

Economic regulation of Heathrow Airport Limited: H7 Initial Proposals – draft licence modifications

CAP 2275



Published by the Civil Aviation Authority, 2021

Civil Aviation Authority,
Aviation House,
Beehive Ring Road,
Crawley,
West Sussex,
RH6 0YR.

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First published November 2021

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The latest version of this document is available in electronic format at www.caa.co.uk

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About this document

This consultation sets out draft modifications to Heathrow Airport Limited's ("HAL") licence¹ to show how we would implement the policy proposals in the October 2021 Initial Proposals for HAL's H7 price control review if we were to adopt them in the form set out in that document.² It includes:

- an introduction explaining the context for this consultation, including a brief summary of the scope of the October 2021 Initial Proposals, the timescales for making the modifications and how this relates to our proposals for a holding cap for 2022;³
- details of policy proposals where we are still considering whether these should be implemented through licence changes or policy statements;
- a mark up of each licence condition where we are proposing modifications, with reasons for those modifications, including references to the relevant chapter of our Initial Proposals document; and
- a clean version of Schedule 1 to the licence "Statement of Measures, Targets and Incentives".

Views invited

We welcome views on all the proposals included in this document. Please e-mail responses to economicregulation@caa.co.uk by no later than **Friday 7 January 2022**.

We cannot commit to take into account representations received after these dates.

We expect to publish the responses we receive on our website as soon as practicable after the period for representations expire. Any material that is regarded as confidential should be clearly marked as such and included in a separate annex. Please note that we have powers and duties with respect to information under section 59 of the Civil Aviation Act 2012 and the Freedom of Information Act 2000.

If you would like to discuss any aspect of this document, please contact Abigail Grenfell (abigail.grenfell@caa.co.uk).

¹ Licence granted to HAL on 13 February 2014 under section 15(5) CAA12 at www.caa.co.uk/HAL_licence.

² CAP 2265 Economic regulation of Heathrow Airport Limited: H7 Initial Proposals October 2021 at www.caa.co.uk/Commercial-industry/Airports/Economic-regulation/H7/Consultations-and-policy-documents.

³ CAP 2265 included at Appendix C a notice under section 22 CAA12 proposing licence modifications to set a holding cap for 2022 at [CAP2265E Appendices](#). Reasons for the proposals are at [CAP2265D](#). This consultation closed on 17 November 2021.

Introduction

1. This consultation sets out draft modifications to HAL’s licence⁴ to explain how we would implement our initial proposals for the review of HAL’s H7 price control and associated regulatory framework, if we were to adopt them in the form set out in the October 2021 Initial Proposals. These modifications would come into force after the existing price control arrangements expire at the end of December 2021.
2. This document should be read together with:
 - a) the October 2021 Initial Proposals which sets out the policy proposals that underpin these draft licence modifications; and
 - b) our working paper (CAP2274) which provides further details of our proposed approach to implementing outcome based regulation (OBR).⁵
3. Setting price controls for HAL is one of the CAA’s core functions under the Civil Aviation Act 2012 (“CAA12”). Our primary duty under CAA12 is to further the interests of users⁶ of air transport service regarding the range, availability, continuity, cost and quality of airport operation services (“AOS”). We are currently consulting stakeholders on our Initial Proposals for HAL’s H7 price control. This is a crucial step in our H7 price control review programme and the views of respondents will be important in helping us shape Final Proposals (due in early 2022).

Key considerations and context

4. Key areas that are addressed in the October 2021 Initial Proposals include:
 - how we intend to deal with the high degree of uncertainty created by the impact of the covid-19 pandemic;
 - HAL’s request for a further covid-19 related RAB adjustment;
 - our approach to incentivising efficient capital expenditure and service quality;

⁴ Licence granted to HAL on 13 February 2014 under section 15(5) of the Civil Aviation Act 2012 https://www.caa.co.uk/HAL_licence.

⁵ CAP 2274: Economic regulation of Heathrow Airport Limited: H7 Initial Proposals Working paper on outcome based regulation: see www.caa.co.uk/CAP2274.

⁶ Under CAA12, our primary duty is owed to “users” of air transport services. These users are present and future passengers and cargo owners. As in previous consultations, we refer to these users as a whole using the term “consumers”.

- the projections of costs, revenues, allowed returns and passenger numbers and how we have used these to identify a range of price controlled airport charges;
 - proposals for improving the governance arrangements for capital expenditure, service quality and charges for other services, to rectify weaknesses in the licence framework that have been identified during the Covid 19 downturn;
 - other amendments to the regulatory framework and price control adjustment terms to ensure that these are suitable for the H7 period.
5. Not all of these policy proposals will require extensive licence modifications. For example, the projections of costs, revenues, allowed returns and passenger numbers are only reflected in the opening price cap, with details of the policy decisions and assumptions that have led to that price cap set out in the notice making the modifications in our Final Decision, due in summer 2022. Other policy proposals, such as the move to outcome-based regulation (OBR) will require extensive changes to the licence.
6. There are some policy proposals where we have not at this stage confirmed whether the final decision would be implemented through the licence or other means such as through a policy statement. There are also some outstanding issues that need to be addressed for our Final Proposals. These are set out in more detail in paragraphs 9 to 14 below.
7. We do not expect these licence modifications to be finalised and to take effect until summer 2022. We are also separately consulting on a proposal to modify the licence to introduce a holding cap for 2022 (“the 2022 Consultation”)⁷. We expect to make a decision on that proposal in December 2021 and we will take account of any modifications made to the licence as a result of that decision when we next consult on the modifications for the H7 price control.

The draft licence modifications

8. We are proposing modifications to most parts of the licence and these are set out in Chapter 1 in tracked changes, signposted to the relevant chapter of the Initial Proposals consultation. Changes to the Statement of Standards, Rebates and Bonuses in the Schedule of the licence to reflect the move to outcome based regulation are explained in a table in Chapter 2, followed by the proposed Schedule. In summary we are proposing changes to:
- Condition A3 Definitions: changes to some definitions (with consequential changes throughout the licence);
 - Condition C1 Price Control: including:

⁷ CAP 2265 included at Appendix C a notice under section 22 CAA12 proposing licence modifications to set a holding cap for 2022 at [CAP2265E Appendices](#). Reasons for the proposals are at [CAP2265D](#). This consultation closed on 17 November 2021.

- a new opening price cap which takes into account our policy proposals relating to traffic forecasts, capex, opex and commercial revenues;
- updating relevant adjustment terms and definitions to reflect our policy proposals and uplift them for the H7 period;
- removing the expansion pass through term as this is not currently relevant;
- a new adjustment term to allow for uncertainty regarding the revenues that will be raised from the terminal drop-off charge;
- Condition C2 Charges for other services: including:
 - clarifying when and how the CAA can require changes to the cost allocation mechanism;
 - allowing changes to be made to the list of Specified Facilities if HAL, airlines and the CAA all agree these are necessary;
 - removing some Specified Facilities from that list;
 - generally clarifying the obligations in this condition;
- Condition D1 Service Quality: some changes to terminology to reflect our move to OBR and expanding the scope of the mechanism for making changes to the Statement of Standards, Rebates and Bonuses in Schedule 1 of the licence;
- Condition E2 Financial Resilience: changes to clarify the scope of the reporting requirements;
- other minor, consequential changes throughout the licence; and
- Schedule 1 Statement of Standards, Rebates and Bonuses: extensive changes to reflect our proposed changes to implement OBR.

Policy proposals that require further consideration before the Final Proposals.

9. In the October 2021 Initial Proposals we said that the RAB adjustments necessary to implement our proposals for traffic risk sharing and the capex incentive reconciliation process would be implemented in our Final Decision either through the licence or through other means such as policy statements.⁸
10. We are still assessing the best approach to implementing these proposals if we decide to include them in our Final Decision, and will continue to do so in the light of stakeholders' responses to the October 2021 Initial Proposals. If these adjustments are included in the licence, one way of implementing this might be to specify:
 - a list of information that HAL should record, and show in its regulatory accounts, to support these mechanisms; and

⁸ Paragraph 1.45 of [CAP2265B](#) and Paragraph 12.64 of [CAP2265D](#)

- the formula that HAL should apply to calculate the relevant adjustments to the RAB.
11. The October 2021 Initial Proposals also stated that it may be necessary to introduce a new licence condition that sets out our proposed mechanism for HAL to request additional capex that was not included in the H7 capex envelope in response to significant changes in external circumstances since the price control was set.⁹ We are still consulting on this proposal and will consider stakeholder views as we finalise our approach. If this is added to HAL's licence we expect that it will include a list of information that HAL should submit to the CAA to demonstrate that it has consulted on additional capex requirements and that they are driven by a change in circumstances from the time when the H7 determination was made.
 12. Before the Final Proposals we will need to confirm the price index to be used in Condition C1 in the formula for HAL's maximum revenue yield per passenger. In previous periods we have used the Retail Price Index (RPI), but the Consumer Price Index (CPI) is now the more widely accepted standard for measuring price changes.¹⁰
 13. There are also some outstanding issues that will need to be addressed before finalising the OBR framework for H7, some of which require further stakeholder engagement. These issues are set out in CAP2274. We have also referenced these issues in the proposed changes to Schedule 1 set out in Chapter 2 below.
 14. As noted in the October 2021 Initial Proposals, before we issue our Final Proposals we will consider whether there might be an argument for delaying the introduction of some (or all) of the new OBR measures, for example until the beginning of 2023, to allow for an orderly transition to the new arrangements.

The timetable

15. We will work with HAL and stakeholders to develop and refine these proposed modifications in light of responses to this consultation. Our intention is to include a further draft in our Final Proposals, due in Spring 2022, in the form of the notice of proposed modifications required under section 22(2) CAA12.

Timetable for the remainder of the H7 review

Date	Milestone
17 November 2021	Responses to draft licence modification on 2022 charges
17 December 2021	Responses to these IPs and further building block update from HAL

⁹ Paragraph 12.68 of [CAP2265D](#).

¹⁰ This is separate from the question of which price index we should use to index the RAB and calculate the real WACC. We indicated in December 2017 our intention to retain the RPI for these purposes in H7

7 January 2022	Responses to this consultation
March/April 2022	CAA final proposals for the H7 price control and proposed licence modifications
May/June 2022	CAA final decision on the H7 price control and notice making the licence modifications
July/August 2022	Licence modifications take effect

Our duties

16. In developing this consultation, we have had full regard to our statutory duties under the CAA12, which are set out more fully in Appendix A.

Next steps on this consultation

17. We welcome views on how we propose to ensure that our policy decisions are taken forward through the licence.
18. Please e-mail responses to economicregulation@caa.co.uk by no later than **Friday 7 January 2022**

Structure of this document

19. The structure of this Initial Proposals consultation is as follows:
- **Chapter 1** sets out proposed drafting to reflect the policy proposals in our Initial Proposals Consultation and our working paper on OBR (CAP2274).
 - **Chapter 2** – draft licence modifications to Schedule 1
 - sets out the draft licence modifications likely to be needed in Schedule 1 to HAL’s licence to implement our proposed approach to outcome based regulation (OBR).
 - a more detailed explanatory table (Table 2.1) to help stakeholders understand how these changes have been reflected in the clean version of Schedule 1 attached to this consultation.
 - **Appendix A** summarises the CAA’s statutory duties.

Chapter 1 – Draft licence modifications

Introduction

- 1.1 This chapter sets out in Table 1.1 below the proposed drafting to reflect the policy proposals in our Initial Proposals Consultation and working paper on OBR (CAP2274).
- 1.2 In the 2022 Consultation, we have proposed deleting the whole of Condition C1 Price control and replacing it with a single cap, with no adjustment mechanisms. We are proposing to re-introduce many of these terms with some modifications and to introduce a new term to reflect our policy proposals for the new terminal drop-off charge. We have included a marked-up version against the current Condition C1 (rather than against the proposed 2022 Condition C1) to show the proposed changes to those terms.
- 1.3 The implementation of OBR will require a number of detailed changes to Schedule 1 to reflect new terminology and other substantive changes to implement our proposed policy. We have also proposed to restructure Schedule 1 to improve signposting and increase transparency. We are therefore attaching a clean version of Schedule 1, rather than a mark-up, for ease of reference, with an explanation of the changes we propose set out in Chapter 2. This should be read alongside CAP2274.

Table 1.1: Draft Licence modifications

Licence Condition and modification	Draft modification	Comments
Part A Condition A3 Definitions		
<p>A3.1(f): Delete the definition of Regulatory Period and in C2.5, C4.1, E1.3, E1.5(a) & (b), E2.2, E3.5, Schedule 1: 2.1(e), (f) & (j), 2.28(a) & (b), 3.2, 3.4, 3.4(a) & (b), 3.5, 3.7, 3.11, 3.13, 3.15, 4.2, 4.4, 4.5, 5.2(b), 6.2, 6.3(c) delete all references to the term throughout the licence in text, tables and formulae.</p>	<p>(f) the Regulatory Period means the period of nine months between 1 April 2014 and 31 December 2014 and this period shall also be considered to be the Licensee's financial year for the purposes of this Licence; and</p>	<p>These modifications may be made in the proposed modification for the 2022 holding cap. If so, this description will be removed in our Final Proposals.</p>
<p>New A3.1(f): Include a new definition of H7</p>	<p>(f) H7 means the price control period set by the CAA in relation to the five Regulatory Years ending on 31 December 2026</p>	<p>For clarity within the licence</p>
<p>A3.1(g) Modify the definition of</p>	<p>(g) the Regulatory Year means, for each of the seven years from 2015-2021, the twelve-month period beginning on 1 January and ending on 31 December.</p>	<p>These modifications may be made in the</p>

<p>Regulatory Year and in C2.1, C2.2, C2.3, C3.7, C4.1, E1.3, E3.1, Schedule 1: 2.4, 3.4(a), 3.5, 3.11, 6.6 change references to “each” and/or “subsequent [number]” Regulatory Years to read “any” Regulatory Year</p>	<p>These years shall also be considered to be the Licensee’s financial year for the purposes of this Licence</p>	<p>proposed modification for the 2022 holding cap. If so, this description will be removed in our Final Proposals.</p>
<p>Part C: Condition C1 Price control</p>		
<p>C1.1 Modify the text, formula and definitions to reflect the starting year of the H7 price control and changes to adjustment terms.</p>	<p>C1.1 When the Licensee fixes the amounts to be levied by it by way of airport charges in respect of relevant air transport services in the Regulatory Period Year 2022s, it shall fix those charges at the levels best calculated to secure that; in the that Regulatory Period-Year, the total revenue at the Airport from such charges divided by the total number of passengers using the Airport does not exceed the maximum revenue yield per passenger, which shall be calculated as follows:</p> $M_{20142022} = \pounds\del{22.261xx.xx} \left(1 + B_{\frac{2012}{132020}} \right) + \frac{D_{20142022}}{Q_{20142022}} - \frac{T_{20142022}}{Q_{20142022}} + \frac{TDO_{2022}}{Q_{2022}} - K_{20142022}$ <p>where:</p> <ul style="list-style-type: none"> ▪ $M_{20142022}$ is the maximum revenue yield per passenger using the Airport in the Regulatory Period Year 2022 expressed in pounds sterling; ▪ $B_{\frac{2012}{13}}$ is the bonus factor in the Regulatory Period-Year 2022 based on the Licensee's performance in 2012/13-Regulatory Year 2020, as defined in 	<p>If the actual numbers within the adjustment terms are known when we make the final decision on the H7 price control, we may simplify this Condition 1.1 to simply reflect the starting price cap.</p>

	<p>Condition C1.8;</p> <ul style="list-style-type: none"> ▪ $D_{2014+2022}$ is the cumulative development capex adjustment in the Regulatory Period-Year 2022, as defined in Condition C1.9; ▪ $T_{2014+2022}$ is the capital 'trigger' factor in the Regulatory Period-Year 2022, as defined in Condition C1.7; ▪ $Q_{2014+2022}$ is passengers using the Airport in the Regulatory Period-Year 2022; and ▪ TDO_{2022} is the Terminal Drop-off charge factor in Regulatory Year 2022, as defined in Condition C1.12; ▪ $K_{2014+2022}$ is the per passenger correction factor infor the Regulatory Period Year 2022, as defined in Condition C1.5. 	
<p>C1.2: Modify the text, formula and definitions to reflect the relevant years of the H7 price control and changes to adjustment terms.</p>	<p>C1.2 On each occasion on which the Licensee fixes the amounts to be levied by it by way of airport charges in respect of relevant air transport services for in each of the five subsequent relevant Regulatory Years “t” starting on 1 January 2020 2023 and each subsequent Regulatory Year until the Regulatory Year ending on 31 December 2024-2026, the Licensee shall fix those charges at the levels best calculated to secure that, in each of those relevant Regulatory Years, total revenue at the Airport from such charges divided by the total number of passengers using the Airport does not exceed the amount set in accordance with the formula below:</p> $M_t = (1 + [CPI \text{ or } RPI]_{t-1} + X + B_{t-2})Y_{t-1} + \frac{D_t}{Q_t} - \frac{T_t}{Q_t} + \frac{A_t}{Q_t} + \frac{BR_t}{Q_t} + \frac{TDO_t}{Q_t} - K_t$ <p>where:</p> <ul style="list-style-type: none"> ▪ M_t is the maximum revenue yield per passenger using the Airport in Regulatory Year t expressed in pounds sterling, where; 	

	<ul style="list-style-type: none"> ▪ $[CPI \text{ or } RPI]_{t-1}$ is the percentage change (positive or negative) in the Office for National Statistics (ONS) [details of price index] CHAW Retail Price Index between April in year Regulatory Year $t - 1$ and April in Regulatory Year $t - 2$ the immediately preceding April; ▪ $X = -4.5-xx\%$; ▪ B_{t-2} is the bonus factor in Regulatory Year t, based on the Licensee's performance in Regulatory Year $t - 2$, as defined in Condition C1.8; ▪ Y_{t-1} is the average revenue yield per passenger in Regulatory Period or Regulatory Year $t - 1$, as defined in Condition C1.3; ▪ D_t is the cumulative development capex adjustment in Regulatory Year t, as defined in Condition C1.9; ▪ T_t is the capital 'trigger' factor in Regulatory Year t, as defined in Condition C1.7; ▪ Q_t is the number of passengers using the Airport in Regulatory Year t; ▪ A_t is the cost pass through for runway expansion in Regulatory Year t defined in Condition C1.12; ▪ BR_t is the business rate revaluation factor in Regulatory Year t, as defined in Condition C1.11; and ▪ TDO_t is the Terminal Drop-off charge factor in Regulatory Year t, as defined in Condition C1.12; and ▪ K_t is the per passenger correction factor in Regulatory Year t, as defined in Condition C1.5. 	
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<p>C1.3 Modify the text and definitions to reflect the H7 period, to note that we have yet to confirm if we will use CPI or RPI, and include allowable health and safety costs in the definition of S_{t-1}.</p>	<p>Y_{t-1}: average revenue yield per passenger</p> <p>C1.3 Y_{t-1} is the average revenue yield per passenger in Regulatory Period or Regulatory Year $t - 1$ calculated in accordance with the following formula:</p> $Y_{t-1} = Y_{t-2}(1 + [\text{CPI or RPI}]_{t-2} + X) + S_{t-1}$ <p>where:</p> <ul style="list-style-type: none"> ▪ $Y_{2014+2022} = \text{£}22.261\text{xx.xx} + S_{2014+2022}$ ▪ $[\text{CPI or RPI}]_{t-2}$ is the percentage change (positive or negative) in the ONS [details of price index] Retail Price Index between that published with respect to April in Regulatory Period or Regulatory Year $t - 2$ and April in Regulatory Year $t - 3$ that published with respect to the immediately preceding April; ▪ $X = -4.5 +/- [x]\%$ ▪ S_{t-1} is the allowable security and/or health and safety cost per passenger in Regulatory Year $t - 1$, as defined in Condition C1.4. 	
<p>C1.4 Modifications to include allowable health and safety costs in the term and to reflect that the deadband will need to be changed</p>	<p>S_{t-1}: allowable security and/or health and safety cost per passenger</p> <p>C1.4 S_{t-1} is the allowable security and/or health and safety cost per passenger in Regulatory Period or Regulatory Year $t - 1$ arising as a result of changes to security and/or health and safety standards. Additional costs from such changes shall be in security standards are considered as positive values. Rreductions in cost from changes in security standards are considered from such changes shall be as negative values. This mechanism only applies only when the expected cumulative cost ("EC") associated with changes to security and/or health and safety standards are:</p> <p>(a) above a cumulative £21,000,000 xx "deadband" figure; or</p>	<p>Discussion on including allowable health and safety costs in the S-factor is in Chapter 1 of CAP2265B</p>

(b) below a cumulative - £21,000,000 xx "deadband" figure

S_{t-1} is calculated in accordance with the following formulae expressed in pounds sterling:

For each relevant ~~Regulatory Period or~~ Regulatory Year $t - 1$, ~~in the case that EC is a positive value, with reference to the absolute value of EC:~~

If EC is a positive number, then:		If EC is a negative number, then:	
if:	$ EC_{t-1} > £21,000,000 \text{ xx}$	if:	$ EC_{t-1} > £21,000,000 \text{ xx}$
and	$ EC_{t-2} > £21,000,000 \text{ xx}$	and	$ EC_{t-2} > £21,000,000 \text{ xx}$
then:	$S_{t-1} = 0.9 C_{t-1}$	then:	$S_{t-1} = 0.9 C_{t-1}$
OR:		OR:	
if:	$ EC_{t-1} > £21,000,000 \text{ xx}$	if:	$ EC_{t-1} > £21,000,000 \text{ xx}$
and	$ EC_{t-2} < £21,000,000 \text{ xx}$	and	$ EC_{t-2} < £21,000,000 \text{ xx}$
then:	$S_{t-1} = 0.9 \frac{(EC_{t-1} + £21,000,000 \text{ xx})}{\text{TimeFactor} \times (t^*) Q_{t-1}}$	then:	$S_{t-1} = 0.9 \frac{(EC_{t-1} + £21,000,000 \text{ xx})}{\text{TimeFactor} \times (t^*) Q_{t-1}}$
OR:		OR:	
if:	$ EC_{t-1} < £21,000,000 \text{ xx}$	if:	$ EC_{t-1} < £21,000,000 \text{ xx}$
and	$ EC_{t-2} > £21,000,000 \text{ xx}$	and	$ EC_{t-2} > £21,000,000 \text{ xx}$
then:	$S_{t-1} =$	then:	$S_{t-1} =$

	$-0.9 \frac{(EC_{t-2} - \pounds 21,000,000 \text{ xx})}{\text{TimeFactor} \times (t^*) Q_{t-1}}$	$-0.9 \frac{(EC_{t-2} + \pounds 21,000,000 \text{ xx})}{\text{TimeFactor} \times (t^*) Q_{t-1}}$	
	<p>Otherwise: $S_{t-1} = 0$</p> <p>If: $EC_{t-1} > \pounds 21,000,000$; and</p> <p style="padding-left: 40px;">$EC_{t-2} > \pounds 21,000,000$</p> <p>Then: $S_{t-1} = 0.9 C_{t-1}$</p> <p>Or if: $EC_{t-1} > \pounds 21,000,000$; and</p> <p style="padding-left: 40px;">$EC_{t-2} < \pounds 21,000,000$</p> <p>Then: $S_{t-1} = 0.9 \frac{(EC_{t-1} - \pounds 21,000,000)}{(t^*) Q_{t-1}}$</p> <p>Or if: $EC_{t-1} < \pounds 21,000,000$; and</p> <p style="padding-left: 40px;">$EC_{t-2} > \pounds 21,000,000$</p> <p>Then: $S_{t-1} = -0.9 \frac{(EC_{t-2} - \pounds 21,000,000)}{(t^*) Q_{t-1}}$</p> <p>Otherwise: $S_{t-1} = 0$</p> <p>For each relevant Regulatory Period or Regulatory Year $t-1$, if EC is a negative number, with reference to the absolute value of EC:</p> <p>If: $EC_{t-1} > \pounds 21,000,000$; and</p> <p style="padding-left: 40px;">$EC_{t-2} > \pounds 21,000,000$</p> <p>Then: $S_{t-1} = 0.9 C_{t-1}$</p> <p>Or if: $EC_{t-1} > \pounds 21,000,000$; and</p> <p style="padding-left: 40px;">$EC_{t-2} < \pounds 21,000,000$</p>	<p>Otherwise: $S_{t-1} = 0$</p>	

~~Then: $S_{t-1} = 0.9 \frac{(EC_{t-1} + £21,000,000)}{(\epsilon^*)Q_{t-1}}$~~

~~Or if: $|EC_{t-1}| < £21,000,000$; and
 $|EC_{t-2}| > £21,000,000$~~

~~Then $S_{t-1} = 0.9 \frac{(EC_{t-2} + £21,000,000)}{(\epsilon^*)Q_{t-1}}$~~

~~Otherwise: $S_{t-1} = 0$~~

where:

- Q_{t-1} is the number of passengers using the Airport in ~~Regulatory Period or~~ Regulatory Year $t - 1$; and
- TimeFactor ϵ^* is a time variable, which is defined for each ~~Regulatory Period or~~ Regulatory Year in Table C.1 below:

Table C.1: Time Factor variable

Regulatory Year t	2022	2023	2024	2025	2026
TimeFactor ϵ^*	5	4	3	2	1

Regulatory Year Period t =	TimeFactor ϵ^* =
9mo. 2014	93/9
2015-2022	5-7
2016-2023	4-6
2017-2024	3-5
2018-2025	2-4

2019-2026	1-3
2020	2

Where

- C_{t-1} is the total allowable security ~~and/or health and safety~~ claim per passenger using the Airport in ~~Regulatory Period or~~ Regulatory Year $t - 1$ (whether of a positive or negative value) expressed in pounds sterling, ~~when compared relative to~~ security costs per passenger in ~~Regulatory Year $t - 2$ the previous period;~~
- EC_t is the expected cumulative security ~~and/or health and safety~~ claim ~~over the relevant Regulatory Period and seven five Regulatory Years starting on 1 April 2014,~~ in Regulatory Year t , ~~period~~ which shall be calculated in accordance with Table C.2 below:

Table C.2: Calculation of annualised allowable security ~~and/or health and safety~~ costs (EC_t)

[Changes to Table C2 are set out on page 51 below]

where:

- C_t is the total allowable security ~~and/or health and safety~~ claim per passenger using the Airport in ~~Regulatory Period or~~ Regulatory Year t (whether of a positive or negative value) expressed in pounds sterling, ~~compared relative to~~ security costs per passenger in ~~Regulatory Year $t - 1$ the previous period;~~ and
- Q_t ~~bears the same meaning as in Condition C1.2. is the actual number of passengers using the Airport in Regulatory Period or Regulatory Year t~~

C1.5 modifications to update the term to remove redundant terms and reflect requirements in the H7 price control.

K_t : per passenger correction factor

C1.5 K_t is the per passenger correction factor (whether positive or negative value) to be made in ~~Regulatory Period or~~ Regulatory Year t, which is calculated as follows:

~~Where: $t = 2015$ or 2016~~

$$K_t = \frac{R_{t-2} - (Q_{t-2}M_{t-2})}{Q_t} \left(1 + \frac{I_{t-2}}{100}\right)^{\frac{21}{12}}$$

~~Where: $t \neq 2015$ or 2016~~

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

where:

- R_{t-2} is total revenue from airport charges in respect of relevant air transport services levied at the Airport in ~~Regulatory Period or~~ Regulatory Year t – 2 expressed in pounds sterling;
- Q_t ~~bears the same meaning as in Condition C1.2. is passengers using the Airport in Regulatory Period or Regulatory Year t;~~
- M_{t-2} is the maximum revenue yield per passenger using the Airport in ~~Regulatory Period or~~ Regulatory Year t – 2 expressed in pounds sterling;
- I_{t-2} is the appropriate interest rate for ~~Regulatory Period or~~ Regulatory Year t – 2, which is equal to:
 - (i) the specified rate plus 3% where K_t is positive; or
 - (ii) the specified rate where K_t is negative.

	<p>In both cases K_t takes no account of I_t for this purpose.</p> <p>C1.6 In relation to the Regulatory Period and the Regulatory Years 2015 2022 and 2023, the values of R_{t-2}, Q_{t-2}, M_{t-2} and I_{t-2} shall be calculated by reference to the conditions as to airport charges imposed in relation to in accordance with the price control conditions applicable to the Licensee in this licence as they were in each of the Regulatory Years 2020 and 2021. Airport under the Airports Act 1986 in force at 31 March 2014. In the case of the Regulatory Period, t-2 refers to the 12-month period from 1 April 2012 to 31 March 2013.</p>	
<p>C1.6 Modifications to clarify the requirements of the term and introduce a symmetrical arrangement for projects that are completed early.</p>	<p>T_t: trigger factor</p> <p>C1.7 T_t is the trigger factor, which is a reduction change in the maximum revenue yield per passenger occurring when the Licensee has not achieved achieves specific capital investment milestones associated with relevant projects earlier or later than the milestone month in the Capital Investment Triggers Handbook. The factor shall be calculated as follows:</p> $T_t = \sum_i TM_{it} TF_{it}$ <p>where:</p> <ul style="list-style-type: none"> ▪ For any specific trigger i, in Regulatory Period or Regulatory Year t: ▪ TF_{it} is the number of months between the milestone month and the earlier of either: <ol style="list-style-type: none"> (i) for projects completed later than the milestone month, the earlier of the project completion date or the end of Regulatory Period or Regulatory Year t up to a maximum of 12. In 2014 TF_{it} is restricted to a maximum of 9.;-or 	<p>Changes to the capital incentive framework are discussed in Chapter 12 in CAP2265D</p>

	<p>(ii) for projects completed earlier than the milestone month, the later of the project completion date or the start of Regulatory Year t, and in either case TF_{it} shall bear a maximum value of 12.</p> <ul style="list-style-type: none"> ▪ TM_{it} is the trigger payment associated with each trigger in Regulatory Period or Regulatory Year t; <p>where:</p> $TM_{it} = MTP_i \frac{P_{t-1}}{222.80-[XX]}$ <ul style="list-style-type: none"> ▪ MTP_i is the monthly trigger payment which is defined for each relevant project; and ▪ P_{t-1} is the value of the ONS [details of price index] CHAW Retail Price Index in April in Regulatory Period or Regulatory Year $t - 1$; ▪ The triggers, milestone month and monthly trigger payments shall bear the same meaning as set out in defined in the Q6 Capital Investment Triggers Handbook and may be modified in accordance with the modification processes set out in that handbook; and ▪ [XX] is the average monthly ONS [details of price index] for January 2020 to December 2020. 	
<p>C1.8 Modifications to reflect the change to outcome based regulation</p>	<p>B_{t-2}: bonus factor</p> <p>C1.8 B_{t-2} is the bonus factor based on performance achieved in respect of bonus specified measures bnk of the Licensee's service quality measures, targets and incentives scheme (MTI) service quality rebates and bonuses scheme (SQRB) as defined in Condition D1. The bonus factor shall be calculated in accordance with Schedule 1 of this Licence.</p>	<p>These changes reflect the move to outcome based regulation discussed in Chapter 14 of CAP2265D and CAP2274.</p>

<p>C1.9 and C1.10 Modifications to clarify the adjustment mechanism and reflect that a new WACC will be set for the H7 price control.</p>	<p><i>D_t: cumulative development capex adjustment</i></p> <p>C1.9 <i>D_t</i> is the cumulative development capex adjustment, which adjusts the maximum revenue yield per passenger in Regulatory Period or Regulatory Year <i>t</i> to account for cumulative changes in the revenue requirement associated with development capex projects. <i>D_t</i> shall be calculated in accordance with Table C.3 below.</p> <p>Table C.3: Cumulative development capex adjustment</p> <p>[Table C.3 is set out on page 52 below]</p> <p>where:</p> <ul style="list-style-type: none"> ▪ WACC is the Weighted Average Cost of Capital which shall have a value of 5.35xx%; ▪ <i>d_t</i> is the annual development capex adjustment in Regulatory Period or Regulatory Year <i>t</i>, as defined in Condition C1.10; and ▪ <i>P_{t-1}</i> is the value of the ONS [details of price index] CHAW Retail Price Index in April in Regulatory Period or Regulatory Year <i>t</i> – 1. <p><i>d_t: annual development capex adjustment</i></p> <p>C1.10 The annual development capex adjustment in Regulatory Period or Regulatory Year <i>t</i> is an amount equal to the net difference between the development capex allowance included in the Q6 H7 settlement and the total capex associated with new core capex projects in Regulatory Period or Regulatory Year <i>t</i>, and is to be calculated as follows:</p> $d_t = O_t - \left(V_t * \frac{P_{t-1}}{222.80[XX]} \right)$	<p>These changes do not change how the adjustment mechanism works but provides greater clarity to the definitions used.</p> <p>The WACC is discussed in Chapter 9 in CAP2265C</p>
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	<p><i>where:</i></p> <ul style="list-style-type: none"> ▪ O_t is the total capex in Regulatory Period or Regulatory Year t associated with: <ul style="list-style-type: none"> (iii) all development capex projects that have transitioned through Gateway 3 to core capex project status after the Q6 H7 settlement either during or before Regulatory Period or Regulatory Year t; in accordance with the governance arrangements; and which (iv) includes the actual capital spending incurred during the development stages of projects prior to transitioning through Gateway 3, irrespective of whether including for projects that have not transitioned past Gateway 3 from development to core as determined through in accordance with the governance arrangements; ▪ V_t is the development capex allowance in Regulatory Period or Regulatory Year t; and ▪ P_{t-1} is the value of the ONS [details of price index] CHAW Retail Price Index in April in Regulatory Period or Regulatory Year $t - 1$; ▪ [XX] is the average monthly ONS [details of price index] for January 2020 to December 2020. 					
<p>C1.11 Modifications to clarify the adjustment mechanism and update it to reflect the H7 price control.</p>	<p>BR_t: <i>business rate revaluation factor</i></p> <p>C1.11 BR_t is the business rate revaluation factor in Regulatory Period or Regulatory Year t, calculated in accordance with the following formulae.</p> <table border="1" data-bbox="636 1262 1709 1377"> <thead> <tr> <th data-bbox="636 1262 972 1321">Condition</th> <th data-bbox="972 1262 1709 1321">Value of BR_t</th> </tr> </thead> <tbody> <tr> <td data-bbox="636 1321 972 1377">If: $t = 20xx$;</td> <td data-bbox="972 1321 1709 1377">Then: $BR_t = 0.8[(Z_{20xx}) * (1 + [CPI or RPI]_{t-1}) +$</td> </tr> </tbody> </table>	Condition	Value of BR_t	If: $t = 20xx$;	Then: $BR_t = 0.8[(Z_{20xx}) * (1 + [CPI or RPI]_{t-1}) +$	<p>The relevant dates in this Condition will need to be revised to reflect the date of the next revaluation.</p> <p>Discussion of the business rates is in</p>
Condition	Value of BR_t					
If: $t = 20xx$;	Then: $BR_t = 0.8[(Z_{20xx}) * (1 + [CPI or RPI]_{t-1}) +$					

		<table border="1"> <tr> <td></td> <td>Z_{20xx}]</td> </tr> <tr> <td>If: $t = 20xx;$</td> <td>Then: $BR_t = 0.8 * Z_{20xx}$</td> </tr> <tr> <td>If: $t = 20xx;$</td> <td>Then: $BR_t = 0.8 * Z_{20xx}$</td> </tr> <tr> <td>If: $t = 20xx;$</td> <td>Then: $BR_t = 0.8 * Z_{20xx}$</td> </tr> <tr> <td>Otherwise:</td> <td>$BR_t = 0$</td> </tr> </table>		Z_{20xx}]	If: $t = 20xx;$	Then: $BR_t = 0.8 * Z_{20xx}$	If: $t = 20xx;$	Then: $BR_t = 0.8 * Z_{20xx}$	If: $t = 20xx;$	Then: $BR_t = 0.8 * Z_{20xx}$	Otherwise:	$BR_t = 0$	<p>Chapter 4 of CAP2265B and Chapter 13 of CAP2265D</p>
	Z_{20xx}]												
If: $t = 20xx;$	Then: $BR_t = 0.8 * Z_{20xx}$												
If: $t = 20xx;$	Then: $BR_t = 0.8 * Z_{20xx}$												
If: $t = 20xx;$	Then: $BR_t = 0.8 * Z_{20xx}$												
Otherwise:	$BR_t = 0$												
	<p>If: $t = 2018;$</p> <p>Then: $BR_t = 0.8[(Z_{2017}) * (1 + RPI_{t-1}) + Z_{2018}]$</p> <p>If: $t = 2019;$</p> <p>Then: $BR_t = 0.8 * Z_{2019}$</p> <p>If: $t = 2020;$</p> <p>Then: $BR_t = 0.8 * Z_{2020}$</p> <p>If: $t = 2021;$</p> <p>Then: $BR_t = 0.8 * Z_{2021}$</p> <p>Otherwise: $BR_t = 0$</p> <p>where:</p> <ul style="list-style-type: none"> ▪ $[CPI \text{ or } RPI]_{t-1}$ is the percentage change (positive or negative) in the ONS [details of price index] CHAW Retail Price Index between April in Regulatory Period or Regulatory Year $t - 1$ and April in Regulatory Year $t - 2$ the immediately preceding April. ▪ Z_t is the business rate forecast variance in Regulatory Period or Regulatory Year t, calculated in accordance with Table C.4 below: 												

Table C.4: Business rate forecast variance

Period Regulatory Year t	$Z_t =$
20 15 xx	0
20 16 xx	0
20 17 xx	$(U_t - \pounds 136,900,000\text{-xx}) * \frac{P_{t-1}}{[XX]222.80}$
20 18 xx	$(U_t - \pounds 136,900,000\text{-xx}) * \frac{P_{t-1}}{[XX]222.80}$
20 19 xx	$(U_t - \pounds 136,900,000\text{ xx}) * \frac{P_{t-1}}{[XX]222.80}$
2020	$(U_{\pounds} - \pounds 136,900,000) * \frac{P_{\pounds-1}}{[XX]222.80}$
2024	$(U_{\pounds} - \pounds 136,900,000) * \frac{P_{\pounds-1}}{[XX]222.80}$

Where:

- U_t is the regulatory allowance for business rates (that is ~~£136,900,000 xx~~ in 202x17, ~~£136,800,000 xx~~ in 202x18 to 20246) multiplied by the revaluation impact.
- P_{t-1} is the value of the ONS [details of price index] ~~CHAW Retail Price Index~~ in April in ~~Regulatory Period or~~ Regulatory Year t – 1.
- [XX] is the average monthly ONS [details of price index] for January 2020 to December 2020

<p>C1.12 Modification to remove this term which is unlikely to be used in the H7 price control period in this form.</p>	<p><i>A_t: pass-through of Category B costs (planning costs) for runway expansion</i> C1.12 A_t is the cost pass-through adjustment of up to £10 million in each Regulatory Year to allow for the recovery of the reasonable costs (capital, operating and financing) of applying for planning permission for a third runway and associated infrastructure (Category B costs) since the Government announcement of its decision on 25 October 2016 to support the development of a third runway at the Airport. These Category B costs must, in the CAA's view, have been efficiently incurred. This adjustment shall have regard to any policy guidance that may be issued by the CAA, following consultation, in relation to the recovery of these Category B costs.</p> <p>If: _____ t = 2016, 2017, 2018, 2019, 2020 or 2021 Then: _____ A_t = eligible and efficient Category B costs up to £10,000,000 Otherwise: _____ A_t = 0</p>	<p>These modifications may be made in the proposed modification for the 2022 holding cap. If so, this description will be removed in our Final Proposals.</p>				
<p>New C1.12 and C1.13 to introduce an adjustment mechanism to allow for risks relating to the new terminal drop off charge.</p>	<p><i>TDO_t: Terminal Drop-off charge</i> C1.12 TDO_t is the Terminal Drop-off charge factor that:</p> <ul style="list-style-type: none"> (a) implements risk sharing; and (b) provides protection to the Licensee from the risk that a change to legislation prevents it from recovering revenue from Terminal Drop-off charges in Regulatory Year t. <p>C1.13 TDO_t equals to:</p> <table border="1" data-bbox="633 1150 1671 1275"> <tr> <td>If w_t = 0</td> <td>If w_t = 1</td> </tr> <tr> <td>-0.65 × [OTDO_t – FTDO_t]</td> <td>-1.00 × [OTDO_t – FTDO_t]</td> </tr> </table> <p>where:</p> <ul style="list-style-type: none"> ▪ OTDO_t is the outturn revenue collected by the Licensee from Terminal Drop-off 	If w_t = 0	If w_t = 1	-0.65 × [OTDO_t – FTDO_t]	-1.00 × [OTDO_t – FTDO_t]	<p>Discussion of the Terminal Drop Off charge is in Chapter 5 of CAP2265B</p>
If w_t = 0	If w_t = 1					
-0.65 × [OTDO_t – FTDO_t]	-1.00 × [OTDO_t – FTDO_t]					

	<p>charges in Regulatory Year t;</p> <ul style="list-style-type: none"> ▪ $FTDO_t$ is the forecast of the revenue that the Licensee will collect from Terminal Drop-off charges in Regulatory Year t and is set out in the CAA's final decision setting the price control applicable to the Licensee for H7; ▪ $w_t = 1$ if a change to legislation comes into force in Regulatory Year t that prevents the Licensee from recovering the full amount of $FTDO_t$, and $= 0$ otherwise. 	
<p>C1.14 and C1.15 Modifications to the commercial arrangements provisions to remove references to a specific agreement.</p>	<p>Commercial arrangements for the 2020 and 2021 price control extension</p> <p>C1.13 Nothing in this Part C shall prevent the Licensee from entering into any Commercial Agreement.</p> <p>C1.14 Nothing in this Part C shall prevent the Licensee from entering into any Commercial Agreement. Where the Licensee enters into any Commercial Agreement, the Licensee shall:</p> <p>(a) provide for, and comply with, alternative arrangements to ensure that, in relation to the definition and payment of Fixed Rebates, the Licensee it does not unduly discriminate between airlines that are party to any such Commercial Agreement and airlines that are not party to a Commercial Agreement and shall make such arrangements available to all airlines using the Airport;</p> <p>(b) save to the extent that any Commercial Agreements entered into prior to 1 January 2020 have been varied by agreement between the Licensee and airlines, and such variations have been provided for in the alternative arrangements required by Condition C1.14(a), pay any Fixed Rebate in accordance with the terms of the Commercial Agreements and such alternative arrangements of up to a total of £130 million in respect of each</p>	<p>This change retains the non-discrimination protections for any airline that chooses not to enter into potential commercial arrangements with HAL.</p>

	<p style="text-align: center;">of 2020 and 2021.</p> <p>C1.15 The Licensee's ability to enter into agreements or other arrangements in relation to any aspect of Airport Charges described in Condition C1.13 and the obligations of the Licensee set out in Condition C1.14 are without prejudice to Licensee's obligations under Conditions C1.1 and C1.2, and the Airport Charges Regulations 2011 (2011 No. 2491).</p>	
<p>C1.16 Modifications to update and clarify definitions, remove redundant definitions and add new definitions as relevant.</p>	<p>Definitions</p> <p>C.1.15 In this Condition C.1:</p> <p>(a) allowable security and/or health and safety claim per passenger means the annual equivalent of the increase or decrease in security and/or health and safety costs at the Airport in the relevant Regulatory Period or Regulatory Year which arise as a result of a change in required security and/or health and safety standards at the Airport, where as certified by the CAA agrees in writing that the relevant standard has been changed, divided by the number of passengers using the Airport in that Regulatory Period or Regulatory Year;</p> <p>(b) average revenue yield per passenger means the revenue from airport charges levied in respect of relevant air transport services in the relevant Regulatory Period or Regulatory Year, before any deduction of rebates under the Measures, Targets and Incentives Service Quality Rebates and Bonuses Scheme in Schedule 1 of this Licence, divided by the total number of passengers using the Airport in the relevant Regulatory Period or Regulatory Year;</p> <p>(c) business rate cost is the tax paid by the Licensee associated with the Airport's land and property assets, as determined by the Valuation Office Agency;</p>	<p>Changes required to give effect to the modifications set out above.</p> <p>This list will be renumbered as required.</p>

	<p>(d) the Q6 Capital Investment Triggers Handbook means the handbook published by the Licensee in accordance with Condition F1.1(a) means the handbook in existence when this Licence comes into force, having been agreed by the Licensee and the airlines. This handbook which contains details of the triggers, milestone months and monthly trigger payments for core capex projects and details of how future changes to those elements can be made with the agreement of the Licensee and the airlines.</p> <p>(e) Commercial Agreement means any agreements or other arrangements (as varied from time to time) entered into between the Licensee and airlines in relation to any aspect of the Airport Charges that the Licensee levies in respect of relevant air transport services for any relevant Regulatory Year for 2020 and 2021, including (but not limited to) the payment of rebates to airlines in respect of those charges;</p> <p>(f) core capex project is any project that has passed Gateway 3, being taken forward for implementation in accordance with the governance arrangements;</p> <p>(g) development capex allowance is a capex allowance included in the Q6 H7 Regulatory Asset Base based on the sum of development capex project P80 cost estimates as set out in the governance arrangements;</p> <p>(h) development capex project is any project under development that has not passed Gateway 3 in accordance with the governance arrangements, but for which an allowance has been included in the development capex allowance;</p> <p>(i) Fixed Rebate shall bear the same meaning it has in any Commercial Agreement entered into by the Licensee;</p>	
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	<p>(j) Gateway 3 has the meaning set out in the governance arrangements;</p> <p>(k) the governance arrangements means the arrangements set out in the Q6 Capital Efficiency Handbook which shall be published by the Licensee by in 1 October 2014, and updated in April 2015 and further updated as required in accordance with Condition F1.1(a);</p> <p>(l) ONS means the Office of National Statistics</p> <p>(m) passenger using the Airport means a terminal passenger joining or leaving an aircraft at the Airport, including passengers who change from one aircraft to another. A passenger who changes from one aircraft to another carrying the same flight number is treated as a terminal passenger, as is an interlining passenger;</p> <p>(n) project completion date is the date when, in accordance with the governance arrangements, in the judgment of the CAA the Licensee has achieved the trigger criteria as defined for each project in the Capital Investment Triggers Handbook through the governance arrangements;</p> <p>(o) relevant air transport services means air transport services carrying passengers that join or leave an aircraft at the Airport, including air transport services operated for the purpose of business or general aviation;</p> <p>(p) revaluation impact is equal to one plus the difference between the actual increase in rateable value measured as a percentage change and +9%, (being the percentage increase assumed in the regulatory allowance) occurring as a result of the rate revaluation undertaken by the Valuation Office Agency in 20xx-17. The actual change will be calculated by multiplying the actual percentage increase in the Cumulo Rateable Value due to the revaluation and the actual percentage increase in the national</p>	
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	<p>Uniform Business Rate.</p> <p>(q) specified rate (from 2014 to 2017) 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 May in Regulatory Period or Regulatory Year t-2 to the end of April in Regulatory Period or Regulatory Year t-1.</p> <p>(r) specified rate (from 2018 to 2021) means the average of the three month Treasury Bill Discount Rate (expressed as an annual percentage interest rate) published by the UK Debt Management Office (https://www.dmo.gov.uk/data/treasury-bills/tender-results/), during the 12 months from the beginning of May in Regulatory Year t – 2 to the end of April in Regulatory Year t – 1.</p> <p>(s) Terminal Drop-off charge is a charge levied by the Licensee for allowing vehicle access to the forecourt of a passenger terminal for a limited time.</p>	
Part C Condition C2 Charges for other services		
<p>C2.1 and new C2.2 and C2.3</p> <p>Modifications to clarify the process for CAA intervention.</p>	<p>C2.1 By 30 September 2014 and by 30 September in each subsequent year Regulatory Year, the Licensee shall publish inform the CAA of the system methodology it uses used by it to allocate the costs it incurs in the provision of the Specified Facilities (“the cost allocation methodology”). The Licensee shall make any amendments to its cost allocation system if so requested by CAA by 31 December prior to each charging year commencing on 1 January.</p> <p>C2.2 The CAA may, by notice published no later than 15 November in any Regulatory Year and following a reasonable period of consultation, require the Licensee to amend the cost allocation system referred to in Condition C2.1 in the manner, or to achieve the outcomes specified in the notice.</p>	<p>The current requirement to make changes is ambiguous. The modification will provide more clarity on the process for requiring these changes.</p> <p>Changes to Condition 2 are discussed in Chapter 13 of CAP2265D</p>

	<p>C2.3 Where the CAA has required the Licensee to amend the cost allocation system under Condition C2.2, the Licensee must make the changes specified in the notice before the start of the next Regulatory Year.</p>	
<p>C2.2 (renumbered) Modifications to provide clarity and better reflect the current processes</p>	<p>C2.24 By 30 September 2014 and by 30 September in each subsequent year Regulatory Year, the Licensee shall provide to the CAA and users of the Specified Facilities statements of the actual costs it has incurred and the revenues it has generated in respect of each of the Specified Facilities for the preceding Regulatory Year in a form, and to a sufficient degree of detail to enable the CAA and users of the Specified Facilities to verify that the charges that the Licensee proposes to apply to the Specified Activity are derived in accordance with the proper application of the cost allocation methodology.</p> <p>C2.35 By 31 December in each year Regulatory Year, the Licensee shall provide to the CAA and to users of the Specified Facilities, or their representatives prior to implementing any price changes to the charges for the Specified Facilities, a statement (“the pricing principles”):</p> <p>(a) of confirming the principles it shall use for calculating the charges it levies for each Specified Facility, as set out in the governance arrangements agreed by the Licensee and relevant users of the Specified Facility under Condition F1.1(a); and</p> <p>(b) setting out including the assumptions and relevant cost information in a form, and to a sufficient degree of detail to enable the CAA and users of the Specified Facilities adequate to verify that the charges derive from that the Licensee proposes to apply to the Specified Facility are derived in accordance with the proper application of the pricing principles.</p>	<p>Changes proposed to add clarity to the obligations, to better reflect current processes and to provide clearer requirements on information provision.</p>
<p>C2.4 (renumbered) Modifications to</p>	<p>C2.46 Where charges for the Specified Facilities are not established in relation to the cost allocation methodology or the pricing principles, the Licensee shall provide</p>	<p>Changes proposed to clarify this requirement.</p>

<p>provide clarity and better reflect the current processes</p>	<p>to the CAA and to users of the Specified Facilities or their representatives a statement of</p> <p>(a) the reasons for using an alternative methodology and/or approach to charging; and</p> <p>(b) the methodology and principles that the Licensee has used to set those on the basis of which the charges have been set</p> <p>in a form, and to a sufficient degree of detail to enable the CAA and users with full background information as to understand the calculation of such charges, including details of comparable charges for similar services provided by the Licensee or other providers. statements of any comparables used.</p>	
<p>C2.5 and C2.6 (renumbered) Modifications to provide clarity and better reflect the current processes</p>	<p>C2.57 Where, in respect of any relevant Regulatory Period or Regulatory Year (apart from the 2019, 2020 and 2021 Regulatory Years) actual the revenue that the Licensee generates from for any of the Specified Facilities differs from that the forecast set by the CAA for the purposes of the price control review for the period 1 April 2014 1 January 2022 to 31 December 2018-2026 (as specified by the CAA), the Licensee shall provide to the CAA and to users of the Specified Facilities or their representatives detailed reasons for those differences.</p> <p>C2.68 Where, in respect of the 2019, 2020 and 2021 any Regulatory Years, the actual revenue that the Licensee generates from any of the Specified Facilities differs from the actual revenue that the Licensee generated from that Specified Facility in the preceding Regulatory Year, the Licensee shall provide to the CAA and to users of the Specified Facilities or their representatives detailed reasons for those differences.</p>	<p>Condition C2.7 reflects the process in the 5 years of the Q6 period. Condition C2.8 reflects the process in the Q6+1 and iH7 periods.</p>
<p>New C2.9 to C2.13 Modifications to</p>	<p>C2.9 The CAA may by notice modify this Condition C2 with immediate effect where there is written agreement from the Licensee and the AOC on the nature of the</p>	<p>This “self-modification” mechanism mirrors that</p>

<p>include a new “self-modification” mechanism</p>	<p>modification to be made.</p> <p>C2.10 Where the Licensee and the AOC cannot reach agreement, either party may request that the CAA determines the modification.</p> <p>C2.11 Where a request has been made under Condition C2.10, the CAA may by notice determine the modifications, following a reasonable period of consultation.</p> <p>C2.12 The modifications that can be made under Conditions C2.9 and C2.11 shall be limited to any modifications to the list of Specified Facilities in Condition C2.14.</p> <p>C2.13 Modifications can be made to this Condition C2 under Conditions C2.9 and C2.11 at any time.</p>	<p>in Condition D1 Service quality.</p>
<p>C2.7 (renumbered) Modifications to remove some Specified Facilities from the list and clarify others.</p> <p>New C2.15 New definition of users of Specified Facilities included for clarity.</p>	<p>Definitions</p> <p>C2.714 In this Condition C2 the Specified Facilities are:</p> <ul style="list-style-type: none"> (a) check-in desks; (b) baggage systems; (c) services for PRMs Passengers Requiring Support (PRS); (d) staff car parking; (e) staff identity ID cards; (f) fixed electrical ground power; (g) pre-conditioned air; (h) airside licences; (i) waste, recycling and refuse collection; 	<p>Definitions will be renumbered where necessary</p>

	<p>(j) taxi feeder park;</p> <p>(k) heating and utility services (including electricity, gas, water and sewerage);</p> <p>(l) facilities for bus and coach operators;</p> <p>(m) (m) common IT infrastructure; and</p> <p>(n) HAL the Licensee's contribution to the funding of the AOC.</p> <p>C2.15 In this Condition C2 users of Specified Facilities are any person that the Licensee charges directly for use of the Specified Facilities including, but not limited to, airlines, suppliers of ground handling services, retailers, hotels, coach and bus operators, taxi drivers and hire car operators, or their representatives.</p>	
<p>Part D Condition D1 Service Quality standards, rebates and bonuses</p>		
<p>D1 Title: Modify the terminology used to reflect the OBR framework.</p>	<p>D1 Service quality measures, targets, incentives standards, rebates, bonuses and publication</p>	<p>Changes to Condition D1 are discussed in Chapter 14 of CAP2265D and CAP2274.</p>
<p>D1.1: Modify the terminology used to reflect the OBR framework.</p>	<p>D1.1 The Licensee shall comply with the Statement of service quality Standards, Rebates and Bonuses-Measures, Targets and Incentives (“the Statement”) set out at Schedule 1 of this Licence.</p>	
<p>D1.2 Modify condition to improve signposting and new structure of Schedule 1.</p>	<p>D1.2 The Statement set out at Schedule 1 of to this Licence includes its Annexes and, subject to the following provisions of this Condition, is a condition of this Licence.</p>	

D1.3 Modify condition to clarify and improve accuracy.	D1.3 The Licensee shall maintain records of the actual quality of service, rebates that it pays , and bonuses that it accrues in each Regulatory Year in such form and detail that the performance can be independently audited against the requirements standards set out in the Statement.	
D1.4 Modify to reflect that the OBR framework includes financially and reputationally incentivised measures.	D1.4 The Licensee shall publish relevant information about service quality its performance in accordance with the requirements specified in the Statement.	
D1.5 Modify the terminology used to reflect the OBR framework.	D1.5 The Licensee shall facilitate and pay for regular, independent audits of the adequacy, measurement and workings of the service quality Measures, Targets and Incentives (MTI) service quality rebates and bonuses (SQRB) scheme, including the QSM and other surveys . The independent auditors for this purpose will be appointed by the CAA and shall report to the CAA.	
D1.6 Modify condition to improve accuracy and readability.	D1.6 The CAA may by notice modify the Statement with immediate effect where there is written agreement from both between: the Licensee and the AOC on the nature of the modification to be made .	
D1.9 Modify scope of condition to allow stakeholders to agree wider changes to the OBR framework than are currently allowed.	D1.7 The modifications that can be made under Conditions D1.6 and D1.8 are any modifications to Schedule 1 except: <ul style="list-style-type: none"> (a) any modifications to the elements listed in the 'Element' columns of Table 1a to Table 6 and Table 10a to Table 10e; (b) any modifications to the table of bonuses (Table 8) and to the calculation of the bonus factor set out in the Statement; and (c) any modifications to Table 7 9 	

D1.11 Modify the terminology used to reflect that the OBR framework relies on other surveys than QSM.	D1.11 In this Condition D1 the QSM and other surveys have the meaning set out in the Statement.	These surveys are: <ul style="list-style-type: none"> ▪ Surface Access Customer (SACS); and ▪ The Special Assistance Quality of Service Monitor (SpA QSM) Satisfaction Survey.
Part D Condition D2 Operational resilience		
D2.14 Modifications to clarify the obligation.	D2.14 The Licensee shall take all reasonable endeavours steps to ensure that airlines and suppliers of groundhandling services comply with the rules of conduct developed under Condition D2.13 .	This is an unclear term. The legally preferable term would be “all reasonable endeavours” which benefits from judicial interpretation
D2.16 Modifications to reflect legislative changes and add clarity.	D2.16 In this Condition D.2 <ul style="list-style-type: none"> (a) Conditions of Use means the Heathrow Airport Conditions of Use including Airport Charges, as reviewed and published by the Licensee on an annual basis; (b) The Denied Boarding Regulations means Regulation (EC) 261/2004 of the European Parliament and of the Council of 11 February 2004 and The Air Passengers Rights and Air Travel Organisers Licensing (Amendment) (EU Exit) Regulations 2019 establishing common rules on compensation and assistance to passengers in the event of denied boarding and of 	

	<p>cancellation or long delay of flights, and repealing Regulation (EEC) No 295/94; and</p> <p>(c) Relevant Parties means those providing a service to users of air transport services at the Airport including airlines, providers of groundhandling services, the provider of aerodrome air navigation services, fuel and energy suppliers and the UK Border Force.</p>	
Part E Condition E2 Financial Resilience		
E2.1 modifications to the certificate of adequacy of resources to require separate certificates for financial and operational resources.	<p>Certificate of adequacy of resources</p> <p>E2.1 The Licensee shall at all times act in a manner calculated to secure that it has available to it sufficient resources including (without limitation) financial, management, <u>operational</u> and staff resources, to enable it to provide airport operation services at the Airport <u>and do so in accordance with this licence</u>.</p>	Discussion of the proposed changes to the financial resilience condition is in Appendix G of CAP2265E Appendices
E2.2 Modifications to the text of the certificates to relate specifically to financial resources	<p>Certificate for the CAA in relation to financial resources</p> <p>E2.2 <u>With effect from [1 January 2022], the</u> The Licensee shall submit a certificate addressed to the CAA, approved by a resolution of the board of directors of the Licensee and signed by a director of the Licensee pursuant to that resolution. Such certificate shall be submitted within four months of the end of the relevant Regulatory Period or Regulatory Year and shall include a statement of the factors which the directors of the Licensee have taken into account in preparing that certificate. Each certificate shall be in one of the following forms:</p> <p>(a) Financial Resources Certificate 1</p> <p>“After making enquiries based on systems and processes established by</p>	

	<p>the Licensee appropriate to the purpose, the directors of the Licensee have a reasonable expectation that the Licensee will have available to it, after taking into account in particular (but without limitation):</p> <ul style="list-style-type: none"> (i) any dividend or other distribution which might reasonably be expected to be declared or paid; (ii) any amounts of principal and interest due under any loan facilities; and (iii) any actual or contingent risks which could reasonably be material to their consideration <p>sufficient financial and other resources and financial and operational facilities to</p> <ul style="list-style-type: none"> (i) enable the Licensee to provide airport operation services at London Heathrow Airport of which the Licensee is aware or could reasonably be expected to make itself aware; and (ii) <u>do so in accordance with the licence obligations</u> to which it is or will be subject <p>for a period of two years from the date of this certificate.”</p> <p>(b) Financial Resources Certificate 2</p> <p>“After making enquiries based on systems and processes established by the Licensee appropriate to the purpose, the directors of the Licensee have a reasonable expectation, subject to what is said below, that the Licensee will have available to it, after taking into account in particular (but without limitation):</p> <ul style="list-style-type: none"> (i) any dividend or other distribution which might reasonably be expected 	
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	<p>to be declared or paid;</p> <p>(ii) any amounts of principal and interest due under any loan facilities;⁵</p> <p>(iii) and any actual or contingent risks which could reasonably be material to their consideration,</p> <p>sufficient financial and other resources and financial and operational facilities to:</p> <p>(i) enable the Licensee to provide airport operation services at London Heathrow Airport of which the Licensee is aware or could reasonably be expected to make itself aware; and</p> <p>(ii) <u>do so in accordance with the licence obligations</u> to which it is or will be subject</p> <p>for a period of two years from the date of this certificate.</p> <p>However, they would like to draw attention to the following factors which may cast doubt on the ability of the Licensee to provide airport operation services at London Heathrow Airport for that period...”</p> <p>(c) Financial Resources Certificate 3</p> <p>“In the opinion of the directors of the Licensee, the Licensee will not have available to it sufficient financial or other resources and financial and operational facilities to:</p> <p>(i) provide airport operation services at London Heathrow Airport of which the Licensee is aware or of which it could reasonably be expected to make itself aware; and</p> <p>(ii) or do so in accordance with the licence obligations to which it will be is</p>	
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	<p style="text-align: center;">subject</p> <p style="text-align: center;">for a period of two years from the date of this certificate.”</p>	
<p>New E2.3 to introduce a requirement for separate certificates for operational resources</p>	<p>Certificate for the CAA in relation to operational services</p> <p><u>E2.3 With effect from [1 January 2022], the Licensee shall submit a certificate addressed to the CAA, approved by a resolution of the board of directors of the Licensee and signed by a director of the Licensee pursuant to that resolution. Such certificate shall be submitted within four months of the end of the relevant Regulatory Year. Each certificate shall be in one of the following forms:</u></p> <p>(a) <u>Operational Resources Certificate 1</u></p> <p><u>“After making enquiries based on systems and processes established by the Licensee appropriate to the purpose, the directors of the Licensee have a reasonable expectation that the Licensee will have available to it sufficient operational resources, including (without limitation) management, personnel, fixed and moveable assets, rights, licences, consents and facilities, on such terms and with all such rights, to:</u></p> <p>(i) <u>enable the Licensee to provide airport operation services at London Heathrow Airport of which the Licensee is aware or could reasonably be expected to make itself aware; and</u></p> <p>(ii) <u>do so in accordance with the licence obligations to which it is subject for a period of two years from the date of this certificate.”</u></p> <p>(b) <u>Operational Resources Certificate 2</u></p> <p><u>“After making enquiries based on systems and processes established by the Licensee appropriate to the purpose, the directors of the Licensee have</u></p>	

	<p><u>a reasonable expectation that the Licensee will have available to it sufficient operational resources, including (without limitation) management, personnel, fixed and moveable assets, rights, licences, consents and facilities, on such terms and with all such rights, to:</u></p> <p>(i) <u>enable the Licensee to provide airport operation services at London Heathrow Airport of which the Licensee is aware or could reasonably be expected to make itself aware; and</u></p> <p>(ii) <u>do so in accordance with the licence obligations to which it is subject for a period of two years from the date of this certificate.</u></p> <p><u>However, they would like to draw attention to the following factors which may cast doubt on the expectation set out above..."</u></p> <p>(c) <u>Operational Resources Certificate 3</u></p> <p><u>"In the opinion of the directors of the Licensee, the Licensee will not have available to it sufficient operational resources, including (without limitation) management, personnel, fixed and moveable assets, rights, licences, consents and facilities, on such terms and with all such rights to:</u></p> <p>(i) <u>enable the Licensee to provide airport operation services at London Heathrow Airport of which the Licensee is aware or could reasonably be expected to make itself aware; and</u></p> <p>(ii) <u>do so in accordance with the licence obligations to which it is subject for a period of two years from the date of this certificate."</u></p>	
New Condition E2.6 to clarify the	E2.34 The Licensee shall inform the CAA in writing as soon as practicable if the directors of the Licensee become aware of any circumstance which causes them no longer to have the reasonable expectation expressed in the then most recent	

<p>information HAL must provide to the CAA if it submits a Financial or Operational Resources Certificate 2.</p>	<p>certificate given under <u>either</u> Condition E2.2 <u>or Condition E2.3</u>.</p> <p>E2.45 The Licensee shall obtain and submit to the CAA with each certificate provided under Condition E2.2 <u>and Condition E2.3</u> a report prepared by its Auditors stating whether or not the Auditors are aware of any inconsistencies between, on the one hand, that those <u>certificates</u> and the statement submitted with <u>them</u> and, on the other hand, any information which they obtained during their audit of the relevant year end accounts of the Licensee.</p> <p><u>E2.6 Where the licensee has submitted a certificate to the CAA under Condition E2.2 or Condition E2.3 in either the form of Financial Resources Certificate 2 or Operational Resources Certificate 2, such certificate(s) shall be accompanied by a statement setting out information on business forecasting scenarios that the directors have used in the preparation of the certificates and which have caused them to draw the CAA's attention to the matters referred to in the relevant certificate. In each such statement, the licensee shall provide a range of plausible outcomes for the matters to which they are drawing the CAA's attention, including, as a minimum, a central case, with positive and negative sensitivities together with their assessment of the impact of each of them on the sufficiency of its financial and/or operational resources.</u></p> <p>E2.57 If the Licensee or any of its linked companies (or, where applicable the directors and officers of any of those undertakings) seeks, or is advised to seek, advice from an insolvency practitioner or any other person relating to:</p> <ul style="list-style-type: none"> (a) the Licensee's financial position or ability to continue to trade; or (b) that linked company's financial position or ability to continue to trade, only to the extent that it would affect the Licensee's financial position or ability to continue to trade, <p>(c) the Licensee shall inform the CAA within 3 working days.</p>	
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	<p><u>E2.8 The Licensee shall inform the CAA by email to economicregulation@caa.co.uk (or such other email address as the CAA may specify to the licensee from time to time in writing) when it has placed new information for bondholders and/or investors on its website.</u></p>	
<p>E2.7 Modifications to the Ultimate holding company undertakings</p>	<p>E2.710 The Licensee shall procure from each Covenantor a legally enforceable undertaking in favour of the Licensee in the form specified by the CAA that that Covenantor will:</p> <ul style="list-style-type: none"> (a) refrain from any action, and procure that every subsidiary of the Covenantor (other than the Licensee and its subsidiaries) will refrain from any action, which would then be likely to cause the Licensee to breach any of its obligations under this Licence; (b) <u>ensure each subsidiary of the ultimate controller that holds records that the Licensee may reasonably require to carry on the activities permitted under Condition E2.9 maintains those records to enable the Covenantor to comply with paragraph (c) of this condition; and</u> (c) promptly upon request by the CAA (specifying the information required) provide to the CAA (with a copy to the Licensee) information of which they are aware and which the CAA reasonably considers necessary in order to enable the Licensee to comply with this Licence. <p>E2.811 Such <u>The</u> undertaking required <u>by Condition E2.10</u> shall be obtained within seven days of the company or other person in question becoming a Covenantor and shall remain in force for so long as the Licensee remains the holder of this Licence and the Covenantor remains a Covenantor.</p> <p><u>E2.13 With effect from [DATE], the Licensee shall write to each director of the Covenantor appointed after that date within one week of their appointment as a director of the Covenantor appraising that director of the terms of the</u></p>	

	<u>undertaking that the Covenantor has given.</u>	
E2.12 Modifications to the definitions of Permitted Business and ultimate holding company	<p>E2.126 In this Condition E2:</p> <p>(a) Permitted Business means:</p> <ul style="list-style-type: none"> (i) any and all business undertaken by the Licensee and its subsidiary undertakings as at 1 April 2014; (ii) to the extent that it falls outside the definition in Condition E2.126(c)(i), the business of owning, operating and developing the Airport and associated facilities by the Licensee and its subsidiary undertakings (including, without limitation, any and all airport operation services, provision of facilities for and connected with aeronautical activities including retail, car parks, advertising and surface access and the infrastructure development thereof); and (iii) any other business, provided always that the average of any expenses incurred in connection with such businesses during any one financial year is not more than 2% of the value of the regulatory asset base (RAB) at the start of the financial year. <p>(b) <u>an ultimate holding company is the holding company of the Licensee which is not itself a subsidiary of another company. For the purposes of this definition, “holding company” and “subsidiary” shall bear the meanings given to those terms in section 1159(1) of the Companies Act 2006.</u></p>	

Part F Condition F1 Consultation		
<p>F1 – renamed to reflect insertion of governance requirements</p> <p>F1.1 modified to include requirements for governance arrangements, in addition to consultation arrangements, for capital investment, charges for other services and service quality.</p> <p>The Terminal drop-off charge is added to the list of other services and activities that are subject to the existing consultation requirements.</p>	<p>Part F: Consultation and Governance conditions</p> <p>F1.1 The Licensee shall ensure that:</p> <p>(a) develop, consult and agree with Relevant Parties governance and consultation arrangements (including such protocols and handbooks as are appropriate) that establish clear rules, processes and information requirements to allow Relevant Parties to scrutinise, agree and/or, where relevant, challenge and propose amendments to:</p> <ul style="list-style-type: none"> (i) the Licensee's proposals for future investment in the short, medium and long term that have the potential to affect those Relevant Parties; (ii) the Licensee's proposals for the development and delivery of key capital projects identified in its future investment proposals in Condition F1.1(a)(i); (iii) the Licensee's charges that are subject to Condition C2; (iv) the service quality regime in Condition D1, including the Statement of Standards, Rebates and Bonuses-Measures, Targets and Incentives in Schedule 1 of this Licence <p>(b) it consults Relevant Parties for a period of no less than 28 days-on, as a minimum, any proposed changes to its:</p> <ul style="list-style-type: none"> (i) its proposals for future investment in the short, medium and long term that have the potential to affect those parties; (ii) its proposals for the development and delivery of key capital projects identified in its future investment proposals in Condition 	<p>Changes to the governance arrangements are discussed in Chapters 12, 13 and Chapter 14 of CAP2265D and CAP2274.</p>

	<p style="text-align: center;">F1.1.(a) (i)</p> <ul style="list-style-type: none"> (iii) charges that are subject to Condition C2; (iv) the service quality regime in Condition D1, including the Statement of Standards, Rebates and Bonuses in Schedule 1 to this Licence; (i) its traffic forecasts; (ii) its operational resilience activities in Condition D2; (iii) Terminal Drop-off charge; and (iv) its policies and proposals for any other airport operation service it provides; <p>(b) — so that those parties have sufficient information to take an informed view of the proposed changes. and</p> <p>(c) the views of the relevant parties are taken into account in deciding on the future development of the proposals.</p>	
<p>New F1.2 requiring HAL to provide stakeholders with details of decisions made following consultation and giving the CAA powers to make directions to ensure compliance with the</p>	<p><u>F1.2 Before making any changes following a consultation referred to in Condition F1.1, the Licensee must provide to the Relevant Parties and the CAA a report setting out:</u></p> <ul style="list-style-type: none"> <u>(a) the revisions originally proposed;</u> <u>(b) any representations made and not withdrawn; and</u> <u>(c) details of how it has taken those representations into account, including any revisions to the proposed changes as a result of such representations.</u> <p><u>Where the CAA does not consider that the revisions proposed meet the requirements of Condition F1.1, the CAA may make such direction as it</u></p>	

governance and consultation requirements.	<u>considers is necessary in order to secure the Licensee's compliance with Condition F1.1 and the Licensee shall comply with such direction.</u>	
F1.3 to F1.7 clarifications to the provisions relating to developing and agreeing protocols, specifically requiring compliance with those protocols and giving the CAA the powers to make directions to HAL to update them.	<p>F1.23 The Licensee shall by 1 October 201422 consult on, agree, and publish <u>make available to Relevant Parties and the CAA</u>, one or more protocols, <u>handbooks or other arrangements</u> setting out how it will satisfy the obligations in Condition F1.1(a), <u>and thereafter shall comply with them.</u></p> <p>F1.34 As a minimum, the protocols, <u>handbooks or other arrangements referred to in Condition F1.1(a)</u> shall include those elements set out in any relevant guidance issued from time to time by the CAA.</p> <p>F1.45 No revision of any CAA guidance under Condition F1.34 shall have effect unless the CAA has first consulted the Licensee and any other relevant parties <u>on that guidance or any revision of it.</u></p> <p>F1.56 In compliance with Condition F1.23, the Licensee may publish <u>use any protocol, handbook or other arrangement that that meets the requirements of Condition F1.1(a) and is already agreed with Relevant Parties as at 1 January 2022 and is in force at the date this Licence comes into force</u>, subject to any revisions required under Condition F1.7.</p> <p>F1.67 The Licensee shall, in consultation with rRelevant pParties, review the protocols, <u>handbooks or other arrangements it has in place to meet the requirements of Condition F1.1(a) from time to time or if directed by the CAA by notice to do so and, with the agreement of the Relevant Parties</u>, update them as necessary; or if directed by the CAA by notice to do so.</p>	
	F1.78 Where the Licensee cannot reach agreement with the r Relevant p Parties under Conditions <u>F1.1(a)</u> , F1.23 or F1.67, it may refer the matter to the CAA for determination and the CAA may, by notice, determine it <u>make a determination</u>	

	<p>in relation to that issue.</p> <p>F1.<u>89</u> In this Condition F1, Relevant Parties means those stakeholders that need to be consulted for each protocol, including any groups or boards already established for the purpose of developing protocols and in place at the date this Licence was granted</p>	
Schedule 1		
The implementation of OBR requires a number of detailed modifications to HAL's licence.	See Chapter 2 below and the attached clean version of Schedule 1 attached to this consultation for further information.	

Table C.2: Calculation of annualised allowable security and/or health and safety costs (EC_t)

Table 2 is set-out	2013	2022 9mo-2014	2023-2015	2024-2016	2025-2017	2026-2018	2019	2020
Changes in 2014-2022	0	5 10.33 $\times C_{20222014}$ $\times Q_{20222014}$	5 10.33 $\times C_{20222014}$ $\times Q_{20222014}$	5 10.33 $\times C_{20222014}$ $\times Q_{20222014}$	5 10.33 $\times C_{20222014}$ $\times Q_{20222014}$	5 10.33 $\times C_{20222014}$ $\times Q_{20222014}$	40.33 * C_{2014} * Q_{2014}	40.33 * C_{2014} * Q_{2014}
Changes in 2015-2023	0	0	4 7 $\times C_{20232015}$ $\times Q_{20232015}$	4 7 $\times C_{20232015}$ $\times Q_{20232015}$	4 7 $\times C_{20232015}$ $\times Q_{20232015}$	4 7 $\times C_{20232015}$ $\times Q_{20232015}$	7 * C_{2015} * Q_{2015}	7 * C_{2015} * Q_{2015}
Changes in 2016-2024	0	0	0	3 6 $\times C_{20242016}$ $\times Q_{20242016}$	3 6 $\times C_{20242016}$ $\times Q_{20242016}$	3 6 $\times C_{20242016}$ $\times Q_{20242016}$	6 * C_{2016} * Q_{2016}	6 * C_{2016} * Q_{2016}
Changes in 2017-2025	0	0	0	0	2 5 $\times C_{20252017}$ $\times Q_{20252017}$	2 5 $\times C_{20252017}$ $\times Q_{20252017}$	5 * C_{2017} * Q_{2017}	5 * C_{2017} * Q_{2017}
Changes in 2018-2026	0	0	0	0	0	1 4 $\times C_{20262018}$ $\times Q_{20262018}$	4 * C_{2018} * Q_{2018}	4 * C_{2018} * Q_{2018}
Changes in 2019	0	0	0	0	0	0	3 * C_{2019} * Q_{2019}	3 * C_{2019} * Q_{2019}
Changes in 2020	0	0	0	0	0	0	0	2 * C_{2020} * Q_{2020}
$EC_t =$	Sum rows	Sum rows	Sum rows	Sum rows	Sum rows	Sum rows	Sum rows	Sum rows

Table C.3: Cumulative development capex adjustment

Additional revenue requirement for projects in	Year t =							
	2022 9mo- 2014	2023 2015	2024 2016	2025 2017	2026 2018	2019	2020	2021
20142022	$0.5 \times d_{20142022}$	$\frac{P_{t-1}}{P_{t-2}} \times d_{20142022}$	$\frac{P_{t-1}}{P_{t-3}} \times d_{20142022}$	$\frac{P_{t-1}}{P_{t-4}} \times d_{20142022}$	$\frac{P_{t-1}}{P_{t-5}} \times d_{20142022}$	$\frac{P_{t-1}}{P_{t-6}} \times d_{2014}$	$\frac{P_{t-1}}{P_{t-7}} \times d_{2014}$	$\frac{P_{t-1}}{P_{t-8}} \times d_{2014}$
20152023	0	$0.5 \times d_{20152023}$	$\frac{P_{t-1}}{P_{t-2}} \times d_{20152023}$	$\frac{P_{t-1}}{P_{t-3}} \times d_{20152023}$	$\frac{P_{t-1}}{P_{t-4}} \times d_{20152023}$	$\frac{P_{t-1}}{P_{t-5}} \times d_{2015}$	$\frac{P_{t-1}}{P_{t-6}} \times d_{2015}$	$\frac{P_{t-1}}{P_{t-7}} \times d_{2015}$
20162024	0	0	$0.5 \times d_{20162024}$	$\frac{P_{t-1}}{P_{t-2}} \times d_{20162024}$	$\frac{P_{t-1}}{P_{t-3}} \times d_{20162024}$	$\frac{P_{t-1}}{P_{t-4}} \times d_{2016}$	$\frac{P_{t-1}}{P_{t-5}} \times d_{2016}$	$\frac{P_{t-1}}{P_{t-6}} \times d_{2016}$
20172025	0	0	0	$0.5 \times d_{20172025}$	$\frac{P_{t-1}}{P_{t-2}} \times d_{20172025}$	$\frac{P_{t-1}}{P_{t-3}} \times d_{2017}$	$\frac{P_{t-1}}{P_{t-4}} \times d_{2017}$	$\frac{P_{t-1}}{P_{t-5}} \times d_{2017}$
20182026	0	0	0	0	$0.5 \times d_{20182026}$	$\frac{P_{t-1}}{P_{t-2}} \times d_{2018}$	$\frac{P_{t-1}}{P_{t-3}} \times d_{2018}$	$\frac{P_{t-1}}{P_{t-4}} \times d_{2018}$
2019	0	0	0	0	0	$0.5 \times d_{2019}$	$\frac{P_{t-1}}{P_{t-2}} \times d_{2019}$	$\frac{P_{t-1}}{P_{t-3}} \times d_{2019}$
2020	0	0	0	0	0	0	$0.5 \times d_{2020}$	$\frac{P_{t-1}}{P_{t-2}} \times d_{2020}$
2021	0	0	0	0	0	0	0	$0.5 \times d_{2021}$
	Sum Rows × WACC	Sum Rows × WACC	Sum Rows × WACC	Sum Rows × WACC	Sum Rows × WACC	Sum Rows × W	Sum Rows × W	Sum Rows × W

Chapter 2 – Draft licence modifications to Schedule 1

Introduction

- 2.1 This chapter sets out the draft licence modifications likely to be needed in Schedule 1 to HAL’s licence to implement our proposed approach to outcome based regulation (OBR). It sets out:
- a summary of the key licence changes we propose; and
 - a more detailed explanatory table (Table 2.1) to help stakeholders understand how these changes have been reflected in the clean version of Schedule 1 attached to this consultation.
- 2.2 This chapter should be read alongside the October 2021 Initial Proposals and CAP2274.¹¹

Summary of key licence changes

- 2.3 Chapter 4 of CAP2274 summarises the key licence changes that are likely to be needed to implement OBR. These include the following themes, which we expand on in Table 2.1 below.

Terminology

- 2.4 Changes that update, clarify or remove existing terminology, definitions and provisions to reflect the proposed OBR framework. Among other changes, we propose to refer to the new arrangements as the service quality “measures, targets and incentives” (MTI) scheme, which replaces the “SQRB” scheme. We have also included some drafting changes to provide more clarity.

Structural

- 2.5 Changes that re-order and streamline Schedule 1 to improve signposting and make the MTI scheme more transparent. Among other things, we propose to:
- consolidate the existing tables in Schedule 1 which are currently set out for each terminal to reduce duplication and make it easier for stakeholders to understand how rebates for individual measures compare across terminals; and

¹¹ CAP2274: Economic regulation of Heathrow Airport Limited: H7 Initial Proposals working paper on outcome based regulation: see www.caa.co.uk/CAP2274.

- move some existing provisions into separate annexes to Schedule 1 to improve signposting. These include the Quality of Service Monitor survey (“QSM”) and other survey questions for relevant measures, exclusions for availability measures and details on the renamed “runway operational resilience” measure.

Substantive

2.6 Changes that reflect our proposed OBR framework as set out in the October 2021 Initial Proposals and CAP2274 including:

- measures: the removal and merging of existing measures and adding of new measures with financial and reputational incentives;
- metrics: updating existing metrics and adding metrics for new measures, which are grouped into the following categories: survey-based, queuing times, availability-based, and other metrics;
- targets: reflecting the proposed targets set out in in CAP2274;
- rebates: reflecting the proposed rebates set out in in CAP2274;
- bonuses: reflecting the proposed bonuses as set out in CAP2274;
- publication requirements: updating the requirement for HAL to publish its performance for relevant measures in each terminal at the airport. The changes we propose include removing existing measures which will no longer apply under OBR and adding those new measures that are most directly relevant to consumers;
- a change to condition D1.9 to allow stakeholders to agree, as part of continuous improvement, to make wider changes to the OBR framework than are currently allowed (see Chapter 1 for further information); and
- a dispute resolution mechanism for specific service quality alleviations (relating to exclusion ‘o’ in paragraph 2.28 of Schedule 1), now set out in Annex 3 to Schedule 1, that allows the CAA to make a binding decision where agreement cannot be reached between HAL and the airline community on the application of this specific exclusion. See CAP2274 for further information.

Explanatory table on key licence changes to Schedule 1

- 2.7 Table 2.1 below sets out further detail on our proposed licence changes to Schedule 1 to implement OBR, expanding on the themes set out above.
- 2.8 Among other things, Table 2.1 references where there remain outstanding issues that need to be addressed before finalising the OBR framework for H7, some of which require further stakeholder engagement. These issues are set out in CAP2274 and are also referenced in placeholder boxes and square brackets in the attached clean version of Schedule 1.

Table 2.1: Explanatory table on key proposed changes to Schedule 1 of HAL’s licence

Theme	Key proposed changes	
Terminology	<ul style="list-style-type: none"> • “Statement of service quality standards, rebates and bonuses (SQRB)” becomes “statement of service quality measures, targets and incentives (MTI scheme)” • “Elements” becomes “measures” • “Standards” becomes “targets” • Measures which have been renamed, merged, removed or added: <ul style="list-style-type: none"> ○ Renamed – “aerodrome congestion term” becomes “runway operational resilience”, “specified elements k” become “bonus measures bm” ○ Merged – “PSE general” and “PSE priority” becomes “availability of lifts, escalators and travelators, and “jetties”, “fixed electrical ground power”, “stand entry guidance” and “pre-conditioned air” become “provision of stand facilities” ○ Removed – “flight information display screens” and “departure lounge seat availability” which are now captured within the wider measure “an airport that meets my needs” ○ Added – new proposed measures 	
Structural	<p style="text-align: center;"><u>Current structure under Q6 SQRB scheme</u></p> <ul style="list-style-type: none"> • Section 1 – introduction setting out components of the SQRB scheme and remaining sections • Section 2 – setting out components of the SQRB scheme <ul style="list-style-type: none"> ○ (a) Quality of Service Monitor (QSM) ○ (b) Queue times for passengers and staff; ○ (c) Queue times for vehicles; ○ (d) Availability (including Exclusions under paragraph 2.28) ○ (e) Aerodrome congestion term • Section 3 – Rebates • Section 4 – Bonuses 	<p style="text-align: center;"><u>Proposed structure under H7 MTI scheme</u></p> <ul style="list-style-type: none"> • Section 1 – introduction setting out components of the MTI scheme and remaining sections • Section 2 – Measures • Section 3 – Metrics • Section 4 – Targets • Section 5 – Rebate incentives • Section 6 – Bonus Incentives • Section 7 – Publication requirements • Section 8 – Tables <ul style="list-style-type: none"> ○ Table 1: Financial measures (Terminal) ○ Table 2: Financial measures (Airport-wide) – Control posts vehicle queue time

	<ul style="list-style-type: none"> • Section 5 – Publication • Section 6 – General matters (rounding and definitions) • Section 7 – Tables of elements, metrics, targets, rebates, bonuses per terminal and publication requirements] <ul style="list-style-type: none"> ○ Tables 2a-2d: Terminal 2 ○ Tables 3a-3d: Terminal 3 ○ Tables 4a-4d: Terminal 4 ○ Tables 5a-5d: Terminal 5 ○ Table 6: Control post rebates ○ Table 7: Aerodrome congestion term rebates ○ Table 8: Bonuses ○ Table 9: Periods of bonuses earned to be taken into account when setting M_t as specified in Condition C1 ○ Tables 10a-10e: Publication requirements 	<ul style="list-style-type: none"> ○ Table 3: Financial measures (Airport-wide) – Runway operational resilience ○ Table 4: Reputational measures (Terminal)Table 5: Reputational measures (Airport-wide) ○ Table 6: Bonuses ○ Table 7: Periods of bonuses earned to be taken into account when setting M_t as specified in Condition C1 ○ Table 8: Publication requirements • Annexes to Schedule 1 <ul style="list-style-type: none"> ○ Annex 1 – General matters ○ Annex 2 – Survey questions ○ Annex 3 – Exclusions for availability-based measures ○ Annex 4 – Runway operational resilience
Substantive	<p><u>Measures (section 2)</u> – new section</p> <p>Key proposed changes:</p> <ul style="list-style-type: none"> • To reflect that measures under the MTI scheme are either subject to financial incentives (with attached rebates or bonuses or both and publication requirements) or reputational incentives (with publication requirements). • To distinguish between those measures which are measured on a terminal basis and those measured on an airport-wide basis. • Measures have been assigned a unique indicator depending on whether they are subject to financial or reputational incentives. For example, “cleanliness” is F1 and” overall satisfaction” is R1. <p><u>Metrics (section 3)</u> – new section but incorporates relevant provisions from the existing Q6 SQRB scheme including the current paragraphs 2(a)-2(d) of Schedule 1</p> <p>Key proposed changes:</p> <ul style="list-style-type: none"> • To update existing metrics and add metrics for new measures, which are grouped into the following categories: (a) survey- 	

based; (b) queuing times; (c) availability-based and (d) other metrics.

3(a) Survey-based metrics

- To reflect two new surveys under the MTI scheme. These are the Surface Access Customer Satisfaction survey (SACS) and Special Assistance Quality of Service Monitor (SpA QSM).

3(b) Queuing times metrics

- The inclusion of a placeholder box to note relevant paragraphs should be updated to reflect:
 - The installation of any new technology including security scanning equipment and automatic or other queue measurement or monitoring systems.
 - Ongoing stakeholder discussions on issues including how control post queues are currently measured, how they should be measured during H7 to reflect the impact of new technology and opportunities for more accurate queue measurement. Further engagement is also required on the grouping of control posts.
- Immigration queuing times – to reflect the new metric for the “immigration queue times” measure.

3(c) Availability-based metrics

- The inclusion of a placeholder box for “availability of check-in infrastructure” as further stakeholder engagement is required to finalise this measure.
- New formulae to reflect the that “provision of stand facilities” is a composite measure combining four separate measures from Q6, and the two previous “passenger sensitive equipment” measures have been combined in a new “lifts, escalators and travelators” measure.
- Exclusions under paragraph 2.28 of SQRB Schedule 1 have been moved to Annex 3.

3(d) Other metrics

- The inclusion of metrics for new financially and reputationally incentivised measures, in addition to existing measures for “pier-served stand usage” and “runway operational resilience” (formerly the aerodrome congestion term – the details of how this is calculated have been moved to Annex 4).
- The inclusion of placeholder boxes for two new measures where further stakeholder engagement is required.

Targets (section 4) – new section but incorporates relevant provisions from the existing Q6 SQRB scheme

Key proposed changes:

- To set out the formula for calculating targets separately for those measures that are reported on a terminal basis and those reported on an airport-wide basis, and whether they are reported on a monthly, quarterly or annual basis.

Rebate incentives (section 5) – retaining the majority of the existing Q6 SQRB scheme provisions with some clarifications

Key proposed changes:

- Drafting clarifications on the payment of rebates.
- Clarifications on how rebate formulae are presented.

Bonus incentives (section 6) – retaining the majority of relevant provisions from the existing Q6 SQRB scheme with some changes to reflect the October 2021 Initial Proposals

Key proposed changes:

- To reflect the measures for which we propose HAL can earn bonuses as set out in CAP2274, including our proposal that HAL should only be able to earn bonuses for central search performance if in the same month it also meets the targets for the “helpfulness/attitude of security staff” measure.
- To improve the formula for calculating bonuses.

Publication requirements (section 7) – retaining the majority of the existing Q6 SQRB scheme provisions with proposed changes to reflect the October 2021 Initial Proposals

Key proposed changes:

- To update the requirement for HAL to publish its performance for relevant measures in each terminal at the airport (currently set out in paragraph 5.1 of Schedule 1). The changes we propose include removing existing measures which will no longer apply under OBR and updating publication requirements on measures that are most directly relevant to consumers.

Annex 2 – survey questions – new annex but incorporates relevant provisions from the existing Q6 SQRB scheme

Key proposed changes:

- To set out information on how relevant surveys are conducted.
- To remove survey questions for measures which are not part of the MTI scheme.
- To include survey questions for new measures.
- The inclusion of a placeholder box for “cleanliness” as the QSM question in respect of the cleanliness rating for the departure lounge is subject to change.

Annex 3 – exclusions for availability-based measures – reflecting paragraph 2.28 in the existing Q6 SQRB scheme but with proposed changes to reflect the October 2021 Initial Proposals

Key changes proposed:

- A dispute resolution mechanism for service quality alleviations (relating to exclusion 'o') that allows the CAA to make a binding decision where agreement cannot be reached between HAL and the airline community on the application of this specific exclusion.

Draft Schedule 1

Statement of Measures, Targets and Incentives

1. Introduction

- 1.1 This Schedule and its Annexes set out the service quality Measures, Targets and Incentives scheme referred to in Conditions C1 and D1 of this Licence. This scheme is referred to through this Schedule and its Annexes as the “MTI scheme”.
- 1.2 The components of the MTI scheme consist of the measures, metrics, targets, rebate incentives, bonus incentives and publication requirements set out in Table 1 to Table 8 of this Schedule.
- 1.3 The remaining parts of this Schedule are:
- (a) Measures (section 2);
 - (b) Metrics (section 3);
 - (c) Targets (section 4);
 - (d) Rebate incentives (section 5);
 - (e) Bonus incentives (section 6);
 - (f) Publication requirements (section 7); and
 - (g) Tables (section 8).
- 1.4 The following Annexes attached to this Schedule form part of this Schedule and the Licensee shall comply with the requirements and other matters set out in those Annexes:
- (a) General matters (Annex 1);
 - (b) Survey questions (Annex 2);
 - (c) Exclusions for availability-based measures (Annex 3);
 - (d) Runway operational resilience (Annex 4);

2. Measures

- 2.1 The measures in the MTI scheme are subject to either the financial incentives (with attached rebates or bonuses or both and publication requirements) or the reputational incentives (with publication requirements) specified in this Schedule and the Annexes attached to this Schedule.
- 2.2 For measures subject to the financial incentives, the Licensee's performance shall be measured against targets. The Licensee shall also report on the performance of these measures against those targets in the manner specified in section 7 and Table 8 of this Schedule. The Licensee shall calculate its performance against those targets in accordance with the relevant formulae in section 3.
- 2.3 For measures subject to the reputational incentives, the Licensee shall report on the performance of these measures against targets in the manner specified in section 7 and Table 8 of this Schedule in accordance with the relevant formulae in Section 3.
- 2.4 The measures to which the Licensee's obligations in paragraphs 2.2 and 2.3 of this Schedule apply are the "terminal measures" (applicable to Terminal 2, Terminal 3, Terminal 4 and Terminal 5) or the "airport-wide measures" (applicable to the Airport as a whole) that are set out in Table 1 to Table 5 of this Schedule.

3. Metrics

- 3.1 For the purposes of this section 3, the measures forming the MTI scheme are grouped into the following metric categories:
- (a) survey-based;
 - (b) queuing times;
 - (c) availability-based;
 - (d) other metrics.
- 3(a) Survey-based**
- 3.2 The Licensee shall take the data it uses for the calculation of its performance against the survey-based metrics from the Quality of Service Monitor (QSM), Surface Access Customer Satisfaction (SACS) Survey and the Special Assistance Quality of Service Monitor (SpA QSM) as specified in Annex 2 to this Schedule.
- 3.3 The Licensee shall use the survey-based metrics specified in Annex 2 to this Schedule to measure its performance against targets for the following measures that are subject to financial incentives:

Quality of Service Monitor (QSM)			
F1	Cleanliness	F3	Helpfulness/attitude of security staff
F2	Wayfinding	F4	Wi-Fi performance

3.4 The Licensee shall use the survey-based metrics specified in Annex 2 to this Schedule to measure its performance against targets for the following measures that are subject to reputational incentives:

List 1

Quality of Service Monitor (QSM)			
R1	Overall satisfaction	R5	Feel safe and secure
R2	Customer effort (ease)	R7	Helpfulness/attitude of airport staff
R3	Enjoy my time at the airport	R8	Being able to social distance if I want to
R4	Airport that meets my needs	R9	Ease of understanding of Covid-19 safety information

List 2

Surface Access Customer Satisfaction Survey (SACS)		Special Assistance Quality of Service Monitor (SpA QSM)	
R6	Ease of access to the airport	R10	Passengers with reduced mobility (PRS/PRM) – overall satisfaction

Quality of Service Monitor (QSM)

3.5 The Licensee shall use the results of the QSM survey to measure its performance or determine its reporting against targets for the measures specified in paragraph 3.3 and in List 1 of paragraph 3.4 of this Schedule.

3.6 The Licensee shall measure its performance using moving annual averages weighted by the number of passengers in the relevant terminal, using the formulae:

- (a) For a passenger terminal that has been offering air transport services for the carriage of passengers for more than 12 months, or for a passenger terminal where the Licensee has conducted the QSM surveys for more than 12 months, the Licensee shall calculate its performance of measure i in month j in terminal a as follows:

$$\text{Performance}_{i,j,a} = \frac{\sum_{m=1}^{m=12} [\pi_{j-m+1,a} \text{Monthly survey results}_{i,j-m+1,a}]}{\sum_{m=1}^{m=12} \pi_{j-m+1,a}}$$

- (b) For a newly opened or reopened passenger terminal, for the first 12 months after air transport services for the carriage of passengers commence (or recommence), or for a passenger terminal where the Licensee has conducted the QSM surveys for 12 months or less, the Licensee shall calculate its performance of measure i in month j in terminal a as follows:

$$\text{Performance}_{i,j,a} = \frac{\sum_{m=1}^{m=\mu} [\pi_{j-m+1,a} \text{Monthly survey results}_{i,j-m+1,a}]}{\sum_{m=1}^{m=\mu} \pi_{j-m+1,a}}$$

where:

- $\pi_{j,a}$ is the number of passengers in month j in terminal a;
- Monthly survey results $_{i,j,a}$ is the performance of measure i in month j in terminal a;
- m is a counter of the 12 months ending in month j;
- μ is a counter of months so that:
 - the month in which air transport services for the carriage of passengers commence at terminal a or the month in which QSM surveys start = 1;
 - the month after air transport services for the carriage of passengers commence at terminal a or the month after QSM surveys start = 2, and each subsequent month shall be identified accordingly;
 - the eleventh month after air transport services for the carriage of passengers commence at terminal a or the eleventh month after QSM surveys start = 12.

Surface Access Customer Satisfaction Survey (SACS)

3.7 The Licensee shall use the results of the SACS survey as specified in Annex 2 to this Schedule to determine its reporting against the target for measure R6 (ease of access to the airport).

3.8 The Licensee shall measure its performance using moving annual averages weighted by the number of passengers across the Airport, using the formulae:

- (a) where the Licensee has conducted the SACS survey for four quarters or more, the Licensee shall calculate its performance in quarter q as follows:

$$\text{Performance}_r = \frac{\sum_{q=1}^{q=4} [\pi_{r-q+1} \text{Quarterly survey results}_{r-q+1}]}{\sum_{q=1}^{q=4} \pi_{r-q+1}}$$

- (b) where the Licensee has conducted the SACS survey for less than four quarters, the Licensee shall calculate its performance in quarter q as follows:

$$\text{Performance}_r = \frac{\sum_{q=1}^{q=\alpha} [\pi_{r-q+1} \text{Quarterly survey results}_{r-q+1}]}{\sum_{q=1}^{q=\alpha} \pi_{r-q+1}}$$

where:

- π_r is the number of passengers in quarter r ;
- Quarterly survey results $_r$ is the performance of measure R6 in quarter r
- q is a counter of the four quarters ending in quarter r
- α is a counter of quarters so that:
 - the quarter in which SACS surveys start = 1;
 - the quarter after SACS surveys start = 2;
 - the second quarter after SACS surveys start = 3;
 - the third quarter after SACS surveys start = 4.

Special Assistance Quality of Service Monitor (SpA QSM)

3.9 The Licensee shall use the results of the SpA QSM survey specified in Annex 2 to this Schedule to determine its reporting against the target for measure R10 (passengers with reduced mobility (PRS/PRM) – overall satisfaction).

3.10 The Licensee shall measure performance using moving annual averages weighted by the number of passengers across the Airport, using the formulae:

(a) where the Licensee has conducted the SpA QSM survey for 12 months or more, the Licensee shall calculate its performance in month j as follows:

$$\text{Performance}_j = \frac{\sum_{m=1}^{m=12} [\pi_{j-m+1} \text{Monthly survey results}_{j-m+1}]}{\sum_{m=1}^{m=12} \pi_{j-m+1}}$$

(b) where the Licensee has conducted the SpA QSM survey for less than 12 months, the Licensee shall calculate its performance of in month j as follows:

$$\text{Performance}_j = \frac{\sum_{m=1}^{m=\mu} [\pi_{j-m+1} \text{Monthly survey results}_{j-m+1}]}{\sum_{m=1}^{m=\mu} \pi_{j-m+1}}$$

where:

- π_j is the number of passengers in month j ;
- Monthly survey results $_{i,j}$ is the performance of measure R10 in month j
- m is a counter of the 12 months ending in month j
- μ is a counter of months so that:
 - the month in which SpA QSM surveys start = 1;
 - the month after SpA QSM surveys start = 2, and each subsequent month shall be identified accordingly;
 - the eleventh month after SpA QSM surveys start = 12.

3(b) Queuing times

Paragraphs 3.11 – 3.24 and Tables 1 and 2 are subject to change. These paragraphs should be updated to reflect the following issues relating to queuing times:

1. The installation of any new technology including security scanning equipment and automatic or other queue measurement or monitoring systems.
2. Ongoing stakeholder discussions on issues including how control post queues are currently measured, how they should be measured during H7 to reflect the impact of new technology and opportunities for more accurate queue measurement. Further engagement is also required on the grouping of control posts as set out in paragraph 3.22 below.

Any changes should be implemented through the H7 price control decision, or if required, through the licence modification mechanism in Condition D1 or section 22 Civil Aviation Act 2012 during H7.

- 3.11 The Licensee shall collect data for queuing times metrics for passengers and staff (security) using the Defined Method specified in paragraph 3.18.
- 3.12 The Licensee shall collect data for queuing times metrics for passengers (immigration) using the method specified in paragraph 3.24.
- 3.13 The Licensee shall collect data for queuing times metrics for vehicles (security) using the Defined Method specified in paragraph 3.21.
- 3.14 The Licensee shall use queuing times metrics to measure its performance against targets for the following measures subject to financial incentives:

Passengers and staff (security)	
F5a	Security queue time – Central search (Percentage of queue times measured once every 15 minutes that are less than 5 minutes)
F5b	Security queue time – Central search (Percentage of queue times measured once every 15 minutes that are less than 10 minutes)
F6	Security queue time – Transfer search
F7	Security queue time – Staff search
Vehicles (security)	
F8	Control posts vehicle queue times

- 3.15 The Licensee shall use the queuing times metrics to determine its reporting of performance against targets for the following measures subject to reputational incentives:

Passengers (immigration)	
R16a	Immigration queue times (Percentage of queuing times for non-EEA passengers that are less than 45 minutes)
R16b	Immigration queue times (Percentage of queuing times for EEA passengers that are less than 25 minutes)

Queuing times for passengers and staff (security)

3.16 The Licensee shall calculate queuing time for passengers and staff (security) using the following formula:

$$A - B + C$$

where:

- A is the elapsed time between passengers or staff passing a defined entry portal and reaching the security roller bed (the exit point);
- B is an allowance for the free flow transit time from the point when passengers or staff reach the entry portal to the point where they reach the security roller bed (including an allowance for any intermediate processes conducted between the portal and the roller bed). This is referred to as the 'unimpeded walk time'; and
- C is any additional time that passengers or staff spend in the queue for search before reaching the defined entry portal.

3.17 The unimpeded walk times, the inclusion of any uni-queue or maze systems, process delay times, entry and exit points allowed for in the above equation shall be agreed locally for each search area in accordance with the governance arrangements as required under Condition F1.1(a) (iv).

3.18 The **Defined Method** of data collection shall be agreed locally for each search area in accordance with the governance arrangements as required under Condition F1.1(a)(iv):

- (a) Manual method: where the Licensee measures queues by the Manual method agreed by the CAA, the Licensee shall record the times manually noting the queue time of the first passenger or staff presenting to either the portal (if the queue does not extend to the portal) or the back of the queue (if the queue extends beyond the portal) after a clockwise 15-minute period. For example, taking four measurements in every hour at hh:mm, hh:mm+15, hh:mm+30, hh:mm+45 where mm lies between 0 and 14) during the relevant time over which performance counts for rebates, up to the point that the passenger or staff reaches the security roller bed.

Queuing times for vehicles (security)

3.19 The Licensee shall collect data for queuing times metrics for vehicles (security) using the Defined Method specified in paragraph 3.21 to measure its

performance against targets for control posts as specified in Table 2 of this Schedule.

- 3.20 For the purposes of paragraph 3.19, a queue time for vehicles shall be the time taken for a vehicle to move from the back of the vehicle queue to the start of the control post process (that is, as the vehicle moves into the control post sterile area).
- 3.21 The **Defined Method** of data collection shall be the automatic number plate recognition system. The Licensee shall capture queue times for all vehicles transiting through vehicular control posts.
- 3.22 Passing the overall control post standard shall require the Licensee passing the control post standard in each of the control post groups. The control post groups shall be defined as follows:
- (a) CTA : CP5, CP8
 - (b) Cargo : CP10, CP10a, CP25a
 - (c) Eastside : CP14, CP16
 - (d) Southside : CP24
 - (e) Terminal 5 : CP18, CP19, CP20.

Queuing times for passengers (immigration)

- 3.23 The Licensee shall calculate the queuing time for passengers (immigration) in accordance with the following formula:

$D - E$

where:

- D is the time a passenger enters the queue for immigration; and
- E is the time that the same passenger leaves the queue maze to approach an immigration desk or use an e-gate.

- 3.24 [Details to be confirmed of metrics for automated and manual queue measurement]

3(c) Availability-based

F10 “availability of check-in infrastructure” and Table 1 are subject to change. Further stakeholder engagement is required to finalise this measure. Any changes should be implemented through the H7 price control decision, or if required through the licence modification mechanism in Condition D1 or section 22 Civil Aviation Act 2012 during H7.

- 3.25 The Licensee shall collect data for availability-based metrics from its operational systems.
- 3.26 For the purposes of availability-based metrics, availability shall be defined as ‘serviceable and available for use, independent of any other measures’. The Licensee shall use availability-based metrics to measure its performance against targets for the following measures subject to financial incentives:

Financially incentivised measures in the availability-based metric group	
F9	Availability of lifts, escalators and travelators
F10	Availability of check-in infrastructure
F11	Availability of arrivals baggage carousels
F12a	Availability of Terminal 5 track transit system (Percentage of one train serviceable and available for use, independent of any other measures)
F12b	Availability of Terminal 5 track transit system (Percentage of two trains serviceable and available for use, independent of any other measures)
F13	Availability of stands
F14	Provision of stand facilities

- 3.27 For measures F9 to F13, Performance_{i,j,a} of availability of relevant facilities is defined for measure i in month j in terminal a as:

$$\text{Availability}_{i,j,a} = 100 \cdot \left(1 - \frac{\sum_{e=1}^{e=n_{i,a}} \text{TU}_{b,j,a}}{n_{i,a} \times \text{Time}_j} \right)$$

where:

- Availability_{i,j,a} is the percentage availability of measure i in month j in terminal a;
- TU_{b,j,a} is the relevant time elapsed in month j during which asset b in terminal a is unavailable as set out in paragraph 3.29;
- Time_j is the total relevant time in month j as defined in Table 1 of this Schedule;
- e is a counter of the number of assets; and
- n_{i,a} is the number of assets included in measure i in terminal a.

3.28 For F14 Provisional of stand facilities, Performance_{j,a} of availability of relevant facilities is defined in month j in terminal a as:

(a) In Terminal 2, Terminal 3 or Terminal 5:

$$\text{Availability}_{j,a} = \frac{1}{4} \times 100 \times \left[\left(1 - \frac{\sum_{e=1}^{e=n_{h1,a}} \text{TU}_{b,j,a}}{n_{h1,a} \cdot \text{Time}_j} \right) + \left(1 - \frac{\sum_{e=1}^{e=n_{h2,a}} \text{TU}_{b,j,a}}{n_{h2,a} \cdot \text{Time}_j} \right) \right. \\ \left. + \left(1 - \frac{\sum_{e=1}^{e=n_{h3,a}} \text{TU}_{b,j,a}}{n_{h3,a} \cdot \text{Time}_j} \right) + \left(1 - \frac{\sum_{e=1}^{e=n_{h4,a}} \text{TU}_{b,j,a}}{n_{h4,a} \cdot \text{Time}_j} \right) \right]$$

where:

- Availability_{j,a} is the percentage availability in month j in terminal a;
- TU_{b,j,a} is the relevant time elapsed in month j during which asset b in terminal a is unavailable as set out in paragraph 3.29;
- Time_j is the total relevant time in month j as defined in Table 1 of this Schedule;
- e is a counter of the number of assets; and
- n_{h1,a}, n_{h2,a}, n_{h3,a} and n_{h4,a} are the number of assets of type h1, h2, h3 and h4 respectively included in terminal a, where:
 - h1 is stand entry guidance
 - h2 is fixed electrical ground power
 - h3 is jetties
 - h4 is pre-conditioned air

(b) In Terminal 4:

$$\text{Availability}_{j,4} = \frac{1}{3} \times 100 \times \left[\left(1 - \frac{\sum_{e=1}^{e=n_{h1,4}} \text{TU}_{b,j,4}}{n_{h1,4} \cdot \text{Time}_j} \right) + \left(1 - \frac{\sum_{e=1}^{e=n_{h2,4}} \text{TU}_{b,j,4}}{n_{h2,4} \cdot \text{Time}_j} \right) \right. \\ \left. + \left(1 - \frac{\sum_{e=1}^{e=n_{h3,4}} \text{TU}_{b,j,4}}{n_{h3,4} \cdot \text{Time}_j} \right) \right]$$

where:

- Availability_{j,4} is the percentage availability in month j in Terminal 4;
- TU_{b,j,4} is the relevant time elapsed in month j during which asset b in Terminal 4 is unavailable as set out in paragraph 3.29;
- Time_j is the total relevant time in month j as defined in Table 1 of this Schedule;
- e is a counter of the number of assets; and

- $n_{h1,4}$, $n_{h2,4}$ and $n_{h3,4}$ are the number of assets of type h1, h2 and h3 respectively included in Terminal 4, where
 - h1 is stand entry guidance
 - h2 is fixed electrical ground power
 - h3 is jetties.

3.29 The Licensee shall measure the time elapsed during which an asset is unavailable from when a fault is reported by automatic back indication or by inspection or by a third party report, subject to the Exclusions specified in Annex 3.

3(d) Other metrics

3.30 The Licensee shall use the metrics set out in paragraphs 3.32 to 3.35 to measure its performance against targets for the following measures subject to financial incentives:

Financially incentivised measures in the other metrics group	
F15	Pier-served stand usage
F16	Runway operational resilience
F17a	Hygiene safety testing (Percentage of Amber ATP test results resolved within 12 hours each month)
F17b	Hygiene safety testing (Percentage of Red ATP test results resolved within 2 hours each month)
F18	Timely delivery from departure baggage system

3.31 The Licensee shall use the metrics set out in paragraphs 3.36 to 3.41 to measure its performance against targets for the following measures subject to reputational incentives:

Reputationally incentivised measures in the other metrics group	
R11	Departures flight punctuality
R12	Airport departures management
R13	Airport arrivals managements (wheels down to doors open)
R14	% of UK population with 3 hours (and one interchange) of Heathrow by public transport
R15	Passenger injuries
R17	Reduction in Heathrow's carbon footprint

F15 Pier-served stand usage

3.32 The Licensee shall collect data for pier-served stand from its operational systems. The Licensee shall calculate its performance of this measure in month j in terminal a in accordance with the following formula:

$$\text{Performance}_{j,a} = \frac{\sum_{m=1}^{m=12} [\text{PierPax}_{j-m+1,a}]}{\sum_{m=1}^{m=12} \text{TotalPax}_{j-m+1,a}}$$

where:

- PierPax_{j,a} is the number of arriving and departing passengers accessing a pier served stand in month j in terminal a;
- TotalPax_{j,a} is the number of arriving and departing passengers in month j in terminal a; and
- m is a counter of the 12 months ending in month j.

F16 Runway operational resilience

3.33 The Licensee shall collect data for runway operational resilience to measure its performance against targets in the manner set out in Annex 4.

F17 Hygiene safety testing

3.34 The Licensee shall undertake a minimum of 10 random adenosine triphosphate (ATP) hygiene tests per day in each terminal to provide data to measure its performance against targets in month j in terminal a:

(a) For Amber ATP test results:

$$\text{Performance}_{j,a} = \frac{\text{TimelyAmberATP}_{j,a}}{\text{TotalAmberATP}_{j,a}}$$

where:

- TimelyAmberATP_{j,a} is the number of Amber ATP test results resolved within 12 hours in month j in terminal a; and
- TotalAmberATP_{j,a} is the total number of Amber ATP test results in month j in terminal a.

(b) For Red ATP test results:

$$\text{Performance}_{j,a} = \frac{\text{TimelyRedATP}_{j,a}}{\text{TotalRedATP}_{j,a}}$$

where:

- TimelyRedATP_{j,a} is the number of Red ATP test results resolved within two hours in month j in terminal a; and
- TotalRedATP_{j,a} is the total number of Red ATP test results in month j in terminal a.

F18 Timely delivery from departure baggage system

F18 “Timely delivery from departure baggage system” and Tables 1 and Table 6 are subject to change. Further stakeholder engagement is required to finalise this measure. A provisional metric based on stakeholder engagement to date is included in square brackets [proportion of bags delivered by the baggage system to the handler within the target time with exclusions to be agreed between the Licensee and the AOC.] Any changes should be implemented through the H7 price control decision, or if required through the licence modification mechanism in Condition D1 or section 22 Civil Aviation Act 2012 during H7.

- 3.35 The Licensee shall collect data for timely delivery from departure baggage system from its operational systems. The Licensee shall calculate its performance of this measure in month j in terminal a by: [a proportion of bags delivered to the handler within the target time with exclusions to be agreed between the Licensee and the AOC.]

R11 Departures flight punctuality

- 3.36 The Licensee shall collect data for departures flight punctuality from its operational systems. The Licensee shall calculate the performance of this measure in month j by: [average proportion of scheduled passenger flights taking off within 15 minutes of the scheduled departure time.]

R12 Airport departures management

R12 “Airport departures management” and Table 5 are subject to change. Further stakeholder engagement is required to finalise this measure. A provisional metric based on stakeholder engagement to date is included in square brackets [% of flights taking off within x minutes of standard time]. Any changes should be implemented through the H7 price control decision, or if required through the licence modification mechanism in Condition D1 or section 22 Civil Aviation Act 2012 during H7.

- 3.37 The Licensee shall collect data for airport departures management from its operational systems. The Licensee shall calculate the performance of this measure in month j by: [% of flights taking off within x minutes of standard time.]

R13 Airport arrivals managements (wheels down to doors open)

- 3.38 The Licensee shall collect data for airport arrivals managements (wheels down to doors open) from its operational systems. The Licensee shall calculate the performance of this measure in month j by: [the time taken between wheels touching down on the runway to aircraft doors being opened for passengers to disembark the aircraft].

R14 % of UK population with 3 hours (and one interchange) of Heathrow by public transport

3.39 The Licensee shall collect data for the percentage of the UK population within three hours (and one interchange) of Heathrow by public transport from geographic information system (GIS) data. The Licensee shall calculate the performance of this measure in Regulatory year t by:

$$\text{Performance}_t = \frac{\text{Population} < 3\text{hrs}_t}{\text{TotalPopulation}_t}$$

where:

- Population < 3hrs_t is the UK population who live within three hours (and one interchange) of the Airport by public transport in Regulatory Year t; and
- TotalPopulation_t is the total UK population in Regulatory Year t.

R15 Passenger injuries

3.40 The Licensee shall collect data for passenger injuries from the data reported to the Licensee's Airwebs. The Licensee shall calculate the performance of this measure in month j by:

$$\text{Performance}_j = \frac{\sum_{m=1}^{m=12} [\text{InjuredPax}_{j-m+1}]}{\sum_{m=1}^{m=12} \pi_{j-m+1} \times \frac{1}{1,000,000}}$$

where:

- InjuredPax_j is the number of passenger injuries reported to HAL's Airwebs (excluding ill health) in month j;
- π_{j,a} is the number of passengers in the Airport in month j; and
- m is a counter of the 12 months ending in month j.

R17 Reduction in Heathrow's carbon footprint

3.41 The Licensee shall collect data for the reduction in Heathrow's carbon footprint from its operational systems and relevant surveys. The Licensee shall calculate the performance of this measure in Regulatory year t by: [annual amount of carbon dioxide emitted on the ground and in the air related to the Airport.]

4. Targets

For measures applicable to a terminal (terminal measures) and reported monthly

4.1 The Licensee shall meet the target if:

$$\text{Performance}_{i,j,a} \geq \text{Target}_{i,j,a}$$

where:

- Performance_{i,j,a} is the recorded performance of measure i in month j in terminal a; and
- Target_{i,j,a} is the relevant target of measure i in month j in terminal a as defined in Table 1 and Table 4 of this Schedule.

4.2 For any measure i, Performance_{i,j,a} and Target_{i,j,a} are defined in the same way by the corresponding metric formulae in the relevant paragraphs in section 3. The targets are set out in Table 1 and Table 4 of this Schedule.

4.3 Paragraphs 4.1 and 4.2 apply to all measures in Table 1 and Table 4 of this Schedule.

For measures applicable to the whole airport (airport-wide measures) and reported monthly

4.4 The Licensee shall meet the target if:

$$\text{Performance}_{i,j} \geq \text{Target}_{i,j}$$

where:

- Performance_{i,j} is the recorded performance of measure i in month j; and
- Target_{i,j} is the relevant target of measure i in month j.

4.5 For any measure i, Performance_{i,j} and Target_{i,j} shall be defined in the same way as the corresponding metric formulae in the relevant paragraphs in section 3. Relevant targets are set out in Table 2, Table 3 and Table 5 of this Schedule.

4.6 Paragraphs 4.4 and 4.5 apply to the following measures:

Airport-wide measures reported monthly	
F8	Control posts vehicle queuing time
F16	Runway operational resilience
R10	Passengers with reduced mobility (PRS/PRM) – overall satisfaction
R11	Departures flight punctuality
R12	Airport departures management
R13	Airport arrivals managements (wheels down to doors open)
R15	Passenger injuries

For measures applicable to the whole airport (airport-wide measures) and reported quarterly

4.7 The Licensee shall meet the target if:

$$\text{Performance}_{i,r} \geq \text{Target}_{i,r}$$

where:

- Performance_{i,r} is the recorded performance of measure i in quarter r; and
- Target_{i,r} is the relevant target of measure i in quarter r.

4.8 For any measure i, Performance_{i,r} and Target_{i,r} shall be defined in the same way as the corresponding metric formulae in the relevant paragraphs in section 3. The levels of the targets are set out in Table 5 of this Schedule.

4.9 Paragraph 4.8 applies to measure R6 (ease of access to the airport).

For measures applicable to the whole airport (airport-wide measures) and reported annually

4.10 The Licensee shall meet the target if:

$$\text{Performance}_{i,t} \geq \text{Target}_{i,t}$$

where:

- Performance_{i,t} is the recorded performance of measure i in Regulatory Year t; and
- Target_{i,t} is the relevant target of measure i in Regulatory Year t.

4.11 For any measure i, Performance_{i,t} and Target_{i,t} shall be defined in the same way as the corresponding metric formulae in the relevant paragraphs in section 3. The levels of the targets are set out in Table 5 of this Schedule.

4.12 Paragraph 4.11 applies to measures R14 (Percentage of UK population living within 3 hours (and one interchange) of the Airport by public transport) and R17 (Reduction in Heathrow's carbon footprint).

5 Rebate Incentives

5.1 The Licensee shall pay rebates to Relevant Parties as set out in this Schedule and as may be modified from time to time.

Payment

5.2 This Schedule sets out the total level of rebates that shall accrue over each relevant Regulatory Year. The Licensee shall pay rebates to the Relevant Parties on a monthly basis in the month following the month in which they accrue.

5.3 The Licensee shall allocate rebates to each Relevant Party in each month on the following basis:

- (a) rebates relating to measures F8 (Control post vehicle queuing time) and F16 (Runway operational resilience) for each month shall be allocated to the Relevant Parties *pro rata* with the Airport Charges incurred for air transport services for the carriage of passengers in that month; and

- (b) all other rebates shall be calculated separately for each terminal and for each month and shall be allocated to the Relevant Parties *pro rata* with the Airport Charges incurred for those air transport services for the carriage of passengers that used the terminal in that month.

5.4 The Licensee shall base the payments it makes to Relevant Parties on a month-by-month basis on its best estimate of the total Airport Charges that will be paid in respect of air transport services for the carriage of passengers in the relevant Regulatory Year.

5.5 To address any differences between the sum of rebates paid to Relevant Parties and the total rebates that the Licensee is required to pay by this Schedule in the same Relevant Year:

- (a) where the sum of rebates paid to Relevant Parties in a Regulatory Year is less than the total rebates that the Licensee is required to pay by this schedule in the same Regulatory Year, the Licensee shall pay such further amounts to the Relevant Parties that have received rebates so that the amount of rebates paid in respect of the relevant Regulatory Year is brought up to the level required by this Schedule. The Licensee shall pay such additional amounts to the Relevant Parties in the same proportion as the rebates already paid in the course of the Regulatory Year and shall pay them as soon as practicable and no more than three calendar months after the publication of the Licensee's audited accounts in respect of that Regulatory Year. The Licensee shall not be required to make such payments where the CAA has received a letter from the AOC to the effect that the sum is so small that to enforce payment would incur disproportionate processing costs for the Relevant Parties; and
- (b) where the sum of rebates paid to Relevant Parties in a Regulatory Year is more than the total rebates that the Licensee is required to pay by this Schedule in the same Relevant Year, the Licensee may recover the difference between the amount paid and the required amount from the Relevant Parties that have received rebates *pro rata* with the rebates paid.

Calculation

5.6 The Licensee shall calculate the rebates that it pays to Relevant Parties under this section 5 of this Schedule in accordance with the following formula:

$$\text{Rebate}_{\text{Total},t} = \sum_{a=2}^{a=5} (\text{Rebate}_{\text{Terminal},t,a} \times R_{t,a}) + \text{Rebate}_{\text{CP},t} \times R_t + \text{Rebate}_{\text{ROR},t} \times R_t$$

where

- $\text{Rebate}_{\text{Total},t}$ is the total aggregate rebate payable for Regulatory Year t:

- $\text{Rebate}_{\text{Terminal},t,a}$ is the aggregate percentage rebate in Regulatory Year t in terminal a relating to measures F1-F7, F9-F15 and F17-18;
- $\text{Rebate}_{\text{CP},t}$ is the aggregate percentage rebate in Regulatory Year t relating to measure F8 (Control posts vehicle queuing time); and
- $\text{Rebate}_{\text{ROR},t}$ is the aggregate percentage rebate in Regulatory Year t relating to measure F16 (Runway operational resilience);
- $R_{t,a}$ is the total revenue from Airport Charges in respect of air transport services for the carriage of passengers levied in terminal a in Regulatory Year t ; and
- R_t is the total revenue from Airport Charges in respect of air transport services for the carriage of passengers levied at the Airport in Regulatory Year t .

Rebate_{Terminal,t}

5.7 The Licensee shall calculate $\text{Rebate}_{\text{Terminal},t}$ separately for each terminal based on the performance relevant to each individual terminal against the targets set out for that terminal in accordance with the following formula:

$$\text{Rebate}_{\text{Terminal},t} = \sum_{j=\text{January}}^{j=\text{December}} \sum_i \text{Min}[R_{i,j}\text{RY} \times x_{i,j,a}, \text{ANNMAX}_i]$$

where:

- ANNMAX_i is the maximum percentage of Airport Charges (relating to air transport services for the carriage of passengers) payable by the Licensee as rebates for any service failure in measure i in Regulatory Year t as specified in Table 1 of this Schedule;
- $R_{i,j}\text{RY}$ is a proportion of ANNMAX_i for any service failure in measure i in month j for any relevant Regulatory Year. During any Regulatory Year, the Licensee shall pay a percentage rebate of $R_{i,j}\text{RY}$ for the first six service failures of measure i in Regulatory Year t as specified in Table 1 of this Schedule; and
- $x_{i,j,a} = 0$ if $\text{Target}_{i,j,a}$ for measure i in month j in terminal a is met as defined in paragraph 4.1; or
 $= 1$ otherwise.
- $i = \text{F1 to F7, F9 to F15, F17 to F18}$ as specified in Table 1 of this Schedule.

Rebate_{CP,t}

5.8 The Licensee shall calculate $\text{Rebate}_{CP,t}$ across the whole Airport based on the performance of F8 (Control post vehicle queuing time, relevant to each individual control post group) against the targets set out for control posts.

5.9 The Licensee shall aggregate $\text{Rebate}_{CP,t}$ across all months for Regulatory Year t and shall calculate it as follows:

$$\text{Rebate}_{CP,t} = \sum_{j=\text{January}}^{j=\text{December}} \text{Min}[\text{R}_{CP,jRY} \times x_{CP,j}, \text{ANNMAX}_{CP}]$$

where:

- ANNMAX_{CP} is the maximum percentage of Airport Charges (relating to air transport services for the carriage of passengers) payable by the Licensee as rebates for any service failure in control posts in Regulatory Year t as specified in Table 2 of this Schedule;
- $\text{R}_{CP,jRY}$ is a proportion of ANNMAX_{CP} for any service failure in month j for any relevant Regulatory Year. During any Regulatory Year, the Licensee shall pay a percentage rebate of $\text{R}_{CP,jRY}$ for the first six service failures in Regulatory Year t as specified in Table 2 of this Schedule; and
- $x_{CP,j} = 0$ if $\text{Target}_{CP,j}$ in month j in t is met as defined in paragraph 4.4; or
 $= 1$ otherwise.

Rebate_{ROR,t}

5.10 The Licensee shall calculate $\text{Rebate}_{ROR,t}$ across the whole Airport based on the performance of F16 (Runway operational resilience) against the target for this measure.

5.11 The Licensee shall calculate $\text{Rebate}_{ROR,t}$ as follows:

$$\text{Rebate}_{ROR,t} = \text{Min} \left[100 \times \left(\frac{\text{Rebate}_{ARR,t} + \text{Rebate}_{DEP,t}}{R_t} \right), \text{MAXRebate}_{ROR} \right]$$

where:

- $\text{Rebate}_{ARR,t} = \sum_{\text{All material events}} v_{ARR_d}$ is the element of this term related to arrival movements at the Airport in Regulatory Year t ;
- $\text{Rebate}_{DEP,t} = \sum_{\text{All material events}} v_{DEP_d}$ is the element of this term related to departure movements at the Airport in Regulatory Year t ;
- R_t is the total revenue from Airport Charges in respect of air transport services for the carriage of passengers levied at the Airport in Regulatory Year t ; and

- $MAXRebate_{ROR}$ is the maximum percentage rebate for the Regulatory Year t for as specified in Table 3 of this Schedule.

5.12 For each **Material Event** d :

- $v_{ARR,d}$ is the value in Table 3 of this Schedule, dependent on the **Maximum Cumulative Arrival Movements Deferred** for the d^{th} relevant **Material Event** as adjusted by inflation specified in Annex 3; and
- $v_{DEP,d}$ is the value in Table 3 of this Schedule, dependent on the **Maximum Cumulative Departure Movements Deferred** for the d^{th} relevant **Material Event** as adjusted by inflation specified in Annex 3.

5.13 For $(Rebate_{ARR,t} + Rebate_{DEP,t})$ incurred in the relevant Regulatory Year t , the amount payable shall be inflated to outturn prices by the formula:

$$(Rebate_{ARR,t} + Rebate_{DEP,t}) = (Rebate_{ARR,2020} + Rebate_{DEP,2020}) \times \left(\frac{P_t}{P_{2020}} \right)$$

where:

- $Rebate_{ROR,2020}$ in 2020 prices as listed in Table 3 of this Schedule;
- P_t is the value of the CHAW series of the Retail Price Index published by the Office for National Statistics with respect to April in Regulatory Year t ; and
- P_{2020} is the value of the CHAW series of the Retail Price Index published by the Office for National Statistics with respect to April 2020.

6 Bonus Incentives

Payment

6.1 The Licensee may recover bonuses from Relevant Parties. Bonus payments shall be included in the calculation of the Airport Charges in respect of relevant air transport services in Condition C1.

Calculation

6.2 B_t , the bonus factor as specified in Condition C1, is based on performance achieved in respect of specified bonus measures in the relevant Regulatory Year t as set out in Table 6 of this Schedule.

6.3 For the purposes of calculating M_t , the maximum allowable yield as specified in Condition C1, the corresponding periods for which bonuses are recoverable by the Licensee to be included in the calculation of M_t are set out in Table 7 of this Schedule.

6.4 For the purposes of calculating M_t , for the Regulatory Year t starting on 1 January 2022, $B_{t-2} = B_{2020}$ is set to zero.

6.5 B_t for Regulatory Year t shall be calculated as follows:

$$B_t = \sum_{j=\text{January}}^{j=\text{December}} \sum_{bm} \text{Max} \left[0, \text{Min} \left[\text{BNS}(\text{T2})_{bm,j}, \text{BNS}(\text{T3})_{bm,j}, \text{BNS}(\text{T4})_{bm,j}, \text{BNS}(\text{T5})_{bm,j} \right] \right]$$

where:

- B_t is the total aggregate percentage bonus rebate payable for Regulatory Year t ; and
- $\text{BNS}(\text{T2})_{bm,j}$, $\text{BNS}(\text{T3})_{bm,j}$, $\text{BNS}(\text{T4})_{bm,j}$, $\text{BNS}(\text{T5})_{bm,j}$ are the amount of bonuses earned as a percentage of Airport Charges in month j based on the Licensee's performance of bonus measure bm in Terminal 2, Terminal 3, Terminal 4 and Terminal 5. These are calculated using the formulae set out in paragraphs 6.6 and 6.7.

6.6 For each month j and bonus measure $bm = \text{F1 (Cleanliness), F2 (Wayfinding) or F18 (Timely delivery from departures baggage system)}$:

$$\text{BNS}(\text{T2})_{bm,j} = \frac{1}{12} \times \text{MB}_{bm} \frac{\text{Min}[\text{UBT}_{bm}, \text{MP}(\text{T2})_{bm}] - \text{LBT}_{bm}}{\text{UBT}_{bm} - \text{LBT}_{bm}}$$

$$\text{BNS}(\text{T3})_{bm,j} = \frac{1}{12} \times \text{MB}_{bm} \frac{\text{Min}[\text{UBT}_{bm}, \text{MP}(\text{T3})_{bm}] - \text{LBT}_{bm}}{\text{UBT}_{bm} - \text{LBT}_{bm}}$$

$$\text{BNS}(\text{T4})_{bm,j} = \frac{1}{12} \times \text{MB}_{bm} \frac{\text{Min}[\text{UBT}_{bm}, \text{MP}(\text{T4})_{bm}] - \text{LBT}_{bm}}{\text{UBT}_{bm} - \text{LBT}_{bm}}$$

$$\text{BNS}(\text{T5})_{bm,j} = \frac{1}{12} \times \text{MB}_{bm} \frac{\text{Min}[\text{UBT}_{bm}, \text{MP}(\text{T5})_{bm}] - \text{LBT}_{bm}}{\text{UBT}_{bm} - \text{LBT}_{bm}}$$

where:

- MB_{bm} is the maximum percentage of Airport Charges recoverable by the Licensee as bonuses for performance of specified bonus measure bm in the relevant Regulatory Year as specified in Table 6 of this Schedule;
- UBT_{bm} is the upper bonus threshold for bonus measure bm used in the calculation of bonuses. It has the values assigned in Table 6 of this Schedule;
- LBT_{bm} is the lower bonus threshold for bonus measure bm used in the calculation of bonuses. It has the values assigned in Table 6 of this Schedule;
- $\text{MP}(\text{T2})_{bm,j}$, $\text{MP}(\text{T3})_{bm,j}$, $\text{MP}(\text{T4})_{bm,j}$ and $\text{MP}(\text{T5})_{bm,j}$ are the performance for bonus measures bm in month j for Terminal 2, Terminal 3, Terminal 4 and Terminal 5, respectively;

- for bonus measure $bm = F1$ Cleanliness or $F2$ Wayfinding, the Licensee shall measure its performance using the formulae set out in paragraph 3.6 of this Schedule;
- for bonus measure $bm = F18$ Timely delivery from departures baggage system, the Licensee shall measure its performance using the formulae set out in paragraph 3.35 of this Schedule.

6.7 For each month j and bonus measure $bm = F5a$ Security queue time – Central Search (Percentage of queue times measured once every 15 minutes that are less than 5 minutes):

$$BNS(T2)_{bm,j} = \frac{1}{12} \times MB_{bm} \frac{\text{Min}[UBT_{bm}, MP(T2)_{bm}] - LBT_{bm}}{UBT_{bm} - LBT_{bm}} \times Z_{j,2}$$

$$BNS(T3)_{bm,j} = \frac{1}{12} \times MB_{bm} \frac{\text{Min}[UBT_{bm}, MP(T3)_{bm}] - LBT_{bm}}{UBT_{bm} - LBT_{bm}} \times Z_{j,3}$$

$$BNS(T4)_{bm,j} = \frac{1}{12} \times MB_{bm} \frac{\text{Min}[UBT_{bm}, MP(T4)_{bm}] - LBT_{bm}}{UBT_{bm} - LBT_{bm}} \times Z_{j,4}$$

$$BNS(T5)_{bm,j} = \frac{1}{12} \times MB_{bm} \frac{\text{Min}[UBT_{bm}, MP(T5)_{bm}] - LBT_{bm}}{UBT_{bm} - LBT_{bm}} \times Z_{j,5}$$

where:

- MB_{bm} is the maximum percentage of Airport Charges recoverable by the Licensee as bonuses for performance of specified bonus measure bm in the relevant Regulatory Year as specified in Table 6 of this Schedule;
- UBT_{bm} is the upper bonus threshold for bonus measure bm used in the calculation of bonuses and has the values assigned in Table 6 of this Schedule;
- LBT_{bm} is the lower bonus threshold for bonus measure bm used in the calculation of bonuses and has the values assigned in Table 6 of this Schedule;
- $MP(T2)_{bm,j}$, $MP(T3)_{bm,j}$, $MP(T4)_{bm,j}$ and $MP(T5)_{bm,j}$ are the performance for bonus measures bm in month j for Terminal 2, Terminal 3, Terminal 4 and Terminal 5, respectively:
 - for bonus measure $bm = F5a$ (Security queue time – Central Search, Percentage of queue times that are less than 5 minutes), the Licensee shall measure its performance using the formulae set out in paragraph 3.16;

- $z_{j,2}, z_{j,3}, z_{j,4}$ and $z_{j,5} = 1$ if $\text{Target}_{j,2}, \text{Target}_{j,3}, \text{Target}_{j,4}$ and $\text{Target}_{j,5}$ for F3 (Helpfulness/attitude of security staff) in month j in Terminal 2, Terminal 3, Terminal 4 and Terminal 5 respectively are met, as defined in paragraph 4.1, and = 0 otherwise.

7. Publication requirements

7.1 The Licensee shall comply with the publication requirements set out in Table 8 of this Schedule and paragraphs 7.2 to 7.4 below.

Publication in terminals

7.2 The Licensee shall publish in each terminal at the Airport:

(a) On a monthly basis within four weeks of the end of the relevant month (where applicable) its performance against targets for each terminal (for “terminal measures”) and for the Airport (“for airport-wide measures”) with respect to the following measures and as specified in Table 8.

- | | | |
|--------|-------------|--|
| (i) | F1 | Cleanliness; |
| (ii) | F2 | Wayfinding; |
| (iii) | F3 | Helpfulness/attitude of security staff; |
| (iv) | F4 | Wi-fi performance; |
| (v) | F5a & F5b | Security queue time – Central search; |
| (vi) | F6 | Security queue time – Transfer search; |
| (vii) | F17a & F17b | Hygiene safety testing; |
| (viii) | R1 | Overall satisfaction; |
| (ix) | R2 | Customer effort (ease); |
| (x) | R3 | Enjoy my time at the airport; |
| (xi) | R4 | Airport that meets my needs; |
| (xii) | R5 | Feel safe and secure; |
| (xiii) | R8 | Being able to social distance if I want to; |
| (xiv) | R9 | Ease of understanding Heathrow’s covid-19 safety information; |
| (xv) | R10 | Passengers with reduced mobility (PRS/PRM) – overall satisfaction; |
| (xvi) | R11 | Departures flight punctuality; |

- (xvii) R15 Passenger injuries;
- (xviii) R16a & R16b Immigration queue times; and
- (xix) R17 Reduction in Heathrow's carbon footprint.

Publication on website

7.3 The Licensee shall publish on the Service Quality page of its website:

- (a) on a monthly basis within four weeks of the end of the relevant month (where applicable),
 - (i) its performance against the targets for each of the terminals at the Airport with respect to all measures specified in Table 8 of this Schedule; and
 - (ii) the estimated amount of rebates and bonuses, generated by the performance relating to all measures specified in Table 8 of this Schedule.
- (b) within two months of the end of the relevant Regulatory Year,
 - (i) its confirmed performance against the targets for each of the terminals at the Airport with respect to all measures specified in Table 8 of this Schedule; and
 - (ii) the estimated amount of rebates and bonuses, generated by the performance relating to all measures specified in Table 8 of this Schedule.

Publication in the Regulatory Accounts

7.4 The Licensee shall publish on the Regulatory Accounts page of its website:

- (a) on an annual basis, as soon as available, the audited actual amount of rebates and bonuses, generated by the performance relating to all measures specified in Table 8 of this Schedule split by each relevant measure.

8 Tables

8.1 This section sets out the details of the service quality Measures, Targets and Incentives scheme as follows:

- (a) Table 1 Financial measures (Terminal) – metrics, targets, annual rebates and monthly rebates;
- (b) Table 2 Financial measure (Airport-wide) – Control posts vehicle queue time – metrics, targets, annual rebates and monthly rebates;

- (c) Table 3 Financial measure (Airport-wide) – Runway operational resilience – rebates;
- (d) Table 4 Reputational measures (Terminal) – metrics and targets;
- (e) Table 5 Reputational measures (Airport-wide) – metrics and targets;
- (f) Table 6 Bonuses;
- (g) Table 7 Periods of bonuses earned to be taken into account when setting M_t as specified in Condition C1; and
- (h) Table 8 Publication requirements.

8.2 Where, in Table 1 to Table 8, an item is described as being “Agreed locally between the Licensee and AOC”, the Licensee shall do so in accordance with the governance arrangements required under Condition F1(a)(iv).

Table 1 Financial measures (Terminal) – metrics, targets, annual rebates and monthly rebates (1)

i	Financial measures	Metric	Time of day to measure performance	Target _{i,j,a}	ANNMAX _i (%)		R _{i,j} RY (%) = ANNMAX _i (%) ÷ 6	
					T2-T4	T5	T2-T4	T5
F1	Cleanliness	Moving annual average QSM scores weighted by monthly passenger numbers	Unrestricted	4.15	0.33	0.33	0.0550	0.0550
F2	Wayfinding	Moving annual average QSM scores weighted by monthly passenger numbers	Unrestricted	4.20	0.33	0.33	0.0550	0.0550
F3	Helpfulness / attitude of security staff	Moving annual average QSM scores weighted by monthly passenger numbers	Unrestricted	4.10	0.33	0.33	0.0550	0.0550
F4	Wi-Fi performance	Moving annual average QSM scores weighted by monthly passenger numbers	Unrestricted	4.05	0.33	0.33	0.0550	0.0550
F5a	Security queue time – Central search	Percentage of queue times measured once every 15 minutes that are less than 5 minutes	0500-2230	95.00%	0.93	0.93	0.1550	0.1550
F5b		Percentage of queue times measured once every 15 minutes that are less than 10 minutes	0500-2230	99.00%				
F6	Security queue time – Transfer search	Percentage of queue times measured once every 15 minutes that are less than 10 minutes	0500-2230	95.00%	0.47	0.47	0.0783	0.0783

Table 1 Financial measures (Terminal) – metrics, targets, annual rebates and monthly rebates (2)

i	Financial measures	Metric	Time of day to measure performance	Target _{i,j,a}	ANNMAX _i (%)		R _{i,j} RY (%) = ANNMAX _i (%) ÷ 6	
					T2-T4	T5	T2-T4	T5
F7	Security queue time – Staff search	Percentage of queue times measured once every 15 minutes that are less than 10 minutes	Agreed locally between the Licensee and AOC	95.00%	0.35	0.35	0.0583	0.0583
F9	Availability of lifts, escalators and travelators	Percentage of time lifts, escalators and travelators are serviceable and available for use, independent of any other measure	Agreed locally between the Licensee and AOC	99.00%	0.65	0.65	0.1083	0.1083
F10	Availability of check-in infrastructure	[To be updated]	[To be updated]	[To be updated]	0.46	0.46	0.0767	0.0767
F11	Availability of arrivals baggage carousels	Percentage of time serviceable and available for use, independent of any other measure	Agreed locally between the Licensee and AOC	99.00%	0.33	0.33	0.0550	0.0550
F12a	Availability of Terminal 5 track transit system	Percentage of one train serviceable and available for use, independent of any other measure	Agreed locally between the Licensee and AOC	99.00%		0.25		0.0417
F12b		Percentage of two trains serviceable and available for use, independent of any other measure		97.00%				
F13	Availability of stands	Percentage of time serviceable and available for use, independent of any other measure	Agreed locally between the Licensee and AOC	99.00%	0.19	0.19	0.0317	0.0317

Table 1 Financial measures (Terminal) – metrics, targets, annual rebates and monthly rebates (3)

i	Financial measures	Metric	Time of day to measure performance	Target _{i,j,a}	ANNMAX _i (%)		R _{i,j} RY (%) = ANNMAX _i (%) ÷ 6	
					T2-T4	T5	T2-T4	T5
F14	Provision of stand facilities	Percentage of time serviceable and available for use – average of stand entry guidance, pre-conditioned air (Terminals 2, 3 and 5), fixed electrical ground power and jetties	Agreed locally between the Licensee and AOC	99.00%	0.74	0.74	0.1233	0.1233
F15	Pier-served stand usage	Moving annual average percentage of passengers accessing a pier served stand (last 12 months)	Unrestricted	95.00%	0.25		0.0417	
F17a	Hygiene safety testing	Percentage of Amber ATP test results resolved within 12 hours each month	Unrestricted	100.00%	0.17	0.17	0.0283	0.0283
F17b		Percentage of Red ATP test results resolved within 2 hours each month	Unrestricted	100.00%				
F18	Timely delivery from departures baggage system	[Proportion of bags delivered by the baggage system to the handler within the target time with exclusions to be agreed between the Licensee and the AOC]	Agreed locally between the Licensee and AOC	[To be updated]	0.33	0.33	0.0550	0.0550

Table 2 Financial measure (Airport wide) – Control posts vehicle queuing time – metrics, targets, annual rebates and monthly rebates

i	Financial measure	Metric	Time of day to measure performance	Target _j	ANNMAX _{CP} (%)	R _{CP,j} RY (%) = ANNMAX _{CP} (%) ÷ 6
F8	[Control post vehicle queuing time]	[Percentage of vehicle queuing times measured once every 15 minutes at each control post group that are less than 15 minutes]	Period agreed locally between the Licensee and the AOC	95.00%	0.35	0.0583
	[CTA	CTA : CP5, CP8				
	Cargo	Cargo : CP10, CP10a, CP25a				
	Eastside	Eastside : CP14, CP16				
	Southside	Southside : CP24				
	Terminal 5	Terminal 5 : CP18, CP19, CP20]				

Table 3 Financial measure (Airport-wide) – Runway operational resilience – rebates

i	Financial measure	Metric	Target _j	MAXRebate _{ROR} (%)	Maximum cumulative movements deferred each day	0 to 3	4 to 5	6 to 7	8 to 9	10 to 11	12 to 13	14 to 15	16 to 17	18 to 19	20 or more
F16	Runway operational resilience	Maximum cumulative movements deferred each day	zero	0.46%	$V_{ARR_d} + V_{DEP_d}$ (£'000 in 2020 prices)	–	14.10	22.84	32.71	45.26	60.48	78.25	98.84	121.96	141.00

Table 4 Reputational measures (Terminal) – metrics and targets

i	Reputational measures	Metric	Time of day to measure performance	Target_{i,j,a}
R1	Overall satisfaction	Moving annual average QSM scores weighted by monthly passenger numbers	Unrestricted	4.26
R2	Customer effort (ease)	Moving annual average percentage of passengers rating the journey was easy weighted by monthly passenger numbers	Unrestricted	[To be updated]%
R3	Enjoy my time at the airport	Moving annual average percentage of passengers rating the journey was enjoyable weighted by monthly passenger numbers	Unrestricted	[To be updated]%
R4	Airport that meets my needs	Moving annual average percentage of passengers agreeing with statement weighted by monthly passenger numbers	Unrestricted	[To be updated]%
R5	Feel safe and secure	Moving annual average percentage of passengers agreeing with statement weighted by monthly passenger numbers	Unrestricted	97.50%
R7	Helpfulness/attitude of airport staff	Moving annual average QSM scores weighted by monthly passenger numbers	Unrestricted	[To be updated]
R8	Being able to social distance if I want to	Moving annual average percentage of passengers agreeing with statement weighted by monthly passenger numbers	Unrestricted	[To be updated]%
R9	Ease of understanding of Covid-19 safety information	Moving annual average percentage of passengers agreeing with statement weighted by monthly passenger numbers	Unrestricted	[To be updated]%
R16a	Immigration queue times	Percentage of queuing times for non-EEA passengers that are less than 45 minutes	0500-2230	95.00%
R16b		Percentage of queuing times for EEA passengers that are less than 25 minutes	0500-2230	95.00%

Table 5 Reputational measures (Airport-wide) – metrics and targets

i	Reputational measures	Metric	Time of day to measure performance	Target_{i,j}
R6	Ease of access to the airport	Moving annual average of scores among passengers arriving at Heathrow by surface access each quarter	Unrestricted	[To be updated]%
R10	Passengers with reduced mobility (PRS/PRM) – overall satisfaction	Moving annual average of SpA QSM scores collected amongst users of the Special Assistance Service at Heathrow airport	Unrestricted	4.00
R11	Departures flight punctuality	[Average proportion of scheduled passenger flights taking off within 15 minutes of the scheduled departure time]	Unrestricted	80.5%
R12	Airport departures management	[Percentage of flights taking off within x minutes of standard time]	[To be updated]	[To be updated]%
R13	Airport arrivals management (wheels down to doors open)	[Time taken between wheels touching down on the runway to aircraft doors being opened for passengers to disembark the aircraft]	Unrestricted	[To be updated] minutes
R14	Percentage of UK population with 3 hours (and one interchange) of Heathrow by public transport	Percentage of UK population who live within 3 hours (and one interchange) of Heathrow by public transport based on current public transport routes	Unrestricted	[To be updated]%
R15	Passenger injuries	Moving annual average number of passengers that are injured while travelling through Heathrow airport each month, per one million passengers (excluding ill health)	Unrestricted	4.5
R17	Reduction in Heathrow's carbon footprint	[Annual amount of carbon dioxide emitted on the ground and in the air related to the Airport]	Unrestricted	[To be updated]

Table 6 Bonuses

bm	Bonus measures	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 = $MB_{bm} \div 12$
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	97.00%	99.00%	0.36%	0.0300%
F15	Timely delivery from departures baggage system	[Moving annual average of the percentage of bags delivered to the handler within the target time with exclusions to be agreed between the Licensee and the AOC]		Agreed locally between the Licensee and AOC	[To be updated]	[To be updated]	0.36%	0.0300%

Table 7 Periods of bonuses earned to be taken into account when setting M_t as specified in Condition C1

To set the maximum revenue yield per passenger M_t	M_t representing the period	Take account bonuses earned in B_{t-2}	B_{t-2} representing the period
M_{2022}	Regulatory Year 2022	B_{2020}	Regulatory Year 2020
M_{2023}	Regulatory Year 2023	B_{2021}	Regulatory Year 2021
M_{2024}	Regulatory Year 2024	B_{2022}	Regulatory Year 2022
M_{2025}	Regulatory Year 2025	B_{2023}	Regulatory Year 2023
M_{2026}	Regulatory Year 2026	B_{2024}	Regulatory Year 2024

Table 8 Publication requirements (1)

i	Measures	Frequency	Terminal	Website	Regulatory accounts
F1	Cleanliness	Monthly	<ul style="list-style-type: none"> • Performance • Target • Rebates (estimated) • Bonuses (estimated) 	<ul style="list-style-type: none"> • Performance • Target • Rebates (estimated) • Bonuses (estimated) 	<ul style="list-style-type: none"> • Rebates (audited) • Bonuses (audited)
F2	Wayfinding				
F3	Helpfulness / attitude of security staff	Monthly	<ul style="list-style-type: none"> • Performance • Target • Rebates (estimated) 	<ul style="list-style-type: none"> • Performance • Target • Rebates (estimated) 	<ul style="list-style-type: none"> • Rebates (audited)
F4	Wi-Fi performance				
F5a	Security queuing time – Central search	Monthly	<ul style="list-style-type: none"> • Performance • Target • Rebates (estimated) • Bonuses (estimated) 	<ul style="list-style-type: none"> • Performance • Target • Rebates (estimated) • Bonuses (estimated) 	<ul style="list-style-type: none"> • Rebates (audited) • Bonuses (audited)
F5b					
F6	Security queuing time – Transfer search	Monthly	<ul style="list-style-type: none"> • Performance • Target • Rebates (estimated) 	<ul style="list-style-type: none"> • Performance • Target • Rebates (estimated) 	<ul style="list-style-type: none"> • Rebates (audited)
F7	Security queuing time – Staff search	Monthly		<ul style="list-style-type: none"> • Performance • Target • Rebates (estimated) 	<ul style="list-style-type: none"> • Rebates (audited)
F8	Control posts vehicle queue time				
F9	Availability of lifts, escalators and travelators				
F10	Availability of check-in infrastructure				
F11	Availability of arrivals baggage carousels				
F12a	Availability of Terminal 5 track transit system				
F12b					
F13	Availability of stands				
F14	Provision of stand facilities				
F15	Pier served stand usage				
F16	Runway operational resilience				

Table 8 Publication requirements (2)

i	Measures	Frequency	Terminal	Website	Regulatory accounts
F17a	Hygiene safety testing	Monthly	<ul style="list-style-type: none"> • Performance • Target • Rebates (estimated) 	<ul style="list-style-type: none"> • Performance • Target • Rebates (estimated) 	<ul style="list-style-type: none"> • Rebates (audited)
F17b					
F18	Timely delivery from departures baggage system	Monthly		<ul style="list-style-type: none"> • Performance • Target • Rebates (estimated) • Bonuses (estimated) 	<ul style="list-style-type: none"> • Rebates (audited) • Bonuses (audited)
R1	Overall satisfaction	Monthly	<ul style="list-style-type: none"> • Performance • Target 	<ul style="list-style-type: none"> • Performance • Target 	
R2	Customer effort (ease)				
R3	Enjoy my time at the airport				
R4	Airport that meets my needs				
R5	Feel safe and secure				
R6	Ease of access to the airport	Quarterly		<ul style="list-style-type: none"> • Performance • Target 	
R7	Helpfulness/attitude of airport staff	Monthly		<ul style="list-style-type: none"> • Performance • Target 	
R8	Being able to social distance if I want to	Monthly	<ul style="list-style-type: none"> • Performance • Target 	<ul style="list-style-type: none"> • Performance • Target 	
R9	Ease of understanding Heathrow's Covid-19 safety information				
R10	Passengers with reduced mobility (PRS/PRM) – overall satisfaction				
R11	Departures flight punctuality				
R12	Airport departures management	Monthly		<ul style="list-style-type: none"> • Performance • Target 	
R13	Airport arrivals management (wheels down to doors open)				

Table 8 Publication requirements (3)

i	Measures	Frequency	Terminal	Website	Regulatory accounts
R14	Percentage of UK population with 3 hours (and one interchange) of the Airport by public transport	Annually		<ul style="list-style-type: none"> • Performance • Target 	
R15	Passenger injuries	Monthly	<ul style="list-style-type: none"> • Performance • Target 	<ul style="list-style-type: none"> • Performance • Target 	
R16a	Immigration queue times	Monthly	<ul style="list-style-type: none"> • Performance 	<ul style="list-style-type: none"> • Performance 	
R16b			<ul style="list-style-type: none"> • Target 	<ul style="list-style-type: none"> • Target 	
R17	Reduction in Heathrow's carbon footprint	Annually	<ul style="list-style-type: none"> • Performance • Target 	<ul style="list-style-type: none"> • Performance • Target 	

Annex 1 General Matters

Rounding

- A1.1 For the purposes of this Schedule, the Licensee shall calculate and report of all performance and targets to two decimal places (in the case of percentages to two decimal places of a percentage point).
- A1.2 In Tables 1 to Table 2 of this Schedule, the Licensee shall measure the maximum rebates as a percentage of Airport Charges for the relevant Regulatory Year ($ANNMAX_i$ and $ANNMAX_{CP}$) to two decimal places, and the Licensee shall measure the maximum monthly rebates as a percentage of Airport Charges ($R_{i,j}RY$ and $R_{CP,j}RY$) to four decimal places. In Table 3 of this Schedule, the Licensee shall measure the amounts of rebates ($v_{ARR_d} + v_{DEP_d}$) in thousands to two decimal places. In Table 6 of this Schedule, the Licensee shall measure the maximum bonuses as a percentage of Airport Charges (MB_{bm}) to two decimal places.

Definitions

- A1.3 In this Schedule:
- (a) Airport Charges has the meaning as in Regulation 3(1) of the Airport Charges Regulations 2011 (2011 No. 2491);
 - (b) Relevant Parties means airlines that have paid Airport Charges in the relevant month in respect of air transport services for the carriage by air of passengers;
 - (c) Terminal excludes general aviation facilities and facilities for the handling of cargo;
 - (d) A relevant deadband period is:
 - (i) 1 November to 30 November;
 - (ii) 1 January to 31 January;
 - (iii) 1 February to 28 February (29 February in a leap year); and
 - (iv) 1 March to 14 days before Easter Sunday.
 - (e) Dates that fall outside of the periods as defined in paragraph A.1.3(d) shall not be regarded as falling in a deadband period.

Annex 2 Survey questions

A2.1 This Annex sets out the surveys, metrics and survey questions that define relevant measures specified in section 3(a) of this Schedule.

Quality of Service Monitor (QSM)

A2.2 The Licensee shall conduct the QSM using the following approach:

- (a) the QSM shall be based on the results of survey interviews with not less than one interview amongst 2,000 passengers (departing and arriving interviews combined) in each Regulatory Year at the Airport;
- (b) the interviews obtained shall reflect the expected profile of passengers travelling through the airport weighted such that they are representative of:
 - (i) country of destination for departing interviews; and
 - (ii) country of origin for arriving interviews;
- (c) in instances where the country total traffic is high, the sample may be sub-weighted by individual airport destinations;
- (d) the QSM scores shall be calculated through a weighted average of the individual scores, weighted by actual traffic statistics for the month
- (e) departing passengers shall be interviewed at the gate or gate area immediately prior to boarding the aircraft, and/or other locations as agreed by the Licensee and AOC in accordance with the governance arrangements required under Condition F1(a)(iv) and approved by the CAA;
- (f) arriving passengers shall be interviewed on the arrivals concourse just before leaving the terminal building, and/or other locations as agreed by the Licensee and AOC in accordance with the governance arrangements required under Condition F1(a)(iv) and approved by the CAA;
- (g) selection of passengers to take part in the survey shall be random and unbiased with respect to demographic characteristics; and
- (h) during the course of a month, interviewing shall be conducted in each terminal on a selection of mornings and afternoons, weekdays and weekend days.

A2.3 In respect of the relevant measures for measuring performance and calculating rebates and bonuses where applicable, the interviewing procedures specified in paragraph A2.4 to A2.16 shall apply.

Introduction

A2.4 To invite passengers to take part in the QSM survey:

- (a) [for arriving and departing passengers] “I am now going to ask you a series of questions which require you to rate your answers on the same rating scale”. A showcard must then be displayed with the following responses on it: Extremely poor (1), Poor (2), Average (3), Good (4), Excellent (5).

F1 Cleanliness

A2.5 A weighted average of the QSM scores for five cleanliness questions, weighted by the number of passengers using each type of facility:

- (a) [for arriving and departing passengers] “How would you rate the cleanliness of the toilets?”
- (b) [for departing passengers] " How would you rate the cleanliness of the check-in area?"

Paragraph A2.5 (c) is subject to change. The QSM question on the cleanliness rating for the departure lounge is to be confirmed. Any changes should be implemented via the H7 price control decision, or if required via the licence modification mechanism in Condition D1 or section 22 Civil Aviation Act 2012 during H7.

- (c) [for departing passengers] [the QSM question on the cleanliness rating for the departure lounge is to be confirmed]
- (d) [for arriving passengers] “How would you rate the cleanliness of the arrivals hall (where we are now)?”

F2 Wayfinding

A2.6 A weighted average of the QSM scores for the three way-finding questions, weighted by the number of passengers using each form of wayfinding:

- (a) [for departing passengers] “How would you rate the ease of finding your way around this terminal?”
- (b) [for connecting passengers] “Have you been between terminals today? How would you rate the ease of finding your way?”
- (c) [for arriving passengers] “How would you rate the ease of finding your way around this terminal?”

F3 Helpfulness/attitude of security staff

A2.7 A simple average of the QSM scores for the security staff helpfulness / attitude question:

- (a) [for departing passengers] “Thinking about the security staff, how would you rate the following:
Helpfulness/attitude of security staff?”

F4 Wi-fi performance

A2.8 A simple average of the QSM scores for the second question below:

- (a) [for departing and arriving passengers, to filter out non-Wi-fi users] “Which of the following did you use or visit: WiFi?”
- (b) [for departing and arriving passengers who answered ‘yes’ in (a)] “How would you rate the Wi-Fi service in the terminal?”

R1 Overall satisfaction

A2.9 A simple average of the QSM scores for the two overall satisfaction questions below:

- (a) [for arriving and departing passengers] “We would now like to focus on your experience of Heathrow as a whole. How would you rate your overall experience in this Terminal today?”

R2 Customer effort (ease)

A2.10 A simple average of the percentage of passengers saying their journey through Heathrow was easy or very easy in the question below:

- (a) [for arriving and departing passengers] “On a scale of 1 to 5, where 1 is not at all easy and 5 is very easy, how easy was your journey through Heathrow?”

R3 Enjoy my time at the airport

A2.11 A simple average of the percentage of passengers saying their journey through Heathrow was enjoyable or very enjoyable in the question below:

- (a) [for departing passengers] “On a scale of 1 to 5, where 1 is not at all enjoyable and 5 is very enjoyable, how enjoyable was your time at Heathrow?”

R4 Airport that meets my needs

A2.12 A simple average of the percentage of passengers agreeing with the statement that the Airport meets their needs through the question below:

- (a) [for departing passengers] “Thinking about your overall experience today – on a scale of 1 to 5 where 1=strongly disagree and 5=strongly agree, to what extent did Heathrow meet your needs?”

R5 Feel safe and secure

A2.13 A simple average of the percentage of passengers agreeing with the statement that they felt safe and secure at the Airport:

- (a) [for arriving and departing passengers] “On a scale of 1 to 5, where 1=strongly disagree and 5=strongly agree, to what extent do you agree with the following statements? During your time in the airport
I felt safe and secure.”

R7 Helpfulness/attitude of airport staff

A2.14 A simple average of the QSM scores for the Helpfulness/attitude of airport staff question below:

- (a) [for arriving and departing passengers] “Now thinking about all staff you have met or seen during your time at Heathrow so far today, whether you’ve interacted with them or not, how would you rate the following?
Helpfulness/attitude of all staff at the airport.”

R8 Being able to social distance if I want to

A2.15 A simple average of the percentage of passengers agreeing with the statement that they felt they were able to social if they wanted in the question below:

- (a) [for arriving and departing passengers] “Now thinking about all staff you have met or seen during your time at Heathrow so far today, whether you’ve interacted with them or not How would you rate the following?
Helpfulness/attitude of all staff at the airport.”

R9 Ease of understanding of Covid-19 safety information

A2.16 A simple average of the percentage of passengers agreeing with the statement that they felt safe and secure at the Airport in the question below:

- (a) [for arriving and departing passengers] “On a scale of 1 to 5, where 1=strongly disagree and 5=strongly agree, to what extent do you agree with the following statements?
During your time in the airport:
Information about Covid-19 safety measures at the Airport was clear and easy to understand”

Surface Access Customer Satisfaction Survey

- A2.17 The Licensee shall conduct the Surface Access Customer Satisfaction (SACS) Survey using the following approach:
- (a) the SACS Survey shall be based on the results of survey interviews with not less than 10,000 direct departing passengers each year at Heathrow;
 - (b) the interviews obtained shall reflect the expected profile of direct departing passengers travelling through the airport representative of:
 - (i) country of destination for interviews;
 - (c) the ease of getting to Heathrow score shall be calculated through the average of the individual ratings;
 - (d) departing passengers shall be interviewed at the gate or gate area immediately prior to boarding the aircraft, and/or other locations as agreed by the Licensee and AOC in accordance with the governance arrangements required under Condition F1(a)(iv) and approved by the CAA;
 - (e) selection of passengers to take part in the survey shall be random and unbiased with respect to demographic characteristics; and
 - (f) during the course of a month, interviewing shall be conducted in each terminal on a selection of mornings/afternoons and weekdays / weekend days.
- A2.18 In respect of the relevant measure for measuring performance, the interviewing procedures specified in paragraph A2.19 and A2.20 shall apply.

Introduction

- A2.19 To invite passengers to take part in the SACS survey:
- (a) [for departing passengers] “I am now going to ask you a series of questions which require you to rate your answers on the same rating scale”. The showcard is then displayed with the following responses on it: Extremely poor (1), Poor (2), Average (3), Good (4), Excellent (5).”

R6 Ease of access to the airport

- A2.20 [Drivers] “Ease of finding your way to the airport from home / work / other starting point”
- [Taxi and public transport] = “Ease of getting to the airport from home/work/hotel/other starting point”.

Special Assistance Quality of Service Monitor (SpA QSM)

- A2.21 The SpA QSM shall be conducted by the Licensee using the following approach:
- (a) actively advertise and promote the satisfaction survey to passengers that use the Special Assistance Service at the airport;
 - (b) collect the email addresses of users of the Special Assistance Service that are willing to participate in the survey;
 - (c) email individuals willing to participate post-travel to encourage them to complete the survey;
 - (d) the selection of users of the Special Assistance Service approached to take part in the survey shall be random and unbiased with respect to demographic characteristics; and
 - (e) during the course of a month, users of the Special Assistance Service shall be approached in each terminal on a selection of mornings/afternoons and weekdays/weekend days.
- A2.22 In respect of the relevant measure for measuring performance, the interviewing procedures specified in paragraph A2.23 and A2.24 shall apply.

Introduction

- A2.23 To invite users of the Special Assistance Service to take part in the SpA QSM survey:
- (a) [for arriving and departing passengers] “I am now going to ask you a series of questions which require you to rate your answers on the same rating scale”. The showcard is then displayed with the following responses on it: Extremely poor (1), Poor (2), Average (3), Good (4), Excellent (5).”

R10 Passengers with reduced mobility (PRS/PRM): Overall Satisfaction

- A2.24 A simple average of the SpA QSM scores for the overall satisfaction question below:
- (a) [for arriving and departing passengers] “How would you rate your overall experience of the Passenger Assistance Service at Heathrow airport?”

Annex 3 Exclusions for availability-based measures

- A3.1 This Annex sets out the Exclusions specified in paragraph 3.29 of this Schedule.
- A3.2 Exclusions are the limited circumstances when time will not be required to be counted towards the time when equipment is unavailable or when other targets are not met, such as:
- (a) specific stands, jetties and fixed electrical ground power to accommodate annual and five yearly statutory inspections, where this work is done in consultation with the AOC, and the period specified in advance, the exclusion not to be more than two days over any relevant Regulatory Year for any particular asset. If works extend beyond any notified period, then any additional downtime shall count against the serviceability target;
 - (b) specific passenger-sensitive equipment (lifts, escalators, travelators) or arrivals baggage carousels to accommodate planned maintenance, where the work is done in consultation with the AOC, the period is specified in advance, the work falls in a deadband period as defined in paragraphs A1.3(d) and A1.3(e) of Annex 1 and the exclusion is not more than 30 days over any relevant Regulatory Year for any particular asset. If works extend beyond a notified period, then any additional downtime shall count against the serviceability target.
 - (c) security queues for central search, transfer search and staff search for two hours following evacuations in the relevant terminal(s), and control post search for two hours following evacuations in the relevant control post(s);
 - (d) closure of passenger-sensitive equipment (lifts, escalators, travelators) in areas immediately adjacent to security queues where it is considered by the Licensee that their continued use is likely to lead to unacceptable health and safety risks due to increased congestion;
 - (e) stands taken out of service to accommodate high security flights;
 - (f) closure of stands to ensure passenger safety during evacuation, emergency or safety incidents and relevant passenger-sensitive equipment subject to the AOC agreeing after the event that such equipment was in the immediate vicinity of the stands or the incident;
 - (g) downtime where equipment is automatically shut down by fire alarm activation and the fire alarm activation is not due to a system fault with the fire alarm;
 - (h) passenger-sensitive equipment (lifts, escalators, travelators) where downtime is due to the activation of an emergency stop button or break

glass, limited to equipment where there is back indication of serviceability and limited to 10 minutes for each occurrence in the case of false alarms;

- (i) downtime to accommodate fire risk-assessed deep cleans where an assessment of the condition of the equipment has shown that a deep clean is needed to ensure a safe operation can be maintained and to reduce the risk of fire;
- (j) equipment downtime due to damage of, or misuse of, baggage carousels, jetties, stand equipment (such as lighting) or fixed electrical ground power units likely to have been caused by airlines or their agents or to passenger-sensitive equipment (lifts, escalators, travelators) where an airline or airline agent has accepted responsibility or where the AOC agrees with the Licensee in writing that the likelihood is that the damage has been caused by an airline or its agent;
- (k) downtime where a fault has been reported by airlines or their agents, but, when the engineers attend the site, no fault is found and the equipment is working;
- (l) equipment or stands taken out of service whilst a major investment project is undertaken in the vicinity where this is done in consultation with users and the timing of work has been determined after consultation with the AOC, and the period specified in advance. If work extends beyond this period, then the additional downtime shall count against the serviceability target;
- (m) equipment or stands taken out of service for replacement or major refurbishment work, when the timing of work has been determined after consultation with the AOC, and the period specified in advance. If work extends beyond this period, then the additional downtime shall count against the serviceability target;
- (n) during trials of new security processes or equipment. The scope and terms of exclusion shall be for predetermined periods that have been agreed by the Licensee and the AOC; and
- (o) during major operational disruption events which have a major impact on security staff resource, passenger volumes or off-schedule activity. The applicability and duration of the exclusion in respect of these events shall be as agreed with the AOC, where such agreement can be made retrospectively.

A3.3 Where, for the purposes of paragraph A3.2, the Licensee is required to agree a matter with the AOC, it shall do so in accordance with the governance arrangements as required under Condition F1.1(a)(iv).

- A3.4 Where the Licensee cannot reach agreement with the AOC under paragraph A3.2(o),
- (a) the Licensee may request a determination from the CAA on the applicability and duration of the exclusion; and
 - (b) the CAA may, following a reasonable period of consultation with the AOC, make such determination as it considers is reasonable:
 - (i) whether an exclusion applies in respect of the events that are the subject matter of the request;
 - (ii) if it decides that an exclusion applies, the duration of that exclusion; and
 - (iii) any other matter that the CAA considers appropriate in relation to the Licensee's request.

Annex 4 Runway operational resilience

A4.1 This Annex sets out further detail on the runway operational resilience measure as specified in paragraph 3.33, section 5 and Table 3 of this Schedule.

Basis of rebates

A4.2 Rebate_{ROR} shall be calculated across all the air transport services for the carriage of passengers at the airport and the same rebates as a percentage of the relevant charges shall be paid to the Relevant Parties using all the terminals at the airport.

A4.3 Except as set out in paragraph A4.17, a rebate shall be payable in respect of departures or arrivals where a **Material Event** has occurred and which was caused primarily by a failure on the part of the Licensee or of the provider of aerodrome air traffic services or their respective agents or contractors (where 'agents' exclude bodies carrying out activities specified in the annex of the EU Groundhandling Directive¹²); and this has generated a **Material Operational Impact** as defined in paragraph A4.7.

Definitions of terms

Material Events

A4.4 For the purposes of paragraph A4.3, a **Material Event** is one or more of the following:

- (a) radar or other critical air traffic control equipment or systems failure;
- (b) tower staff shortages;
- (c) tower industrial action;
- (d) industrial action by the Licensee's operational staff;
- (e) closure of runways;
- (f) closure of rapid exit taxiways, rapid access taxiways, and other runway exit or access taxiways or both;
- (g) closure of aircraft manoeuvring areas;
- (h) runway or taxiway lighting system failures;
- (i) failure of other critical equipment such as fire tenders; or

¹² Council Directive 96/67/EC of 15 October 1996 on access to the groundhandling market at Community airports (Official Journal L 272 25/10/1996 p 0036-0045).

- (j) where bad weather has been forecast and has materialised and the **Relevant Bad Weather Equipment** as set out in paragraph A4.6 is not available or has not been deployed.

A4.5 The Licensee shall not be liable to pay rebates for disruption due to bad weather unless one or more of the factors above apply.

Relevant Bad Weather Equipment

A4.6 For the purposes of the definition of Material Event in paragraph A4.4, **Relevant Bad Weather Equipment** is defined as:

- (a) Low visibility procedures:
 - (i) Instrument Landing System (ILS), Instrumented Runway Visual Range (IRVR) system, Surface Movement Radar (SMR), Microwave Landing System (MLS) (where installed) and Advanced Surface Movement Guidance and Control System (ASMGCS) (where installed); and
 - (ii) operational availability of lighting and signage systems to enable Category 2/3 operations to continue.
- (b) Ice
 - (i) airfield (that is, the runways, taxiways and manoeuvring area) and aircraft stands anti-/de-icing equipment and media (as specified to the AOC); and
 - (ii) operational availability and deployment of trained staff to operate the equipment.
- (c) Snow
 - (i) runway and taxiway snow clearance equipment (as specified to the AOC by the requirements of paragraph A4.18); and
 - (ii) operational availability and deployment of trained staff to operate the equipment.

Material Operational Impact

A4.7 For the purposes of paragraph A4.3, a **Material Operational Impact** is defined as:

- (a) For arrivals:
 - (i) a flow rate restriction (Air Transport Flow Management (ATFM) or local¹³) is applied which is less than the declared runway scheduling

¹³ ATFM restrictions are air traffic flow movement restrictions imposed through the Central Flow Management

limit; and

- (ii) the cumulative number of actual movements is less than the cumulative reference number of movements by at least four movements for any **Relevant Measurement Period** during the period before the flow rate restriction is removed.
- (b) For departures:
- (i) the cumulative number of actual movements is less than the cumulative reference number of movements by at least four movements for any **Relevant Measurement Period** during the period of the material effect.

Maximum Cumulative Arrival Movements Deferred

A4.8 For the purposes of Table 3 of Schedule 1, **Maximum Cumulative Arrival Movements Deferred** is the maximum number of cumulative arrival movements deferred at any of the **Relevant Measurement Periods** for the particular **Material Event**, calculated as follows:

$$= A_d \times \sum_{s=1}^{s=\theta} (\text{Expected } ARR_s - \text{Actual } ARR_s)$$

where

- s denotes any **Relevant Measurement Period** relating to the particular **Material Event**;
- θ denotes the **Relevant Measurement Period** relating to that particular **Material Event** at which $\text{Expected } ARR_s - \text{Actual } ARR_s$ reached its maximum;
- $\text{Expected } ARR_s$ is the number of **Expected Arrival Movements** in the **Relevant Measurement Period** s as determined in accordance with paragraphs A4.13 to A4.16;
- $\text{Actual } ARR_s$ is the number of actual arrivals in the **Relevant Measurement Period** s ; and
- A_d is the **Proportion of Responsibility** for the d^{th} **Material Event** attributed to the Licensee or the provider of aerodrome air traffic services or their respective agents or contractors.

Unit of Eurocontrol. Local restrictions are of a temporary duration and originate from the Tower watch supervisor.

Maximum Cumulative Departure Movements Deferred

A4.9 **Maximum Cumulative Departure Movements Deferred** is the maximum number of cumulative departure movements deferred at any of the **Relevant Measurement Periods** for the particular **Material Event**, calculated as follows:

$$= A_d \times \sum_{s=1}^{s=\theta} (\text{Expected DEP}_s - \text{Actual DEP}_s)$$

where

- s denotes any **Relevant Measurement Period** relating to the particular **Material Event**;
- θ denotes the **Relevant Measurement Period** relating to that particular material event at which $\text{Expected DEP}_s - \text{Actual DEP}_s$ reached its maximum;
- Expected DEP_s is the number of **Expected Departure Movements** in the **Relevant Measurement Period** s as determined in paragraphs A4.13 to A4.16;
- Actual DEP_s is the number of actual departures in the **Relevant Measurement Period** s ; and
- A_d is the **Proportion of Responsibility** for the d^{th} **Material Event** attributed to the Licensee or the provider of aerodrome air traffic services or their respective agents or contractors.

Relevant Measurement Period

A4.10 For the purposes of this Annex, the **Relevant Measurement Period** is defined as any period beginning with the **Clock-Face Hour** preceding the commencement of the **Material Event** and ending no later than the next **Clock-Face Hour** after the **Material Event** ends.

Clock-Face Hour

A4.11 For the purposes of this Annex, a **Clock-Face Hour** is the period of 60 minutes which for any relevant hour hh , starts with $hh:00:00$ and ends at $hh:59:59$.

Proportion of Responsibility

A4.12 Where the Licensee reasonably considers that a **Material Event** with a **Material Operational Impact** has been made more severe by contributory causes beyond the control of the Licensee or its agents, it shall estimate the proportion of the effect which it considers to have been due to the **Material Event** as set out in paragraph A4.4. The Licensee shall provide evidence to support its consideration of such contributory causes.

Expected Arrival Movements and Expected Departure Movements

- A4.13 For the purposes of this Annex, **Expected Arrival Movements** and **Expected Departure Movements** shall be estimates made by the Licensee retrospectively by hour for each **Material Event** and made available to users on the Licensee's extranet site or in a manner agreed with users, as soon as practicable after the **Material Event** to which it relates.
- A4.14 The Licensee shall use its best endeavours to calculate the **Expected Arrival Movements** and **Expected Departure Movements** to reflect the relevant movements in each hour in the absence of any **Material Event** or **Material Operational Impact**.
- A4.15 These calculations shall have regard to the actual arrival or departure movements during the relevant hour and day in the weeks preceding the relevant hour where there were no **Material Events** or other significant factors which affected arrivals or departure rates. These calculations may be supplemented by a consideration of other relevant factors which the Licensee regards as appropriate in order to make best estimates.
- A4.16 The Licensee shall set out the basis of its calculations with the estimates.

Exceptions

- A4.17 The unavailability of facilities shall not require the rebates to be payable:
- (a) where the **Material Event** is due to runways, taxiways, other aircraft manoeuvring areas, or associated airfield lighting being taken out of service whilst a major investment project is undertaken in the vicinity and where this is done in consultation with users and the timing of work has been determined after consultation with the AOC, and the period specified in advance. If work extends beyond this period, then rebates shall be payable if the work causes **Material Events** as defined in paragraph A4.4; or
 - (b) where the **Material Event** is due to runways, taxiways, other aircraft manoeuvring areas, or associated airfield lighting being taken out of service for replacement or major refurbishment work or tower related works and when the timing of work has been determined after consultation with the AOC, and the period specified in advance. If work extends beyond this period, then rebates shall be payable if the work causes **Material Events** as defined in paragraph A4.4.

Data collection and communication

A4.18 The Licensee shall:

- (a) provide to the AOC prior to each winter season a list of the anti-icing or de-icing equipment and media and runway and taxiway snow clearance equipment in commission at the airport;
- (b) compile a log of all the events at the airport which it considers could have a potentially material effect on operations at the airport (the 'Super-Log'). This shall include ATFM and local restrictions imposed on operations at the airport along with Material Events relating to departures (which may not necessarily have been linked to an ATFM or local restriction). The Licensee may also include other events where it considers that this materially adds to the value of the Super-Log as a complete record;
- (c) report to Relevant Parties the new events that have been recorded each week as soon as practicable after the end of the relevant week on its extranet site or in such other format as may be agreed by the Licensee and Relevant Parties; and
- (d) report to Relevant Parties as soon as practicable after the relevant week the calculations of the maximum number of movements deferred for each **Material Event** set out under paragraphs A4.4 and the assumptions supporting the expected level of arrivals or departures in each hour during the course of the **Material Event** and any estimate of the **Proportion of Responsibility** as set out in paragraph A4.12.

Appendix A

Our duties

- A1 The CAA is an independent economic regulator. Our duties in relation to the economic regulation of airport operation services (“AOS”), including capacity expansion, are set out in the CAA12.
- A2 CAA12 gives the CAA a general (“primary”) duty, to carry out its functions under CAA12 in a manner which it considers will further the interests of users of air transport services regarding the range, availability, continuity, cost and quality of AOS.
- A3 CAA12 defines users of air transport services as present and future passengers and those with a right in property carried by the service (i.e. cargo owners). We often refer to these users by using the shorthand of “consumers”.
- A4 The CAA must also carry out its functions, where appropriate, in a manner that will promote competition in the provision of AOS.
- A5 In discharging this primary duty, the CAA must also have regard to a range of other matters specified in the CAA12. These include:
- the need to secure that each licensee is able to finance its licensed activities;
 - the need to secure that all reasonable demands for AOS are met;
 - the need to promote economy and efficiency on the part of licensees in the provision of AOS;
 - the need to secure that the licensee is able to take reasonable measures to reduce, control and/or mitigate adverse environmental effects;
 - any guidance issued by the Secretary of State or international obligation on the UK notified by the Secretary of State; and
 - the Better Regulation principles.
- A6 CAA12 also sets out the circumstances in which we can regulate airport operators through an economic licence. In particular, airport operators must be subject to economic regulation where they fulfil the Market Power Test as set out in CAA12. Airport operators that do not fulfil the Test are not subject to economic regulation. As a result of the market power determinations we completed in 2014 both HAL and GAL are subject to economic regulation.
- A7 We are only required to update these determinations if we are requested to do so and there has been a material change in circumstances since the most recent determination. We may also undertake a market power determination whenever we consider it appropriate to do so.