured and whether the data supplied by the fault reporting system has been validated and audited.

c) the availability of pre-conditioned air target to 99%

We note that since the May 2023 HAL has consistently delivered PCA Availability performance of over 99% - frequently achieving 100%. There is only one instance where availability in one terminal dropped below 99% - specifically it was to 98.1%. . Increasing the target to 99% would increase HAL's incentive to provide a reliable service and therefore ensure that maximum use can be made of the PRM service which in turn ensures there is a significant reduction in carbon emissions at the airport. The airline community support this increase.