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CIVIL AVIATION AUTHORITY**

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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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Note: Sections are omitted if they contain no entry in this issue.

Section 2 Decisions of the Authority

Heathrow Airport Limited and Gatwick Airport Limited

The Civil Aviation Authority has decided to impose conditions on the maximum amounts which are capable of being levied as airport charges in relation to Heathrow and Gatwick airports for the five years beginning on 1 April 2008 as set out in Annex 1.

The Civil Aviation Authority has decided to impose conditions to modify the existing public interest conditions with respect to Heathrow and Gatwick airports as set out in Annex 2.

The Civil Aviation Authority has revoked the conditions as to the charges for airside licences at Heathrow Airport and Gatwick Airport.

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 and Gatwick airports 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 2008 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:

$$M_{2008/9} = \text{£}13.134 \left(1 + \frac{B_t}{100} \right) - \frac{TRIGGER_t}{Q_t} - K_t$$

Where:

$M_{2008/9}$ is the maximum average revenue yield per passenger using Heathrow airport in relevant year 2008/9 expressed in £;

B_t has the meaning assigned to it by paragraph 7;

$TRIGGER_t$ has the meaning assigned to it by paragraph 6;

Q_t has the meaning assigned to it by paragraph 5; and

K_t has the meaning assigned to it by paragraph 5.

2. 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 four relevant years beginning with 1 April 2009 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:

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

Where:

M_t is the 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 8;

$X = 7.5$;

B_t has the meaning assigned to it by paragraph 7;

Y_{t-1} has the meaning assigned to it by paragraph 3;

TRIGGER $_t$ has the meaning assigned to it by paragraph 6; and

K_t has the meaning assigned to it by paragraph 5.

3. Y_{t-1} is 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:

$$Y_{2008/9} = \text{£}13.134 + S_{t-1};$$

RPI_{t-2} has the meaning assigned to it in paragraph 8;

X has the value assigned in paragraph 2; and

S_{t-1} has the values assigned in paragraph 4.

4. S_{t-1} is 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

Expected Cumulative Costs $_{t-1} \geq \text{£}16.5$ million; and

Expected Cumulative Costs $_{t-2} \geq \text{£}16.5$ million

then

$$S_{t-1} = 0.9C_{t-1}$$

or if

Expected Cumulative Costs $_{t-1} > \text{£}16.5$ million; and

Expected Cumulative Costs_{t-2} < £16.5 million

then

$$S_{t-1} = 0.9 \frac{\text{ExpectedCumulatedCost}_{t-1} - \text{£16.5million}}{(6 - t^*)Q_{t-1}}$$

or if

Expected Cumulative Costs_{t-1} < £16.5 million; and

Expected Cumulative Costs_{t-2} > £16.5 million

then

$$S_{t-1} = -0.9 \frac{\text{ExpectedCumulatedCost}_{t-2} - \text{£16.5million}}{(6 - t^*)Q_{t-1}}$$

Where:

$$t^*_{2008/9} = 1; t^*_{2009/10} = 2; t^*_{2010/11} = 3; t^*_{2011/12} = 4; \text{ and } t^*_{2012/13} = 5$$

otherwise

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

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

Year (t-1)	2008/9	2009/10	2010/11	2011/12
A. Effect of claims relating to 2008/9	$5 \times C_{2008/9} \times Q_{2008/9}$	$5 \times C_{2008/9} \times Q_{2008/9}$	$5 \times C_{2008/9} \times Q_{2008/9}$	$5 \times C_{2008/9} \times Q_{2008/9}$
B. Effect of claims relating to 2009/10		$4 \times C_{2009/10} \times Q_{2009/10}$	$4 \times C_{2009/10} \times Q_{2009/10}$	$4 \times C_{2009/10} \times Q_{2009/10}$
C. Effect of claims relating to 2010/11			$3 \times C_{2010/11} \times Q_{2010/11}$	$3 \times C_{2010/11} \times Q_{2010/11}$
D. Effect of claims relating to 2011/12				$2 \times C_{2011/12} \times Q_{2011/12}$
Expected Cumulative Cost Sum rows A to D				

Where:

C_{t-1} is 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 £; and

Q and Q_{t-1} = passengers using Heathrow airport in the relevant year.

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

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

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;

Q_t = passengers using Heathrow airport in relevant year t;

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

I_{t-2} = 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.

In relation to the relevant years 2008/09 and 2009/10, the values of T_{t-2} , Q_{t-2} , M_{t-2} and I shall be calculated by reference to the conditions as to airport charges imposed in relation to Heathrow airport in force at 31 March 2008.

6. $TRIGGER_t$ is the reduction in the maximum allowable charges when the airport has not achieved particular capital investment project milestones on time and shall be calculated as follows:

$$TRIGGER_t = \sum_{\substack{\text{specified} \\ \text{triggers}}} \sum_{\text{March}}^{\text{April}} TM_{ti} \cdot TF_{tij}$$

Where

The Specified Triggers are set out in Table 1; and

For any specific trigger i, in month j, in year t:

If either:

the relevant month is before or corresponds to the month specified as the “milestone month”; or

the relevant month is after the month in which the “completion date” of the relevant project takes place:

Then:

$$TF_{tij} = 0$$

otherwise:

$$TF_{tij} = 1$$

where:

“Milestone Month” is defined for each project in Table 1;

“Completion Date” has the meaning assigned to it by paragraph 9; and

$$TM_{it} = \text{Monthly Trigger Payment}_i \times (\text{PRICE INDEX}_t / \text{PRICE INDEX}_{2007/8})$$

where:

Monthly Trigger Payment is defined for each relevant project in Table 1; and

PRICE INDEX_t is the average monthly value of the CHAW series of the retail price index for the 12 months from April to March in relevant year t.

Table 1

Trigger Project	“Milestone Month”	“Monthly Trigger Payment _i ”
Completion of T5 Satellite C	May 2011	£1.47million
T4 Check-in Extension Completion of South West Bank of Check-in Desks	June 2009	£0.10 million
T4 Check-in Extension Completion of North East Bank of Check-in Desks	January 2020	£0.10 million
T4 New CIP Completion of Shell and Core for fit-out	February 2009	£0.10 million
T4 Completion of Baggage Sorter	January 2009	£0.10 million
T4 A380 jetty facilities Completion of 3rd Jetties on each 2 A380 stands	May 2009	£0.10 million
Completion of the T3 Integrated Baggage System	March 2012	£1.19 million
T3 Refurbishment Completion of Pier 5 refurbishment	July 2009	£0.10 million
T3 Refurbishment Completion of Pier 7 refurbishment	August 2009	£0.10 million
T3 Refurbishment Completion of Check-in & Security Search Refurbishment	March 2010	£0.10 million
T3 Refurbishment Completion of Immigration, Landside Departures & Baggage Hall Refurbishment	March 2011	£0.16 million
HET Phase 1 Demolition of T2 sufficiently complete to enable start of HET construction and HET building substructures complete within main terminal floorplate	March 2011	£2.78 million
HET Phase 1 Completion of Building weather-tight	February 2012	£3.43 million
HET Phase 1 Construction sufficiently progressed for operation trials to commence	November 2012	£1.22 million
T1 Completion of T1 BMI Nose Building Facility	January 2009	£0.10 million
Completion of Mid-field Pier North	January 2010	£0.50 million
Completion of Mid-field Pier Centre	November 2012	£0.67 million
Completion of Passenger Connectivity to the Midfield	November 2012	£0.31 million

Trigger Project	“Milestone Month”	“Monthly Trigger Payment _t ”
Pier		
Completion of the Outer Pier North	January 2012	£0.49 million
Eastern Maintenance Base Redevelopment Completion of the diversion of East Church Road	March 2010	£0.17 million
Post T5: Transfer Baggage System Completion of the T5-T3 Tunnel & Baggage System	November 2011	£0.79 million
Post T5: Transfer Baggage System Completion of the T3-T1 Tunnel & Baggage System	June 2012	£0.41 million
Completion of the T4-T1 Tunnel Refurbishment	January 2009	£0.10 million

7. B_t is a bonus factor based on performance in respect of specified elements in relevant year t and shall be calculated as follows:

$$B_t = \sum_{\text{March}}^{\text{April}} \sum_{\text{Specified Elements}} \text{MAX} \left[0, \text{MIN} \left[\text{BNS}(\text{T1})_{kj}, \text{BNS}(\text{T2})_{kj}, \text{BNS}(\text{T3})_{kj}, \text{BNS}(\text{T4})_{kj}, \text{BNS}(\text{T5})_{kj}, \text{BNS}(\text{HET})_{kj} \right] \right]$$

Where:

“Specified Elements” are the elements set out in Table 2; and

for each month j and “Specified Element” k ;

$$\text{BNS}(\text{T1})_{kj} = \frac{1}{12} \cdot \text{MAB}_k \cdot \frac{\text{MP}(\text{T1})_{kj} - \text{LPL}_k}{\text{UPL}_k - \text{LPL}_k}$$

$$\text{BNS}(\text{T2})_{kj} = \frac{1}{12} \cdot \text{MAB}_k \cdot \frac{\text{MP}(\text{T2})_{kj} - \text{LPL}_k}{\text{UPL}_k - \text{LPL}_k}$$

$$\text{BNS}(\text{T3})_{kj} = \frac{1}{12} \cdot \text{MAB}_k \cdot \frac{\text{MP}(\text{T3})_{kj} - \text{LPL}_k}{\text{UPL}_k - \text{LPL}_k}$$

$$\text{BNS}(\text{T4})_{kj} = \frac{1}{12} \cdot \text{MAB}_k \cdot \frac{\text{MP}(\text{T4})_{kj} - \text{LPL}_k}{\text{UPL}_k - \text{LPL}_k}$$

$$BNS(T5)_{kj} = \frac{1}{12} \cdot MAB_k \cdot \frac{MP(T5)_{kj} - LPL_k}{UPL_k - LPL_k}$$

$$BNS(HET)_{kj} = \frac{1}{12} \cdot MAB_k \cdot \frac{MP(HET)_{kj} - LPL_k}{UPL_k - LPL_k}$$

Except:

For months including or after “Such Time as T2 is Decommissioned” then:

$$BNS(T2)_{kj} = 100\%$$

For months after or including “Such Time when Passenger Operations Commence at HET” then:

$$BNS(HET)_{kj} = 100\%$$

For months before or including “Such Time when Passenger Operations Commence at T5” then:

$$BNS(T5)_{kj} = 100\%$$

where:

For each “Specified Element” k, LPL_k , UPL_k and MAB_k have the values assigned in Table 2; and

$MP(T1)_{kj}$, $MP(T2)_{kj}$, $MP(T3)_{kj}$, $MP(T4)_{kj}$, $MP(T5)_{kj}$, and $MP(HET)_{kj}$ are the lesser of the upper performance limit for element k in month j and the measured performance in Terminal 1, Terminal 2, Terminal 3, Terminal 4, Terminal 5 and Heathrow Terminal East respectively.

Table 2

“Specified Element”	Performance Metric	Lower performance limit (LPL _k)	Upper performance limit (UPL _k)	Maximum annual bonus (MAB _k)
Departure lounge seat availability	QSM	3.8	4.5	0.36
Cleanliness	QSM	3.9	4.5	0.36
Way-finding	QSM	4.0	4.5	0.36

Flight information	QSM	4.2	4.5	0.36
Passenger sensitive equipment (general)	Availability	99% of time	100% of time	0.40
Arrivals reclaim (Baggage Carousels)	Availability	99% of time	100% of time	0.40

8. 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;

“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;

“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;

“QSM” and “Availability” have the meanings from time to time published by the CAA.

“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 August in relevant year t-1 and that published with respect to the immediately preceding August, 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 September in year t-2 to the end of August in year t-1;

“Such Time as T2 is Decommissioned” is the month, in the judgement of the CAA, from which Terminal 2 is no longer in use for passengers;

“Such Time when Passenger Operations Commence at HET” is the month, in the judgement of the CAA, from which the Heathrow Terminal East is brought into use for passenger services;

“Such Time when Passenger Operations Commence at T5” is the month, in the judgement of the CAA, from which Terminal 5 is brought into use for passenger services.

HEATHROW CONDITION 2

In each of the five consecutive years beginning on 1 April 2008 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 Condition 1 that are higher than are levied in respect of equivalent air services falling within that definition.

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 2008 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:

$$M_{2008/9} = \pounds 6.967 \cdot \left(1 + \frac{B_t}{100} \right) - \frac{TRIGGER_t}{Q_t} - K_t$$

Where:

$M_{2008/9}$ is the maximum average revenue yield per passenger using Gatwick airport in relevant year 2008/9 expressed in £;

B_t has the meaning assigned to it by paragraph 7;

$TRIGGER_t$ has the meaning assigned to it by paragraph 6;

Q_t has the meaning assigned to it by paragraph 5; and

K_t has the meaning assigned to it by paragraph 5.

2. 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 four relevant years beginning with 1 April 2009 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:

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

Where:

M_t is the 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 8;

$X = 2.0$;

B_t has the meaning assigned to it by paragraph 7;

Y_{t-1} has the meaning assigned to it by paragraph 3;

$TRIGGER_t$ has the meaning assigned to it by paragraph 6; and

K_t has the meaning assigned to it by paragraph 5.

3. Y_{t-1} is 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:

$$Y_{2008/9} = £6.967 + S_{t-1};$$

RPI_{t-2} has the meaning assigned to it by paragraph 8:

X has the value assigned in paragraph 2; and

S_{t-1} has the values assigned in paragraph 4.

4. S_{t-1} is 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

Expected Cumulative Costs $_{t-1} \geq £7$ million; and
Expected Cumulative Costs $_{t-2} \geq £7$ million

then

$$S_{t-1} = 0.9C_{t-1}$$

or if

Expected Cumulative Costs $_{t-1} > £7$ million; and
Expected Cumulative Costs $_{t-2} < £7$ million

then

$$S_{t-1} = 0.9 \frac{\text{ExpectedCumulatedCost}_{t-1} - \text{£7million}}{(6 - T_t)Q_{t-1}}$$

or if

Expected Cumulative Costs_{t-1} < £7 million; and

Expected Cumulative Costs_{t-2} > £7 million

then

$$S_{t-1} = -0.9 \frac{\text{ExpectedCumulatedCost}_{t-2} - \text{£7million}}{(6 - t^*)Q_{t-1}}$$

Where

$$t^*_{2008/9} = 1; t^*_{2009/10} = 2; t^*_{2010/11} = 3; t^*_{2011/12} = 4; \text{ and } t^*_{2012/13} = 5$$

otherwise

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

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

Year (t-1)	2008/9	2009/10	2010/11	2011/12
A. Effect of claims relating to 2008/9	$5 \times C_{2008/9} \times Q_{2008/9}$	$5 \times C_{2008/9} \times Q_{2008/9}$	$5 \times C_{2008/9} \times Q_{2008/9}$	$5 \times C_{2008/9} \times Q_{2008/9}$
B. Effect of claims relating to 2009/10		$4 \times C_{2009/10} \times Q_{2009/10}$	$4 \times C_{2009/10} \times Q_{2009/10}$	$4 \times C_{2009/10} \times Q_{2009/10}$
C. Effect of claims relating to 2010/11			$3 \times C_{2010/11} \times Q_{2010/11}$	$3 \times C_{2010/11} \times Q_{2010/11}$
D. Effect of claims relating to 2011/12				$2 \times C_{2011/12} \times Q_{2011/12}$
Expected Cumulative Cost Sum rows A to D				

Where:

C_{t-1} is 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 £; and

Q and Q_{t-1} = passengers using Gatwick airport in the relevant year.

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

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

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 $t - 2$;

Q_t = passengers using Gatwick airport in relevant year t ;

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

I_{t-2} = 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.

In relation to the relevant years 2008/09 and 2009/10, the values of T_{t-2} , Q_{t-2} , M_{t-2} and I shall be calculated by reference to the conditions as to airport charges imposed in relation to Gatwick airport in force at 31 March 2008.

6. $TRIGGER_t$ is the reduction in the maximum allowable charges when the airport has not achieved particular capital investment project milestones on time and shall be calculated as follows:

$$TRIGGER_t = \sum_{\text{specified March triggers}} \sum_{\text{April}} TM_{ti} \cdot TF_{tij}$$

Where

The Specified Triggers are set out in Table 1; and

For any specified trigger i , in month j , in year t :

If either:

the relevant month is before or corresponds to the month specified as the “milestone month”; or

the relevant month is after the month in which the “completion date” of the relevant project takes place:

Then:

$$TF_{tij} = 0$$

otherwise:

$$TF_{tij} = 1$$

where:

“Milestone Month” is defined for each project in Table 1;

“Completion Date” has the meaning assigned to it by paragraph 8; and

TM_{it} = Monthly Trigger Payment_i x (PRICE INDEX_t/PRICE INDEX_{2007/8}).

where

“Monthly Trigger Payment” is defined for each relevant project in Table 1; and

PRICE INDEX_t is the average monthly value of the CHAW series of the retail price index for the 12 months from April to March in relevant year t.

Table 1

Trigger Project	“Milestone Month”	“Monthly Trigger Payment _i ”
North West Zone	June 2010	£0.25 million
North Terminal Check-in Extension	November 2011	£0.30 million
North terminal Reclaim Extension	November 2011	£0.14 million
Pier 7	January 2012	£1.01 million
South Terminal Baggage	January 2013	£0.53 million
South terminal Check-in Environment	June 2010	£0.10 million
North Terminal Short Term Parking (MSCP6)	April 2011	£0.14 million
Inter terminal Transit System	October 2010	£0.19 million
South Terminal Forecourt	June 2009	£0.26 million
Pier 1	June 2010	£0.10 million

7. B_t is a bonus factor based on performance in respect of specified elements in relevant year t and shall be calculated as follows:

$$B_t = \sum_{\text{March}}^{\text{April}} \sum_{\text{Specified Elements}} \text{MAX}[0, \text{MIN}[BNS(ST)_{kj}, BNS(NT)_{kj}]]$$

Where:

“Specified Elements” are the elements set out in Table 2; and

for each month j and “Specified Element” k:

$$BNS(ST)_{kj} = \frac{1}{12} \cdot MAB_k \cdot \frac{MP(ST)_{kj} - LPL_k}{UPL_k - LPL_k} \text{ and}$$

$$BNS(NT)_{kj} = \frac{1}{12} \cdot MAB_k \cdot \frac{MP(NT)_{kj} - LPL_k}{UPL_k - LPL_k}$$

For each “Specified Element” k , LPL_k , UPL_k and MAB_k have the values assigned in Table 2.

$MP(ST)_{kj}$ is the lesser of the upper performance limit for element k and the measured performance for element k in month j in South Terminal; and

$MP(NT)_{kj}$ is the lesser of the upper performance limit for element k and the measured performance for element k in month j in North Terminal.

Table 2

“Specified Element”	Performance Metric	Lower performance limit (LPL_k)	Upper performance limit (UPL_k)	Maximum annual bonus (MAB_k)
Departure lounge seat availability	QSM	3.8	4.5	0.36
Cleanliness	QSM	4.0	4.5	0.36
Way-finding	QSM	4.1	4.5	0.36
Flight information	QSM	4.2	4.5	0.36
Passenger sensitive equipment (general)	Availability	99% of time	100% of time	0.40
Arrivals reclaim (Baggage Carousels)	Availability	99% of time	100% of time	0.40

8. 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;

“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;

“QSM” and “Availability” have the meanings from time to time published by the CAA.

“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;

“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 August in relevant year $t-1$ and that published with respect to the immediately preceding August, 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 September in year $t-2$ to the end of August in year $t-1$.

GATWICK CONDITION 2

In each of the five consecutive years beginning on 1 April 2008 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 Condition 1 that are higher than are levied in respect of equivalent air services falling within that definition.

ANNEX 2

Public interest conditions in relation to Heathrow and Gatwick airports modified in accordance with section 51(6) of the Airports Act 1986.

CONDITIONS AS TO REBATES TO BE PAID BY HEATHROW AIRPORT LTD TO USERS WHERE QUALITY OF SERVICE FAILS TO MEET SERVICE STANDARDS IN ACCORDANCE WITH SECTION 46(2) OF THE AIRPORTS ACT

WHEREAS the Competition Commission ("CC") in the report to the Civil Aviation Authority ("CAA") following a reference made by the CAA to the CC 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 had pursued a course of conduct which may be expected to operate against the public interest such that the adverse effect of this conduct was that prices did not reflect the quality of service to the extent that would occur in a competitive market and in consequence that there was 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 CC recommended that a condition be imposed that would require HAL to pay specified rebates to the airlines whenever their quality failed to meet specified standards as specified from time to time by the CAA;

AND WHEREAS the CC 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 was in accord with best market research practice, and that the methodology was adequately implemented to make sure that samples accurately reflected the overall mix of passengers at all times of operation;

AND WHEREAS the CC recommended that such auditor should be appointed by the CAA;

AND WHEREAS the CAA duly imposed conditions on HAL to remedy or prevent the effects adverse to the public interest;

AND WHEREAS the CC in the report to the CAA following a reference made by the CAA to the CC on 30 March 2007 in respect of HAL saw no reason to believe that there was any case for a relaxation of the current service quality condition and considered that it should continue in force and that some standards should be raised;

AND WHEREAS the CC considered that HAL had displayed the same failings in the previous five years, in particular in failing to manage security queuing and queue times to avoid unacceptable delays to passengers and flights and consequently had not furthered the reasonable interests of the users of Heathrow;

AND WHEREAS the CC considered that these effects adverse to the public interest could be remedied or prevented by the extension and strengthening of the existing service quality conditions and/or by the imposition of equivalent new conditions;

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 conditions 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, monthly, on an easily accessible page on its website its performance against the specified service standards and details of the specified rebates paid and payable in respect of each terminal and for each category of service.
- d) HAL shall publish, monthly, through prominent displays in each of the terminals at Heathrow airport its performance against such specified services standards as the CAA shall from time to time nominate for the purpose of better informing passengers.
- e) HAL shall facilitate regular independent audits of the measurement and working of the service quality regime, including the QSM methodology. Audits of the QSM should 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 modify those imposed in Appendix 1 of the CAA's decision of February 2005. They shall take effect on 1 April 2008 and shall continue in force until 31 March 2013 unless, before that date, they are modified or withdrawn. The

conditions may be extended beyond 31 March 2013 in accordance with section 51(2) of the Act.

**CONDITIONS AS TO THE COST INFORMATION AVAILABLE TO USERS
IN RESPECT OF HEATHROW AIRPORT LTD IN ACCORDANCE WITH
SECTION 46(2) OF THE AIRPORTS ACT 1986**

WHEREAS the Monopolies and Mergers Commission ("MMC") in the report made to the Civil Aviation Authority ("CAA") following a reference made by the CAA to the MMC on 13 December 1990 in respect of Heathrow Airport concluded that the provision to users of inadequate information on the costs or other bases for charges of a number of services and facilities for airlines, tenants and licensees by Heathrow Airport Limited ("HAL") had pursued a course of conduct which may be expected to operate against the public interest;

AND WHEREAS the MMC specified in the report that the CAA should impose conditions to require HAL to provide on an annual basis or at the time of each price increase information to the CAA and users on the detailed costs or other factors on which such charges are based;

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

AND WHEREAS the CAA imposed a condition on HAL on 18 November 1991;

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

1. By 31 December 2008 and by 31 December in each subsequent year HAL shall inform the CAA of the system used by it to allocate costs to non-airport charges activities. HAL shall make any amendments to its cost allocation system if so requested by CAA by 31 March prior to each charging year commencing on 1 April.
- 2 By 31 December 2008 and by 31 December in each subsequent year HAL shall provide to the CAA statements of actual costs and revenues in respect of each of the facilities specified in paragraph 7 for the year ending the previous 31 March.
3. Each year HAL shall provide to the CAA and to users or organisations representing users of the specified facilities prior to implementing any price changes a statement of the pricing principles for each item charged.
4. Each year including the current year HAL shall provide the CAA and users or their representatives the assumptions and relevant cost information adequate to verify that the charges derive from the application of the pricing principles.
5. Where the costs stated by HAL to be in connection with a particular charge vary from those provided in the Profit Centre Reports supplied to the CAA, HAL shall

provide to the CAA and to users or their representatives a reconciliation with detailed reasons for such differences.

6. Where charges for the specified facilities are not established in relation to cost HAL shall provide to the CAA and to users or their representatives a statement of the principles on the basis of which the charges have been set with full background information as to the calculation of such charges including statements of any comparables used.

7. Where in respect of any year forecast revenue for any of the specified facilities differs from that forecast for the purposes of the price control review for the period 1 April 2008 to 31 March 2013 (as specified by the CAA¹), HAL shall provide to the CAA and to users or their representatives detailed reasons for the differences.

8. The specified facilities are: check-in desks (including facilities provided for self service check-in), baggage systems, other desk licences, staff car parking, staff ID cards, fixed electrical ground power, hydrant refuelling, airside parking, airside licences, cable routing, maintenance, heating and utility services, and facilities for bus and coach operators.

9. These modified conditions shall take effect from 1 April 2008 and shall continue in force until 31 March 2013 unless before that date they are modified or withdrawn. The conditions may be extended beyond 31 March 2013 in accordance with section 51(2) of the Airports Act 1986.

¹ In Table 6.3 of Airport Regulation: Economic Regulation of Heathrow and Gatwick Airports 2008 - 2013 - CAA decision, March 2008

CONDITIONS AS TO THE USE OF EMPLOYMENT AGENCY STAFF AT HEATHROW AIRPORT IN ACCORDANCE WITH SECTION 46(2) OF THE AIRPORTS ACT 1986.

WHEREAS the Monopolies and Mergers Commission ("MMC") in the report made to the Civil Aviation Authority ("CAA") following a reference made by the CAA to the MMC on 11 December 1995 in respect of Heathrow Airport concluded that by imposing quantitative restrictions on the use of employment agency staff Heathrow Airport Limited ("HAL") had pursued a course of conduct which may be expected to operate against the public interest;

AND WHEREAS the MMC specified in the report that the CAA should impose conditions to require HAL not to impose any quantitative restriction on the use of agency staff;

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 MMC as to the conditions by which the effects adverse to the public interest could be remedied or prevented;

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

- (a) HAL shall not impose any quantitative restrictions on the use of agency staff employed by airlines.
- (b) HAL shall take measures to ensure that agency staff employed by airlines are appropriately screened, trained, controlled and supervised.

These conditions, which took effect on 1 November 1996, shall continue in force until 31 March 2013 unless, before that date, they are modified or withdrawn. The conditions may be extended beyond 31 March 2013 in accordance with section 51(2) of the Act.

CONDITIONS AS TO THE PROVISION OF INFORMATION DESKS AT HEATHROW AIRPORT IN ACCORDANCE WITH SECTION 46(2) OF THE AIRPORTS ACT 1986.

WHEREAS the Monopolies and Mergers Commission ("MMC") in the report made to the Civil Aviation Authority ("CAA") following a reference made by the CAA to the MMC on 11 December 1995 in respect of Heathrow Airport concluded that the refusal by Heathrow Airport Limited ("HAL") to allow information desks in airside departure lounges in a position acceptable to airlines, other than at rents which reflect commercial income foregone, has been a course of conduct pursued by HAL which has operated and might be expected to operate against the public interest;

AND WHEREAS the MMC specified in the report that the CAA should impose conditions to require HAL to allow at least one information desk in the airside departure lounge of each Terminal to be located in a position acceptable to the majority of airlines (or in the event of dispute as resolved by the CAA) to be operated jointly by the airlines or by HAL on their behalf, at the standard charges currently levied on information desks with no reference to commercial income foregone;

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 MMC as to the conditions by which the effects adverse to the public interest could be remedied or prevented;

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

- (a) HAL shall not unreasonably refuse requests from airlines to provide information desks in the airside departure lounge of each terminal at Heathrow Airport.
- (b) HAL shall allow at least one information desk to be provided in each airside departure lounge of each Terminal at Heathrow Airport at a location which meets the reasonable needs of airlines using the relevant terminal.
- (c) Where the number of information desks is limited by HAL, HAL shall take measures to ensure that as far as is reasonably practicable, the information available to passengers is comprehensive and unbiased.
- (d) The charge for an information desk provided in accordance with this condition shall be established by HAL at the standard rate for information desks located elsewhere at Heathrow Airport.

These conditions, which took effect on 1 November 1996, shall continue in force until 31 March 2013 unless, before that date, they are modified or withdrawn. The conditions may be extended beyond 31 March 2013 in accordance with section 51(2) of the Act.

CONDITIONS AS TO REBATES TO BE PAID BY GATWICK AIRPORTS 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 ("CC") in the report to the Civil Aviation Authority ("CAA") following a reference made by the CAA to the CC 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 had pursued a course of conduct which may be expected to operate against the public interest such that the adverse effect of this conduct was that prices did not reflect the quality of service to the extent that would occur in a competitive market and in consequence that there was 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 CC recommended that a condition be imposed that would require GAL to pay specified rebates to the airlines whenever their quality failed to meet specified standards as specified from time to time by the CAA;

AND WHEREAS the CC 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 was in accord with best market research practice, and that the methodology was adequately implemented to make sure that samples accurately reflected the overall mix of passengers at all times of operation;

AND WHEREAS the CC recommended that such auditor should be appointed by the CAA;

AND WHEREAS the CAA duly imposed conditions on GAL to remedy or prevent the effects adverse to the public interest;

AND WHEREAS the CC in the report to the CAA following a reference made by the CAA to the CC on 30 March 2007 in respect of GAL saw no reason to believe that there was any case for a relaxation of the current service quality condition and considered that it should continue in force and that some standards should be raised;

AND WHEREAS the CC considered that GAL had displayed the same failings in the previous five years, in particular in failing to manage security queuing and queue times to avoid unacceptable delays to passengers and flights and consequently had not furthered the reasonable interests of the users of Gatwick;

AND WHEREAS the CC considered that these effects adverse to the public interest could be remedied or prevented by the extension and strengthening of the existing service quality conditions and/or by the imposition of equivalent new conditions;

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 conditions 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, monthly, on an easily accessible page on its website its performance against the specified service standards and details of the specified rebates paid and payable in respect of each terminal and for each category of service.
- (d) GAL shall publish, monthly, through prominent displays in each of the terminals at Gatwick airport its performance against such specified services standards as the CAA shall from time to time nominate for the purpose of better informing passengers.
- (e) GAL shall facilitate regular independent audits of the measurement and working of the service quality regime, including the QSM methodology. Audits of the QSM should 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 modify those imposed in Appendix 2 of the CAA's decision of February 2005. They shall take effect on 1 April 2008 and shall continue in force until 31 March 2013 unless, before that date, they are modified or withdrawn. The conditions may be extended beyond 31 March 2013 in accordance with section 51(2) of the Act.

**CONDITIONS AS TO THE COST INFORMATION AVAILABLE TO USERS
IN RESPECT OF GATWICK AIRPORT LTD IN ACCORDANCE WITH
SECTION 46(2) OF THE AIRPORTS ACT 1986**

WHEREAS the Monopolies and Mergers Commission ("MMC") in the report made to the Civil Aviation Authority ("CAA") following a reference made by the CAA to the MMC on 13 December 1990 in respect of Gatwick Airport concluded that the provision to users of inadequate information on the costs or other bases for charges of a number of services and facilities for airlines, tenants and licensees by Gatwick Airport Limited ("GAL") had pursued a course of conduct which may be expected to operate against the public interest;

AND WHEREAS the MMC specified in the report that the CAA should impose conditions to require GAL to provide on an annual basis or at the time of each price increase information to the CAA and users on the detailed costs or other factors on which such charges are based;

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

AND WHEREAS the CAA imposed a condition on GAL on 18 November 1991;

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

1. By 31 December 2008 and by 31 December in each subsequent year GAL shall inform the CAA of the system used by it to allocate costs to non-airport charges activities. GAL shall make any amendments to its cost allocation system if so requested by CAA by 31 March prior to each charging year commencing on 1 April.
2. By 31 December 2008 and by 31 December in each subsequent year GAL shall provide to the CAA statements of actual costs and revenues in respect of each of the facilities specified in paragraph 7 for the year ending the previous 31 March.
3. Each year GAL shall provide to the CAA and to users or organisations representing users of the specified facilities prior to implementing any price changes a statement of the pricing principles for each item charged.
4. Each year including the current year GAL shall provide the CAA and users or their representatives the assumptions and relevant cost information adequate to verify that the charges derive from the application of the pricing principles.
5. Where the costs stated by GAL to be in connection with a particular charge vary from those provided in the Profit Centre Reports supplied to the CAA, GAL shall

provide to the CAA and to users or their representatives a reconciliation with detailed reasons for such differences.

6. Where charges for the specified facilities are not established in relation to cost GAL shall provide to the CAA and to users or their representatives a statement of the principles on the basis of which the charges have been set with full background information as to the calculation of such charges including statements of any comparables used.

7. Where in respect of any year forecast revenue for any of the specified facilities differs from that forecast for the purposes of the price control review for the period 1 April 2008 to 31 March 2013 (as specified by the CAA²), GAL shall provide to the CAA and to users or their representatives detailed reasons for the differences.

8. The specified facilities are: check-in desks (including facilities provided for self service check-in), baggage systems, other desk licences, staff car parking, staff ID cards, fixed electrical ground power, hydrant refuelling, airside parking, airside licences, cable routing, maintenance, heating and utility services, and facilities for bus and coach operators.

9. These modified conditions shall take effect from 1 April 2008 and shall continue in force until 31 March 2013 unless before that date they are modified or withdrawn. The conditions may be extended beyond 31 March 2013 in accordance with section 51(2) of the Airports Act 1986.

² In Table 6.4 of Airport Regulation: Economic Regulation of Heathrow and Gatwick Airports 2008 - 2013 - CAA decision, March 2008