



ISSN 0951-0600

**UNITED KINGDOM
CIVIL AVIATION AUTHORITY**

**Official Record Series 6 Part 2
Airports - Economic Regulation**

**No: 129
Date: 24 March 2003**

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This notice should be read in conjunction with the Civil Aviation Authority Official Record Series 6 Part 1.

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Section 2 Decisions of the Authority

Heathrow Airport Limited, Gatwick Airport Limited and Stansted Airport Limited

The Civil Aviation Authority has decided to impose conditions on the maximum amounts which are being capable of being levied as airport charges in relation to Heathrow, Gatwick and Stansted airports for the five years beginning on 1 April 2003 as set out in Annex 1.

The Civil Aviation Authority has decided to impose conditions to remedy the public interest findings of the Competition Commission with respect to Heathrow and Gatwick airports as set out in Annex 2.

The Civil Aviation Authority's full decision has been published on its website (www.caa.co.uk).

Annex 1

Conditions as to airport charges imposed in relation to Heathrow Airport in accordance with section 40(4) of the Airports Act 1986

Heathrow Condition 1

1. When the airport operator fixes the amounts to be levied by it by way of airport charges in respect of relevant air services in the year beginning on 1 April 2003 it shall fix those charges at the levels best calculated to secure that, in that year, the total revenue at Heathrow airport from such charges divided by the total number of passengers using Heathrow airport, does not exceed the maximum average revenue yield per passenger which shall be: £6.480
2. When the airport operator fixes the amounts to be levied by it by way of airport charges in respect of relevant air services in the year beginning on 1 April 2004 it shall fix those charges at the levels best calculated to secure that, in that year, the total revenue at Heathrow airport from such charges divided by the total number of passengers using Heathrow airport, does not exceed the maximum average revenue yield per passenger which shall be calculated as follows:

$$M_t = \left(1 + \frac{RPI_{t-1} + X}{100} \right) Y_{t-1} + ATM_t$$

and

$$Y_{t-1} = 6.480 + S_{t-1}$$

and where RPI_{t-1} , X , ATM_t and S_{t-1} have the meanings as set out in paragraphs 3 and 5 of this condition.

On each occasion on which the airport operator fixes the amounts to be levied by it by way of airport charges in respect of relevant air services in each of the three relevant years beginning with 1 April 2005 it shall fix those charges at the levels best calculated to secure that, in each relevant year, the total revenue at Heathrow airport from such charges, divided by the total number of passengers using Heathrow airport, does not exceed the maximum revenue yield per passenger calculated in accordance with the following formula:

$$M_t = \left(1 + \frac{RPI_{t-1} + X - TRIGGER_t}{100} \right) Y_{t-1} + ATM_t - K_t$$

Where:

M_t = maximum average revenue yield per passenger using Heathrow airport in relevant year t expressed in £;

RPI_{t-1} has the meaning assigned to it by paragraph 5;

$X = 6.5$;

$TRIGGER_t$ has the meaning assigned to it by paragraph 4.

Y_{t-1} = the specified average revenue yield per passenger calculated in accordance with the following formula:

$$Y_{t-1} = Y_{t-2} \left(1 + \frac{RPI_{t-2} + X}{100} \right) + S_{t-1}$$

Where:

$$Y_{2003/4} = 6.480 + S_{2003/4};$$

S_{t-1} = the allowable security cost per passenger using Heathrow airport in relevant year $t-1$ (whether of a positive or a negative value) to be applied in relevant year t calculated in accordance with the following formulae expressed in £;

for each relevant year $t-1$.

If

$$\text{Expected Cumulative Cost}_{t-1} \geq 14 \text{ million} \quad \text{and} \quad \text{Expected Cumulative Cost}_{t-2} \geq 14 \text{ million}$$

$$S_{t-1} = 0.75C_{t-1}$$

or if

$$\text{Expected Cumulative Cost}_{t-1} > 14 \text{ million} \quad \text{and} \quad \text{Expected Cumulative Cost}_{t-2} < 14 \text{ million}$$

or

$$\text{Expected Cumulative Cost}_{t-1} < 14 \text{ million} \quad \text{and} \quad \text{Expected Cumulative Cost}_{t-2} > 14 \text{ million}$$

$$S_{t-1} = 0.75 \frac{\text{Expected Cumulative Cost}_{t-1} - 14 \text{ million}}{(6-t)Q_{t-1}}$$

otherwise

$$S_{t-1} = 0.$$

Where the expected cumulative cost of annualised claims shall be calculated as follows:

Year ($t-1$)	2003/4	2004/5	2005/6	2006/7
A. Effect of claims relating to 2003/4	$5 \times C_1 \times Q_1$	$5 \times C_1 \times Q_1$	$5 \times C_1 \times Q_1$	$5 \times C_1 \times Q_1$
B. Effect of claims relating to 2004/5		$4 \times C_2 \times Q_2$	$4 \times C_2 \times Q_2$	$4 \times C_2 \times Q_2$
C. Effect of claims relating to 2005/6			$3 \times C_3 \times Q_3$	$3 \times C_3 \times Q_3$
D. Effect of claims relating to 2006/7				$2 \times C_4 \times Q_4$
Expected Cumulative Cost Sum rows A to D				

And where

$$\text{Expected Cumulative Cost}_{2001/2} = \text{Expected Cumulative Cost}_{2002/3} = 0$$

C_{t-1} = the total qualifying security claims per passenger using Heathrow airport in relevant year $t-1$ (whether of a positive or a negative value) expressed in £;

K_t = the correction per passenger (whether of a positive or negative value) to be made in relevant year t which is derived as follows:

$$K_t = \frac{T_{t-2} - (Q_{t-2} M_{t-2})}{Q_{t-2}} \left(1 + \frac{I}{100}\right)^2$$

in which

T_{t-2} = total revenue from airport charges in respect of relevant air services levied at Heathrow airport in relevant year $t-2$;

Q_{t-2} = passengers using Heathrow airport in relevant year $t-2$;

M_{t-2} = maximum average revenue yield per passenger using Heathrow airport in relevant year $t-2$

I = the appropriate interest rate for relevant year $t-2$ which is equal to, where K_t (taking no account of I for this purpose) has a positive value, the Specified Rate plus three percentage points or, where K_t (taking no account of I for this purpose) has a negative value, the Specified Rate.

$$ATM_t = 0$$

unless the CAA has issued a statement that there is an effective aerodrome congestion element in force as part of a system of standards and rebates; in which case:

$$ATM_t = \max \left[0, \frac{(D_{t-1} - \bar{M})}{Q_{t-2}} \right] \times V_{ATM}_t$$

Where:

D_{t-1} = the average declared hourly capacity in peak periods, measured in terms of both arrivals and departures in year $t-1$ where the peak period is defined as from 07:00-11:59 (local time) and from 16:00-20:59 (local time)

$$\bar{M} = 83.1$$

$$V_{ATM}_t = V_{ATM}_{t-1} \left(1 + \frac{RPI_{t-1}}{100} \right)$$

$$V_{ATM}_{2003/4} = \pounds 730,000$$

3. $TRIGGER_t$ is an element in the formula which reduces the maximum allowable charges when the airport has not achieved particular capital investment project milestones on time and shall be calculated as follows:

$$TRIGGER_t = DTR_t + ERS_t + VCR_t + CTBWP_t + S1WP_t$$

- a) Where DTR_t is a component based on the Completion Date of the diversion of the twin rivers according to the following table such that the value of DTR_t to be taken into account in the year represented by the columns depends on the year in which the project is completed.

DTR_t	2003/4	2004/5	2005/6	2006/7	2007/8
Yr completed					
2003/4	0	0	0	0	0
2004/5	0	0	0	0	0
2005/6	0	0	MB/6	0	0
2006/7	0	0	2	MB/6	0
2007/8	0	0	2	2	MB/6
Not Completed	0	0	2	2	2

- b) ERS_t is a component based on the Completion Date of the early release stands according to the following table such that the value of ERS_t to be taken into account in the year represented by the columns depends on the year in which the project is completed.

ERS_t	2003/4	2004/5	2005/6	2006/7	2007/8
Yr completed					
2003/4	0	0	0	0	0
2004/5	0	0	0	0	0
2005/6	0	0	<i>MB/6</i>	0	0
2006/7	0	0	2	<i>MB/6</i>	0
2007/8	0	0	2	2	<i>MB/6</i>
Not completed	0	0	2	2	2

- c) VCR_t is a component based on the 'handing over to NATS of the visual control room' according to the following table such that the value of VCR_t to be taken into account in the year represented by the columns depends on the year in which the project is completed.

VCR_t	2003/4	2004/5	2005/6	2006/7	2007/8
Yr completed					
2003/4	0	0	0	0	0
2004/5	0	0	0	0	0
2005/6	0	0	0	0	0
2006/7	0	0	0	<i>MB/6</i>	0
2007/8	0	0	0	2	<i>MB/6</i>
Not completed	0	0	0	2	2

- d) $CTBWP_t$ is a component based on the core Terminal 5 building being weatherproof according to the following table such that the value of $CTBWP_t$ to be taken into account in the year represented by the columns depends on the year in which the project is completed.

$CTBWP_t$	2003/4	2004/5	2005/6	2006/7	2007/8
Yr completed					
2003/4	0	0	0	0	0
2004/5	0	0	0	0	0
2005/6	0	0	0	0	0
2006/7	0	0	0	0	0
2007/8	0	0	0	0	<i>MB/6</i>
Not completed	0	0	0	0	2

- e) $S1WP_t$ is a component based on Satellite 1 being weatherproof according to the following table such that the value of $S1WP_t$ to be taken into account in the year represented by the columns depends on the year in which the project is completed.

$S1WP_t$	2003/4	2004/5	2005/6	2006/7	2007/8
Yr completed					
2003/4	0	0	0	0	0
2004/5	0	0	0	0	0
2005/6	0	0	0	0	0
2006/7	0	0	0	0	0
2007/8	0	0	0	0	<i>MB/6</i>
Not completed	0	0	0	0	2

In respect of each the above tables:

MB is the number of complete months or parts thereof between the beginning of the financial year and completion of the project.

4. In this condition:

‘airport charges’ has the meaning assigned to it by section 36(1) of the Airports Act 1986;

‘airport operator’ means the person for the time being having the management of Heathrow airport;

‘qualifying security claim per passenger’ means the annual equivalent of the increase or decrease in security costs at Heathrow airport in the relevant year $t-1$, which arise as a result of a change in required security standards at that airport, as certified by the Civil Aviation Authority, divided by the number of passengers using the airport in that year;

‘average revenue yield per passenger’ means the revenue from airport charges levied in respect of relevant air services in the relevant year before any deduction of unpublished discounts or payments under Service Level Agreements divided by the total number of passengers using Heathrow airport in the relevant year;

‘Completion Date’ is the date when in the judgement of the CAA the airport has achieved the criteria to be published from time to time by the CAA;

‘passenger using an airport’ means a passenger joining or leaving an aircraft at Heathrow airport;

‘relevant air services’ means air services carrying passengers that join or leave an aircraft at Heathrow airport, including air services operated for the purpose of business or general aviation;

‘relevant year’ means the period of twelve months ending with 31 March in each year;

‘ RPI_{t-1} ’ means the percentage change (whether of a positive or negative value) in the Retail Price Index between that published with respect to September in relevant year $t-1$ and that published with respect to the immediately preceding September, and ‘ RPI_{t-2} ’ shall be construed accordingly;

‘Specified Rate’ means the average of the Treasury Bill Discount Rate (expressed as an annual percentage interest rate) published weekly by the Bank of England, during the 12 months from the beginning of October in year $t-2$ to the end of September in year $t-1$.

Heathrow Condition 2

In each of the five consecutive years beginning on 1 April 2003 the operator of Heathrow Airport shall not levy airport charges in respect of air services that do not fall within the definition of relevant air services for the purposes of Heathrow

Condition 1 that are higher than are levied in respect of equivalent air services falling within that definition.

Conditions as to airport charges imposed in relation to Gatwick Airport in accordance with section 40(4) of the Airports Act 1986

Gatwick Condition 1

1. When the airport operator fixes the amounts to be levied by it by way of airport charges in respect of relevant air services in the year beginning on 1 April 2003 it shall fix those charges at the levels best calculated to secure that, in that year, the total revenue at Gatwick airport from such charges divided by the total number of passengers using Gatwick airport, does not exceed the maximum average revenue yield per passenger which shall be: £4.320
2. When the airport operator fixes the amounts to be levied by it by way of airport charges in respect of relevant air services in the year beginning on 1 April 2004 it shall fix those charges at the levels best calculated to secure that, in that year, the total revenue at Gatwick airport from such charges divided by the total number of passengers using Gatwick airport, does not exceed the maximum average revenue yield per passenger which shall be calculated as follows:

$$M_t = \left(1 + \frac{RPI_{t-1}}{100} \right) Y_{t-1}$$

and

$$Y_{t-1} = 4.320 + S_{t-1}$$

and where RPI_{t-1} and S_{t-1} have the meanings as set out in paragraphs 3 and 5 of this condition.

3. On each occasion on which the airport operator fixes the amounts to be levied by it by way of airport charges in respect of relevant air services in each of the three relevant years beginning with 1 April 2005 it shall fix those charges at the levels best calculated to secure that, in each relevant year, the total revenue at Gatwick airport from such charges, divided by the total number of passengers using Gatwick airport, does not exceed the maximum revenue yield per passenger calculated in accordance with the following formula:

$$M_t = \left(1 + \frac{RPI_{t-1} - TRIGGER_t}{100} \right) Y_{t-1} - K_t$$

where

M_t = maximum average revenue yield per passenger using Gatwick airport in relevant year t expressed in £;

RPI_{t-1} has the meaning assigned to it by paragraph 5;

$TRIGGER_t$ has the meaning assigned to it by paragraph 4.

Y_{t-1} = the specified average revenue yield per passenger calculated in accordance with the following formula:

$$Y_{t-1} = Y_{t-2} \left(1 + \frac{RPI_{t-2}}{100} \right) + S_{t-1}$$

Where:

$$Y_{2003/4} = 4.320 + S_{2003/4}$$

S_{t-1} = the allowable security cost per passenger using Gatwick airport in relevant year $t-1$ (whether of a positive or a negative value) to be applied in relevant year t calculated in accordance with the following formulae expressed in £;

for each relevant year $t-1$.

If

$$\begin{aligned} \text{Expected Cumulative Cost}_{t-1} \geq 6 \text{ million} \quad \text{and} \quad \text{Expected Cumulative Cost}_{t-2} \geq 6 \text{ million} \\ S_{t-1} = 0.75C_{t-1} \end{aligned}$$

or if

$$\text{Expected Cumulative Cost}_{t-1} > 6 \text{ million} \quad \text{and} \quad \text{Expected Cumulative Cost}_{t-2} < 6 \text{ million}$$

or

$$\begin{aligned} \text{Expected Cumulative Cost}_{t-1} < 6 \text{ million} \quad \text{and} \quad \text{Expected Cumulative Cost}_{t-2} > 6 \text{ million} \\ S_{t-1} = 0.75 \frac{\text{Expected Cumulative Cost}_{t-1} - 6 \text{ million}}{(6-t)Q_{t-1}} \end{aligned}$$

otherwise

$$S_{t-1} = 0$$

Where the expected cumulative cost of annualised claims shall be calculated as follows:

Year ($t - 1$)	2003/4	2004/5	2005/6	2006/7
A. Effect of claims relating to 2003/4	$5 \times C_1 \times Q_1$	$5 \times C_1 \times Q_1$	$5 \times C_1 \times Q_1$	$5 \times C_1 \times Q_1$
B. Effect of claims relating to 2004/5		$4 \times C_2 \times Q_2$	$4 \times C_2 \times Q_2$	$4 \times C_2 \times Q_2$
C. Effect of claims relating to 2005/6			$3 \times C_3 \times Q_3$	$3 \times C_3 \times Q_3$
D. Effect of claims relating to 2006/7				$2 \times C_4 \times Q_4$
Expected Cumulative Cost Sum rows A to D				

And where

$$\text{Expected Cumulative Cost}_{2001/2} = \text{Expected Cumulative Cost}_{2002/3} = 0$$

C_{t-1} = the total qualifying security claims per passenger using Gatwick airport in relevant year $t - 1$ (whether of a positive or a negative value) expressed in £;

K_t = the correction per passenger (whether of a positive or negative value) to be made in relevant year t which is derived as follows:

$$K_t = \frac{T_{t-2} - (Q_{t-2} M_{t-2})}{Q_{t-2}} \left(1 + \frac{I}{100}\right)^2$$

in which

T_{t-2} = total revenue from airport charges in respect of relevant air services levied at Gatwick airport in relevant year $t - 2$;

Q_{t-2} = passengers using Gatwick airport in relevant year $t - 2$;

M_{t-2} = maximum average revenue yield per passenger using Gatwick airport in relevant year $t - 2$;

I = the appropriate interest rate for relevant year $t-2$ which is equal to, where K_t (taking no account of I for this purpose) has a positive value, the Specified Rate plus three percentage points or, where K_t (taking no account of I for this purpose) has a negative value, the Specified Rate.

4. $TRIGGER_t$ is an element in the formula which reduces the maximum allowable charges where the airport has not achieved particular capital investment project milestones on time and shall be calculated as follows:

$$TRIGGER_t = PIER6_t$$

Where $PIER6_t$ is a component based on the opening date of pier 6 according to the following table such that the value of $PIER6_t$ to be taken into account in the year represented by the columns depends on the year in which the project is completed.

$PIER6_t$	2003/4	2004/5	2005/6	2006/7	2007/8
Yr completed					
2003/4	0	0	0	0	0
2004/5	0	0	0	0	0
2005/6	0	0	0	0	0
2006/7	0	0	0	$MB/12$	0
2007/8	0	0	0	1	$MB/12$
	0	0	0	0	1
Not completed					

Where

MB is the number of complete months or parts thereof between the beginning of the relevant year and completion of the project.

5. In this condition:

'airport charges' has the meaning assigned to it by section 36(1) of the Airports Act 1986;

'airport operator' means the person for the time being having the management of Gatwick airport;

'qualifying security claim per passenger' means the annual equivalent of the increase or decrease in security costs at Gatwick airport in the relevant year $t-1$, which arise as a result of a change in required security standards at that airport, as certified by the Civil Aviation Authority, divided by the number of passengers using the airport in that year;

'average revenue yield per passenger' means the revenue from airport charges levied in respect of relevant air services in the relevant year before any deduction of

unpublished discounts or payments under Service Level Agreements divided by the total number of passengers using Gatwick airport in the relevant year;

'Completion Date' is the date when in the judgement of the CAA the airport has achieved the criteria to be published from time to time by the CAA;

'passenger using an airport' means a passenger joining or leaving an aircraft at Gatwick airport;

'relevant air services' means air services carrying passengers that join or leave an aircraft at Gatwick airport, including air services operated for the purpose of business or general aviation;

'relevant year' means the period of twelve months ending with 31 March in each year;

' RPI_{t-1} ' means the percentage change (whether of a positive or negative value) in the Retail Price Index between that published with respect to September in relevant year $t-1$ and that published with respect to the immediately preceding September, and ' RPI_{t-2} ' shall be construed accordingly;

'Specified Rate' means the average of the Treasury Bill Discount Rate (expressed as an annual percentage interest rate) published weekly by the Bank of England, during the 12 months from the beginning of October in year $t-2$ to the end of September in year $t-1$.

Gatwick Condition 2

In each of the five consecutive years beginning on 1 April 2003 the operator of Gatwick Airport shall not levy airport charges in respect of air services that do not fall within the definition of relevant air services for the purposes of Gatwick Condition 1 that are higher than are levied in respect of equivalent air services falling within that definition.

Conditions as to airport charges imposed in relation to Stansted Airport in accordance with section 40(4) of the Airports Act 1986

Stansted Condition 1

1. When the airport operator fixes the amounts to be levied by it by way of airport charges in respect of relevant air services in the year beginning on 1 April 2003 it shall fix those charges at the levels best calculated to secure that, in that year, the total revenue at Stansted airport from such charges divided by the total number of passengers using Stansted airport, does not exceed the maximum average revenue yield per passenger which shall be: £4.890
2. When the airport operator fixes the amounts to be levied by it by way of airport charges in respect of relevant air services in the year beginning on 1 April 2004 it shall fix those charges at the levels best calculated to secure that, in that year, the total revenue at Stansted airport from such charges divided by the total number of passengers using Stansted airport, does not exceed the maximum average revenue yield per passenger which shall be calculated as follows:

$$M_t = \left(1 + \frac{RPI_{t-1}}{100} \right) Y_{t-1}$$

and

$$Y_{t-1} = 4.890 + S_{t-1}$$

and where RPI_{t-1} and S_{t-1} have the meanings as set out in paragraphs 3 and 4 of this condition.

3. On each occasion on which the airport operator fixes the amounts to be levied by it by way of airport charges in respect of relevant air services in each of the three relevant years beginning with 1 April 2005 it shall fix those charges at the levels best calculated to secure that, in each relevant year, the total revenue at Stansted airport from such charges, divided by the total number of passengers using Stansted airport, does not exceed the maximum revenue yield per passenger calculated in accordance with the following formula:

$$M_t = \left(1 + \frac{RPI_{t-1}}{100} \right) Y_{t-1} - K_t$$

where

M_t = maximum average revenue yield per passenger using Stansted airport in relevant year t expressed in £;

M_t

RPI_{t-1} has the meaning assigned to it by paragraph 4;

Y_{t-1} = the specified average revenue yield per passenger calculated in accordance with the following formula:

$$Y_{t-1} = Y_{t-2} \left(1 + \frac{RPI_{t-2}}{100} \right) + S_{t-1}$$

Where:

$$Y_{2003/4} = 4.890 + S_{2003/4};$$

S_{t-1} = the allowable security cost per passenger using Stansted airport in relevant year $t-1$ (whether of a positive or a negative value) to be applied in relevant year t calculated in accordance with the following formulae expressed in £;

for each relevant year $t-1$.

If

$$\begin{aligned} \text{Expected Cumulative Cost}_{t-1} \geq 3 \text{ million} \quad \text{and} \quad \text{Expected Cumulative Cost}_{t-2} \geq 3 \text{ million} \\ S_{t-1} = 0.75 C_{t-1} \end{aligned}$$

or if

$$\text{Expected Cumulative Cost}_{t-1} > 3 \text{ million} \quad \text{and} \quad \text{Expected Cumulative Cost}_{t-2} < 3 \text{ million}$$

or

$$\begin{aligned} \text{Expected Cumulative Cost}_{t-1} < 3 \text{ million} \quad \text{and} \quad \text{Expected Cumulative Cost}_{t-2} > 3 \text{ million} \\ S_{t-1} = 0.75 \frac{\text{Expected Cumulative Cost}_{t-1} - 3 \text{ million}}{(6-t) Q_{t-1}} \end{aligned}$$

otherwise

$$S_{t-1} = 0.$$

Where the expected cumulative cost of annualised claims shall be calculated as follows:

Year ($t - 1$)	2003/4	2004/5	2005/6	2006/7
A. Effect of claims relating to 2003/4	$5 \times C_1 \times Q_1$	$5 \times C_1 \times Q_1$	$5 \times C_1 \times Q_1$	$5 \times C_1 \times Q_1$
B. Effect of claims relating to 2004/5		$4 \times C_2 \times Q_2$	$4 \times C_2 \times Q_2$	$4 \times C_2 \times Q_2$
C. Effect of claims relating to 2005/6			$3 \times C_3 \times Q_3$	$3 \times C_3 \times Q_3$
D. Effect of claims relating to 2006/7				$2 \times C_4 \times Q_4$
Expected Cumulative Cost Sum rows A to D				

And where

$$\text{Expected Cumulative Cost}_{2001/2} = \text{Expected Cumulative Cost}_{2002/3} = 0$$

C_{t-1} = the total qualifying security claims per passenger using Stansted airport in relevant year $t - 1$ (whether of a positive or a negative value) expressed in £;

K_t = the correction per passenger (whether of a positive or negative value) to be made in relevant year t which is derived as follows:

$$K_t = \frac{T_{t-2} - (Q_{t-2} M_{t-2})}{Q_{t-2}} \left(1 + \frac{I}{100} \right)^2$$

in which

T_{t-2} = total revenue from airport charges in respect of relevant air services levied at Stansted airport in relevant year $t - 2$;

Q_{t-2} = passengers using Stansted airport in relevant year $t - 2$;

M_{t-2} = maximum average revenue yield per passenger using Stansted airport in relevant year $t - 2$;

I = the appropriate interest rate for relevant year $t - 2$ which is equal to, where K_t (taking no account of I for this purpose) has a positive value, the Specified Rate plus three percentage points or, where K_t (taking no account of I for this purpose) has a negative value, the Specified Rate.

4. In this condition:

'airport charges' has the meaning assigned to it by section 36(1) of the Airports Act 1986;

'airport operator' means the person for the time being having the management of Stansted airport;

'qualifying security claim per passenger' means the annual equivalent of the increase or decrease in security costs at Stansted airport in the relevant year $t - 1$, which arise as a result of a change in required security standards at that airport, as certified by the Civil Aviation Authority divided by the number of passengers using the airport in that year;

'average revenue yield per passenger' means the revenue from airport charges levied in respect of relevant air services in the relevant year before any deduction of unpublished discounts or payments under Service Level Agreements divided by the total number of passengers using Stansted airport in the relevant year;

'passenger using an airport' means a passenger joining or leaving an aircraft at Stansted airport;

'relevant air services' means air services carrying passengers that join or leave an aircraft at Stansted airport, including air services operated for the purpose of business or general aviation;

'relevant year' means the period of twelve months ending with 31 March in each year;

' RPI_{t-1} ' means the percentage change (whether of a positive or negative value) in the Retail Price Index between that published with respect to September in relevant year $t - 1$ and that published with respect to the immediately preceding September, and ' RPI_{t-2} ' shall be construed accordingly;

'Specified Rate' means the average of the Treasury Bill Discount Rate (expressed as an annual percentage interest rate) published weekly by the Bank of England, during the 12 months from the beginning of October in year $t - 2$ to the end of September in year $t - 1$.

Stansted Condition 2

In each of the five consecutive years beginning on 1 April 2003 the operator of Stansted Airport shall not levy airport charges in respect of air services that do not fall within the definition of relevant air services for the purposes of Stansted Condition 1 that are higher than are levied in respect of equivalent air services falling within that definition.

Annex 2**Conditions as to rebates to be paid by Heathrow Airport Limited to users where quality of service fails to meet service standards in accordance with section 46(2) of the Airports Act 1986**

WHEREAS the Competition Commission in the report to the Civil Aviation Authority ("CAA") following a reference made to the CAA to the Competition Commission on 28 February 2002 in respect of Heathrow Airport Limited ("HAL") concluded that in failing to conduct themselves so as to make prices paid sufficiently reflect the level of service provided, HAL has pursued a course of conduct which may be expected to operate against the public interest such that the adverse effect of this conduct is that prices do not reflect the quality of service to the extent that would occur in a competitive market and in consequence that there is an absence of the financial incentive to provide the combination of price and quality of service that would obtain in a competitive market.

AND WHEREAS the Competition Commission recommended that a condition be imposed that would require HAL to pay specified rebates to the airlines whenever their quality fails to meet specified standards as specified from time to time by the CAA.

AND WHEREAS the Competition Commission recommended that such a condition should require HAL to arrange for regular independent audits of the Quality of Service Monitor methodology and of its application to ensure that it is in accord with best market research practice, and that the methodology is adequately implemented to make sure that samples accurately reflect the overall mix of passengers at all times of operation

AND WHEREAS the Competition Commission recommended that such auditor should be appointed by the CAA.

AND WHEREAS the CAA has had regard, as required by section 46(4) of the Airports Act 1986 ("the Act"), to the recommendations made by the Competition Commission as to the conditions by which the effects adverse to the public interest could be remedied or prevented;

AND WHEREAS the CAA has powers to impose conditions on HAL as the operator of Heathrow Airport.

NOW THEREFORE the CAA, in exercise of its powers and duties under section 46(2) of the Act hereby imposes the following condition on HAL:-

- a) HAL shall pay specified rebates to airlines whenever its quality of service fails to meet specified service standards. The specified service standards and rebates shall be as published from time to time by the CAA following consultation with HAL and its users.

- b) HAL shall maintain records of the actual quality of service and rebates made in such a form that performance could be independently audited against the standards published as above.
- c) HAL shall publish quarterly its performance against the specified service standards and shall publish annually the specified rebates made to individual users.
- d) HAL shall facilitate regular independent audits of the QSM methodology and of its application to ensure that it is in accord with best market practice, and that the methodology is adequately implemented to make sure that samples reasonably reflect the overall mix of passengers. The independent auditors for this purpose will be appointed by the CAA and shall report to the CAA.

These conditions shall take effect on 1 April 2003 and shall continue in force until 31 March 2008 unless before that date they are modified or withdrawn. The conditions may be extended beyond 31 March 2008 in accordance with section 51(2) of the Act.

Conditions as to rebates to be paid by Gatwick Airport Limited to users where quality of service fails to meet service standards in accordance with section 46(2) of the Airports Act 1986

WHEREAS the Competition Commission in the report to the Civil Aviation Authority ("CAA") following a reference made to the CAA to the Competition Commission on 28 February 2002 in respect of Gatwick Airport Limited ("GAL") concluded that in failing to conduct themselves so as to make prices paid sufficiently reflect the level of service provided, GAL has pursued a course of conduct which may be expected to operate against the public interest such that the adverse effect of this conduct is that prices do not reflect the quality of service to the extent that would occur in a competitive market and in consequence that there is an absence of the financial incentive to provide the combination of price and quality of service that would obtain in a competitive market.

AND WHEREAS the Competition Commission recommended that a condition be imposed that would require GAL to pay specified rebates to the airlines whenever their quality fails to meet specified standards as specified from time to time by the CAA.

AND WHEREAS the Competition Commission recommended that such a condition should require GAL to arrange for regular independent audits of the Quality of Service Monitor methodology and of its application to ensure that it is in accord with best market research practice, and that the methodology is adequately implemented to make sure that samples accurately reflect the overall mix of passengers at all times of operation.

AND WHEREAS the Competition Commission recommended that such auditor should be appointed by the CAA.

AND WHEREAS the CAA has had regard, as required by section 46(4) of the Airports Act 1986 ("the Act"), to the recommendations made by the Competition Commission as to the conditions by which the effects adverse to the public interest could be remedied or prevented;

AND WHEREAS the CAA has powers to impose conditions on GAL as the operator of Gatwick Airport.

NOW THEREFORE the CAA, in exercise of its powers and duties under section 46(2) of the Act hereby imposes the following condition on GAL:-

- a) GAL shall pay specified rebates to airlines whenever its quality of service fails to meet specified service standards. The specified service standards and rebates shall be as published from time to time by the CAA following consultation with GAL and its users.

- b) GAL shall maintain records of the actual quality of service and rebates made in such a form that performance could be independently audited against the standards published as above.
- c) GAL shall publish quarterly its performance against the specified service standards and shall publish annually the specified rebates made to individual users.
- d) GAL shall facilitate regular independent audits of the QSM methodology and of its application to ensure that it is in accord with best market practice, and that the methodology is adequately implemented to make sure that samples reasonably reflect the overall mix of passengers. The independent auditors for this purpose will be appointed by the CAA and shall report to the CAA.

These conditions shall take effect on 1 April 2003 and shall continue in force until 31 March 2008 unless before that date they are modified or withdrawn. The conditions may be extended beyond 31 March 2008 in accordance with section 51(2) of the Act.

Conditions as to levy imposed on taxis in respect of Heathrow Airport in accordance with section 46(2) of the Airports Act 1986

WHEREAS the Competition Commission in its report made to the Civil Aviation Authority ("CAA") following a reference made by the CAA to the Competition Commission on 28 February 2002 in respect of Heathrow Airport ("HAL") concluded that HAL had pursued a course of conduct during the relevant period which operated, and could be expected to operate against the public interest in that it imposed the Heathrow Airport Licensed Taxis Ltd levy ("the HALT levy") on all taxi drivers without first ascertaining, by tender or otherwise, such questions as whether all aspects of the service are necessary; whether they could be obtained at a lower price from a commercial provider; or whether a better service could be obtained from a commercial provider for the same price.

AND WHEREAS the Competition Commission specified in the report the adverse effects of this conduct, namely that the levy has been imposed on taxi drivers without any basis for the regulatory authorities to determine whether the services provided by HALT are of benefit to taxi drivers (whether or not members of HALT) or represent value for money to them, and to passengers, and whether the methods used are currently cost-effective; and that the taxi drivers (whether or not members of HALT) do not have protection against the excess charges that would be afforded if the services were provided under normal commercial arrangements or if BAA had taken the steps identified in the first paragraph of this Preamble;

AND WHEREAS the Competition Commission recommended in the report that the CAA should invite BAA to produce evidence within six months that satisfies the CAA that the HALT service is of benefit to the taxi drivers who use it at Heathrow (whether or not members of HALT) and their passengers, that the benefits outweigh the costs of providing the service; and if so that the service could not be provided in a more efficient and cost effective manner;

AND WHEREAS the Competition Commission recommended that a condition should be imposed that would enable the CAA to give a direction preventing BAA collecting the HALT levy on a compulsory basis while the direction remained in force;

AND WHEREAS the CAA has had regard, as required by section 46(4) of the Airports Act 1986 ("the Act"), to the recommendations made by the Competition Commission as to the conditions by which the effects adverse to the public interest could be remedied or prevented;

AND WHEREAS the CAA has powers to impose conditions on HAL as the operator of Heathrow Airport.

NOW THEREFORE THE CAA, in exercise of its powers under section 46(2) of the Act, hereby imposes the following conditions on HAL:-

- a) Within six months of the date hereof HAL shall produce evidence to the CAA with a view to satisfying CAA that the HALT service is of benefit to the taxi drivers who use it at Heathrow (whether or not members of HALT) and their passengers; that the benefits outweigh the costs of providing the service; and that the service could not be provided in a more efficient and cost-effective manner;.
- b) In the event that the CAA decides that the evidence provided under paragraph (a) hereof is insufficient to satisfy it as to the matters referred to therein, (after giving HAL all reasonable opportunity to make representations to the CAA and having consulted with HALT), HAL shall cease collecting the HALT levy on a compulsory basis.

This condition shall take effect from 28 February 2003 and shall continue in force until 31 March 2008 unless before that date it is modified or withdrawn. The condition may be extended beyond 31 March 2008 in accordance with section 51(2) of the Act.