

7 August 2013

Tim Griffiths  
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Civil Aviation Authority  
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London  
WC2B 6TE

Dear Tim,

You requested in your letter of 11 July that GAL and the ACC work together to see whether we could reach greater agreement on two areas:

- The service quality regime; and
- The consultation arrangements that would apply to capital expenditure (capex) whether through a RAB-based framework or GAL proposed commitments.

The ACC & GAL have met on several occasions since your letter to progress these areas, assuming a RAB-based framework and we are pleased to confirm we have reached greater agreement; at this point there are still areas where we do not agree with each other or have not had time to conclude our discussions; we have identified these clearly in our response below.

- **Airfield availability metric:** we have been unable to progress this in the time period, partly due to the fact that the experts in this area are fully engaged in the operation; however we have agreed time at the end of August to discuss alternatives to the aerodrome congestion term (ACT). GAL's position is that we are open to considering alternatives, however we do believe that the ACT is a good measure, drives the right behaviours and, as the runway becomes increasingly busier, will become ever more difficult to achieve. With this in mind, if GAL is unable, in discussion with the ACC, to find a measure which is equally robust GAL would ask the CAA to keep the ACT within the SQR. If this situation arises, the ACC will put an alternative proposal to the CAA for their consideration.
- **Outbound baggage metric:** we have been able to agree to implement an overall baggage system process performance metric, known as OBP. The standard is that 99% of bags are tipped or 'attempted to tip' into the chute (sorters) with greater than 25 minutes before the scheduled time of departure. For bags delivered to a carousel the standard is that 99% of bags are scanned at the last pre-sort vertical sorter unit with greater than 25 minutes before the scheduled time of departure. However, there is one outstanding issue around how performance is measured if the check-in collector belts are not available for use. We are still working through this issue and hope to resolve by the end of August. We also have to agree one of the details in the agreement around relevant number of 'chute fulls' this too should be agreed by end August. The current draft agreement around this measure is attached at [Appendix 1](#).

GAL and the ACC agree that an event based measure would be suitable for baggage; however, as this is a new area to be measured GAL will focus on achieving it and would resist the addition of a further measure at this time. The ACC would like to introduce an event based measure for April 2014.

- We have discussed the **allocation of the weighting for rebates** and attach our agreed proposal at [Appendix 2](#); this proposal is based on agreement of the proportions of weighting for each standard. The ACC and GAL do not agree on the total liability at risk and retain their existing positions in this regard – therefore the CAA would need to apply the agreed proportions for each standard to whatever total liability is decided. The ACC and GAL do not agree on the implementation of bonuses and thus refer the CAA to their individual previous responses.
- We have discussed **wi-fi availability** and agreed that GAL will commit to the provision of 45 minutes of free wi-fi (with email and password login, there is no longer a requirement for credit card details). Already, with the enhancement to 30 minutes currently in place the use of wi-fi within Gatwick has moved from circa 1,000 new users per month to 25,000 new users last month. Neither the ACC nor GAL believes it is necessary to introduce a QSM measure for this facility.
- We have discussed the **event based rebate** for Security and our agreement is that the daily measure is based on 15<sup>th</sup>s of the monthly rebate.
- There is no further movement from either ACC or GAL on the subject of **airline measures**.
- We have discussed the proposed increase by the CAA for **departure lounge seat availability and cleanliness**. GAL and the ACC agree that the two measures shouldn't be increased (beyond the increase imposed by the change to the rounding protocol). Our rationale is that due to the planned projects in Q6 for both departure lounges we believe it is reasonable to plan for the departure lounge seat availability target increasing after the improvements have occurred, i.e. the NT and ST IDL's are extended. On cleanliness, it is right that the passenger satisfaction should be good, tipping it towards excellent gives a level of satisfaction that the majority of passengers are not seeking and exponentially adds to the costs of delivery.
- There has been discussion regarding the correct **pier service level target** moving forward. Both GAL and the ACC agree that this needs to be aligned to the infrastructure available. We have been debating the correct targets for the rest of the period that Pier 5 and Pier 1 are out of service; GAL's proposal is for the target in South Terminal to be 93% and North Terminal to be 92%, this informs the target for the first three years of Q6. We also need to agree targets for the remainder of Q6. In GAL's view the targets for years four and five are dependent upon the construction programme for Pier 6 Southern extension, at the completion of this project GAL would like to re-introduce the 95% target, which the Pier 6

extension project has been designed to deliver. However, if this project is not accepted by the CAA then GAL's view is that the target pier service for North Terminal will be required to be at 91% by the end of the period. As previously stated to the CAA the ACC do not agree with GAL's view based on results of the pier service working group and more efficient use of the airfield and infrastructure. The ACC have been clear that the majority of their members do not support this project and therefore their proposed target will be based on the premise that Pier 6 Southern extension does not occur.

In the ACC's view, this doesn't leave the ACC and GAL very far apart as the latest modelling figures provided by GAL show that pier service levels approaching 95% can be delivered without the Pier 6 extension but with more efficient use of airfield assets. GAL has explained to the ACC that the modelling they refer to was provided at a point in time before the work was completed. The work was then completed and it was found that the stand reconfigurations on Piers 4 and 6 would not positively impact pier service as assumed. In addition, it has been shown that whilst the Handling Agents have increased their towing capacity following on from GAL's decision to pay for extra tows this summer, some Handling Agents still remain unable to carry out all of the requested tows. These points, together with the increased traffic forecasts have led to the significant widening of the gap between the ACC and the GAL view.

- We have spent time discussing the new **consultation governance arrangements** and have reached agreement on many of the areas; however there remain some areas of disagreement which are clearly outlined in the attached [Appendix 3](#).

With regard to Commitments GAL's position remains as per our submission; GAL and the ACC have not had further discussion around service performance or the capital consultation under a commitments framework.

We will continue to advise you of further agreement in these areas between the ACC and GAL.

Yours sincerely

**William McGillivray**  
Product Development Director  
Gatwick Airport Limited

**Jason Holt**  
Chair of Gatwick ACC

GATWICK DEPARTURES BAGGAGE SYSTEM  
DRAFT SERVICE QUALITY REGIME (SQR) PROPOSAL  
Version 5.0 – May 2013

## Performance Measures

The mechanics of this SQR are based on daily system process performance.

Like existing SQR schemes, the overall measure is represented by a monthly performance score for both the North and South Terminal Departures Baggage performance. This measure shall be based on daily operational performance levels of **Overall Baggage system Process performance**, known as **OBP**.

## Overall Baggage Performance – OBP Metric

### 1. Parameters

The measure will be based on the percentage of bags, which achieve a delivery time greater than twenty five minutes before the bag's Estimated Time of flight Departure (Time off Block Time – TOBT).

- The objective is that 99% of bags be tipped or 'attempted to tip' into the chute (sorters) with greater than twenty five minutes before the estimated time of departure.
- For bags delivered to a carousel, the objective is that 99% of bags be scanned at the last pre-sort verti-sorter unit – VSU – with greater than twenty five minutes before the estimated time of departure.

### Baggage SQR:

The monthly average of the daily performance shall be calculated and the OBP recorded for each Terminal accordingly. A measure for ST and a measure for NT & TBF combined shall be provided each month in line with other existing SQR metrics.

The resulting monthly measure, and any subsequent rebates, shall be provided at the end of the month, as a final SQR performance figure will be established and, should any breaches have occurred, rebate payments be identified for the relevant airlines.

## Data Sample

The data source used to derive the monthly OBP measure shall be extracted from the GAL Sort Allocation Computer (SAC). Everyday at approximately 00:01hrs the previous days bag data files shall be transferred from the SAC, via a tumbleweed connection, to a GAL reporting server. The data will then be subject to a further reporting script which will derive the monthly figure.

Only bags which have a valid Baggage Sortation Message BSM and a tip or first attempt to tip time shall be included in the measures.

Bags which, for whatever reason, fail to record a tip time or 1<sup>st</sup> attempt to tip time, shall be excluded from the daily OBP measure.

Bags which fail the OBP measure which are received late from check-in (identified by check-in In System Time - IST – Scanners) less than forty minutes from the Estimated Time of Departure (ETD –40<sup>1</sup>) shall also be excluded.

<sup>1</sup>This figure has been chosen taking into account Long Haul, typically ETD-60mins, and Low Cost carriers – typically ETD - 30mins closure times.

## **Performance Monitoring and Monthly reporting**

In terms of the daily operational performance monitoring, an Operational team comprising those responsible for the day-to-day operational performance will measure and respond as required to any sudden reduction in performance levels.

A team consisting of relevant GAL Management representatives including managers able to deal with commercial and service delivery issues , an appointed named AOC representative and any 3<sup>rd</sup> party contracted organisation will be meet monthly, review the previous month’s performance, approve payments under this agreement, resolve emerging management issues and agree any changes to the operational interfaces and processes.

The previous month’s OBP performance will be reported at the monthly SQR exclusions meeting. The monthly SQR Exclusions forum will also coordinate the annual review of the OBP SQR measure comprising the review of the payment and performance provisions of this agreement, including the parameters and management process by the 30<sup>th</sup> May each year.

The annual review is designed to ensure that the agreement continues to reflect the parties’ respective obligations and is working to the mutual benefit of GAL and the AOC. Any changes to the payment and performance provisions agreed during said review shall only take effect if agreed in writing by the parties.

## **SQR Exclusions**

Given the interdependency of other critical aspects of flow performance there are exclusions that need to form part of the SQR measure.

- Chute Fulls:

A chute full event is where an output chute (for a tilt tray sorter) remains full / blocked for a period greater than 90 seconds. For a carousel operation, the chute full event shall be recorded as a defined conveyor location upstream from the main carousel injection point recording a ‘die-back’ condition for greater than 90 seconds.

If the total number of Ground Handler chute fulls (as defined above) exceeds the agreed number of chute full events in any one-day (**Number of which TBC**), then any resulting OBP performance for that particular Terminal’s operation on that particular day shall be void.

The resulting monthly OBP figure shall be calculated across all days where the chute fulls are less than the agreed number of events permissible.

- Sub System Processes:

All bags routed to Level 3 and/or the Manual Coding Stations are excluded from this measure given their process time is directly affected by third parties and/or sub-processes outside the control of GAL.

- OOG Bags:

Bags using the out-of-gauge systems shall be excluded from the Departures SQR measures given the relationship AOC security screening processes has on bag throughput performance.

## **SQR Penalties**

Departures SQR will operate in the same way as Arrivals SQR. However, there will be no potential to achieve performance bonuses.

Should the monthly target not be achieved then Gatwick will be liable for a penalty payment representing “X”% (TBC) of the annual airline charges.

The previous month’s OBP performance will be reported at the monthly SQR exclusions meeting in a similar way to Pier Service Level SQR measure.

## **Appendix 1- Baggage Input Statement**

### **1.1 Direct baggage input**

Baggage should only be input onto the baggage system, from check-in, where it complies with the following criteria:

|                        | Maximum | Minimum |
|------------------------|---------|---------|
| Length (mm)            | 900     | 300     |
| Height (mm)            | 750     | 200     |
| Width (mm)             | 450     | 75      |
| Weight (Transfer) (kg) | 40      | 0.5     |
| Weight (direct) (kg)   | 32      | 0.5     |

Unsuitable baggage or those outside the dimensions above are to be handled using the Out of Gauge systems.

## Appendix 2: Proposed SQR Weightings

6.8.13

(exc. Measures only being published)

In order to retain same proportion as ACC proposal, the 'agreed' is half the weighting the ACC propose taking into account ACC believe overall rebate should be 14% and GAL/CAA working on 7%

|    | Element   | Standard#   | WEIGHTING PROPOSALS |             |              |              |             |             |             |             |
|----|---|---|---------------------|-------------|--------------|--------------|-------------|-------------|-------------|-------------|
|    |   |   | NT (CAA)            | ST (CAA)    | NT (ACC)     | ST (ACC)     | NT (GAL)    | ST (GAL)    | Agreed NT   | Agreed ST   |
| 1  | Departure Lounge Seat Availability                            | 3.8 (CAA 4.0) (MAT)                                   | 0.36                | 0.36        | 0.4          | 0.4          | 0.35        | 0.35        | 0.2         | 0.2         |
| 2  | Cleanliness   | 4.0 (CAA 4.1) (MAT)                                   | 0.36                | 0.36        | 0.4          | 0.4          | 0.35        | 0.35        | 0.2         | 0.2         |
| 3  | Way Finding   | 4.1 (MAT)   | 0.36                | 0.36        | 0.4          | 0.4          | 0.35        | 0.35        | 0.2         | 0.2         |
| 4  | Flight Information  | 4.2 (MAT)   | 0.36                | 0.36        | 0.4          | 0.4          | 0.35        | 0.35        | 0.2         | 0.2         |
|    | <b>Sub Total for QSM</b>                                      |   | <b>1.44</b>         | <b>1.44</b> | <b>1.6</b>   | <b>1.6</b>   | <b>1.4</b>  | <b>1.4</b>  | <b>0.8</b>  | <b>0.8</b>  |
| 5  | Central Search x 2 measures                                   | 95% of the time < 5 mins and 98% of the time <15 mins | 0.85                | 0.85        | 2.0          | 2.0          | 0.8         | 0.8         | 1.0         | 1.0         |
| 6  | Central Search Max Queue                                      | in any one 15 minute time slice < 30 mins             | 0.45                | 0.45        | 1.4          | 1.4          | 0.2         | 0.2         | 0.7         | 0.7         |
| 7  | Transfer Search   | 95% of the time < 10 mins                             | 0.2                 | 0.2         | 0.4          | 0.4          | 0.4         | 0.4         | 0.2         | 0.2         |
| 8  | Staff Search (Terminals) & Staff Search (Crew)                | 95% of the time < 5 mins*                             | 0.33                | 0.33        | 0.7          | 0.7          | 0.3         | 0.3         | 0.35        | 0.35        |
| 9  | Control Posts   | 95% of the time < 15 minutes                          | 0.33                | 0.33        | 0.7          | 0.7          | 0.3         | 0.3         | 0.35        | 0.35        |
|    | <b>Sub Total for Security</b>                                 |   | <b>2.16</b>         | <b>2.16</b> | <b>5.2</b>   | <b>5.2</b>   | <b>2.00</b> | <b>2.00</b> | <b>2.60</b> | <b>2.60</b> |
| 10 | PSE General   | 99% availability                                      | 0.35                | 0.35        | 0.1          | 0.1          | 0.4         | 0.4         | 0.05        | 0.05        |
| 11 | PSE Priority  | 99% availability                                      | 0.35                | 0.35        | 1            | 1            | 0.45        | 0.45        | 0.5         | 0.5         |
| 12 | Inter Terminal Shuttle, 1 Car & Inter Terminal Shuttle 2 Cars | 99% availability & 97% availability                   | 0.3                 | 0           | 1            | 0            | 0.3         | 0           | 0.5         | 0           |
| 13 | Arrivals Reclaim  | 99% availability                                      | 0.35                | 0.35        | 1            | 1            | 0.45        | 0.45        | 0.5         | 0.5         |
| 14 | Outbound Baggage  | 99% OBP~  | 0.2                 | 0.2         | 1.4          | 1.4          | 0.3         | 0.3         | 0.7         | 0.7         |
|    | <b>Sub Total for Terminal Operations</b>                      |   | <b>1.55</b>         | <b>1.25</b> | <b>4.5</b>   | <b>3.5</b>   | <b>1.9</b>  | <b>1.6</b>  | <b>2.25</b> | <b>1.75</b> |
| 15 | Stands  | 99%   | 0.25                | 0.25        | 0.1          | 0.1          | 0.3         | 0.3         | 0.05        | 0.05        |
| 16 | Jetties   | 99%   | 0.3                 | 0.3         | 0.6          | 0.6          | 0.3         | 0.3         | 0.3         | 0.3         |
| 17 | <b>Pier Service (MAT)</b>                                     | <b>tba (MAT)</b>                                      | 0.3                 | 0.3         | 1.0          | 1.0          | 0.5         | 0.5         | 0.5         | 0.5         |
| 18 | FEGP  | 99%   | 0.15                | 0.15        | 0.1          | 0.1          | 0.25        | 0.25        | 0.05        | 0.05        |
| 19 | ACT / Airfield Availability                                   | tba   | 1.0                 | 1.0         | 1.4          | 1.4          | 0.5         | 0.5         | 0.7         | 0.7         |
|    | <b>Sub Total for Airfield Operations</b>                      |   | <b>2.00</b>         | <b>2.00</b> | <b>3.20</b>  | <b>3.20</b>  | <b>1.85</b> | <b>1.85</b> | <b>1.60</b> | <b>1.60</b> |
|    | <b>Totals</b>   |   | <b>7.15</b>         | <b>6.85</b> | <b>14.50</b> | <b>13.50</b> | <b>7.15</b> | <b>6.85</b> | <b>7.25</b> | <b>6.75</b> |

# Note, all standards are measured for the hours of the day as agreed between the Airport and the AOC and are recorded as average monthly performance unless stated. (MAT stands for Moving Annual Total)

~OBP = overall baggage performance

\* GAL have agreed with the ACC to improve staff security search for crew report buildings to 95/5 from 95/10

The amount of money at risk for each element is based on 6 months failure triggering the maximum amount for the year, no change from Q5.

Shaded blue - the standard is based upon the current methodology, if/when this changes to a per passenger basis the standard will need to be reviewed to ensure it requires equal performance to that achieved today. NB Transfer search will not be able to be measured per passenger during Q6 as there is no plan in place to do this.

The agreement for Security daily measure is that the monthly amount is divided by 15 and then applied each day a >30 minute queue is recorded - e.g. if on today's passenger figures circa £190k pcm - therefore c£12.6k payable for each day's failure

## Appendix 3: Capital consultation proposal (RAB based regime)

### 1. Introduction

- 1.1. This document looks forward to the period from 1 April 2014 and recognises the need for GAL to continue consulting airlines on capital projects. GAL and the ACC have discussed how this can best be achieved and have developed a broad set of proposals. There is broad agreement around the structure of consultation going forward; however we do have some key differences of opinion which we highlight in this document.
- 1.2. A major difference is our views on the purpose of consultation. GAL's view is that consultation is to receive input into GAL's business plan outcomes, an opportunity for airlines to identify improvements and a mechanism to ensure that operational impacts are kept to a minimum by careful thought and consultation prior and during a project's life. GAL and the ACC have engaged in consultation (both formally and informally) over the last two years discussing the desired outcomes and the proposed projects to achieve these. In GAL's view it is now time to move to execution of the projects. GAL do not believe it is the role of the ACC to judge the correct cost of a project, as this has been assessed by the CAA's expert consultants at the outset of the control period. GAL do believe it is appropriate and right to consult the ACC on cost, scope or timescale of a project if any of these change from that previously consulted with the ACC and subsequently entered into the pricing regime. The ACC believe that consultation is vital to ensure the airlines are part of the process that sets the direction GAL are taking on the development of the airport, taking into account key issues such as passenger needs, timings, operational needs and impacts and the detailed cost structure of projects and programs. The ACC's view is that this allows both the ACC and GAL to understand inputs from both parties and ensure the airport is delivering cost effective projects that are in the best interests of the passenger.
- 1.3. With the above viewpoints in mind GAL/ACC are in agreement that consultation with the airlines is important in order to assure to the ACC and the wider airline community that GAL will deliver on the final Q6 capital settlement as set by the CAA. GAL's view is that the caveat to this broad statement is that sufficient budget is provided to meet all the outcomes detailed in GAL's business plan.
- 1.4. The ACC seek to put in place expertise to analyse costs and processes to ensure it can play a full role in ensuring value for money projects and programmes are developed and delivered efficiently, allowing the ACC to support passenger objectives. To this end the ACC request that the CAA insert a capital line item within the capital investment programme (CIP) for up to £750k for Q6 to support the development of ACC expertise on GAL's projects. (This number will be reviewed as the period progresses). The ACC propose that this initial amount is put into the core element of the CIP.
- 1.5. GAL does not agree that this mechanism is necessary or good value for money for the passenger as it needlessly adds to the regulatory costs. As stated in point 1.2, GAL's view is that it is not the ACC's role to judge the correct cost of projects, as the CAA has carried out this function via expert assessment. GAL believes it has been clearly demonstrated by the level of rigour employed by the CAA's consultants to the capital investment plan that additional expertise is no longer required, therefore GAL have changed their view on this matter. Funding and facilitating separate experts and / or consultants for the airline community will, in GAL's view, be duplication and an inefficient use of resource. Funding will continue for the ACC representative position as it is recognised that this person provides an

invaluable coordination function for the ACC and wider airline community. The ACC does not agree with GAL. This idea was developed during constructive engagement, with GAL raising the issue of a lack of technical support at CE meetings from the ACC. The ACC see this proposal as a way to be more efficient around the understanding and support of projects. This change in position from GAL is disappointing to the ACC. GAL recognises the right for the ACC or individual airlines to directly employ experts to assist them in the consultative forums.

- 1.6. Therefore, under this proposal for capital consultation GAL will, as currently, retain sole responsibility for managing the capital investment programme to enable them to meet obligations regarding airport-wide service standards. GAL will maintain the airport to comply with all applicable safety and environmental requirements and to maintain and develop its infrastructure to enable the airport-wide service standards to be achieved.
- 1.7. GAL propose, in agreement with the ACC, that the two key tests used by the CAA to decide whether capital spend is entered into the RAB are retained for Q6, namely;
  - To ensure best practice capital management and,
  - To carry out effective consultation with airlines in accordance with the obligations set out in the licence
- 1.8. Following the CAA's publication of GAL's price settlement it will be agreed by the CAA and GAL, in consultation with the ACC, which of the major development projects will have triggers applied; the total liability that will be set and what proportion of that liability each of the projects will take. For such projects, trigger definitions will be finalised post Tollgate 4 at which time programme and cost is confirmed. Between Tollgates 2 and 4 the definitions will evolve as the project develops. This process is in line with the protocol agreed between GAL, the ACC and the CAA for Q5+1.
- 1.9. GAL's view is that only projects which are critical to the airline's operations or provide essential passenger service improvements should have a trigger applied. Projects which deliver commercial return or opex savings do not require triggers as these revenues/savings are already included within the regulated settlement, therefore if not achieved GAL are penalised by lower returns. The ACC view is that under the current regulatory framework all major projects within 'core capital' and greater than £10m in value should be triggered. If the CAA adopts a mechanism for capital correction in Q6 that eliminates the benefits to the airport of spending capital late in the period then this would reduce the requirement to trigger some projects. However there will be a small number of projects that are critical to operational requirements or passenger experience and these would need to be triggered or have a mechanism to ensure timely delivery.
- 1.10. GAL will take a programme approach to delivering capital, seeking to maximise efficiency by grouping projects together into logical programmes of work. The CAA have agreed to assess the efficiency of the investment programme overall, recognising that higher than expected costs on some projects might be offset by lower than expected costs on other projects. There is no expectation that higher than expected costs overall will necessarily indicate 'inefficiency'. That will depend upon an examination of the precise circumstances facing the airport and the options open to it at the time. As agreed in Q5, the capital investment programme is a basis for consultation and does not represent a mandatory investment programme.

## 2. Categorisation of Expenditure

2.1. For the purposes of consultation, capital projects have been categorised into three areas: The ACC propose that the threshold for major development projects be £2m; GAL's view is set out below.

- **Major development projects:** comprising of all individual projects or individual programmes at £10 million or more (excluding the Asset Stewardship programme).
- **Minor development projects:** comprising of all individual projects or individual programmes of projects less than £10m (excluding the Asset Stewardship programme).
- **Asset Stewardship programme:** comprising all asset stewardship projects split into five broad elements – Airfield, Commercial, IT, Facilities and Compliance/Risk. Within this programme GAL and the ACC agree that there are five projects / programmes which could significantly impact upon passenger service and / or the airlines' operations and therefore should be consulted as per the major development project process; these are:
  - stand replacement
  - taxiway rehabilitation
  - baggage system rehabilitation and,
  - ST Ceiling replacement (if the construction method impacts the check-in areas)
  - FEGP Replacement

## 3. Capital Investment Programme

3.1. GAL will continue to publish annually a rolling five year Capital Investment Programme (CIP)

3.2. The CIP will be the key document around which strategic level consultation on future airport development will take place. The consultation with the Airport Consultative Committee (ACC) will address:

- The principal business drivers behind the airport's development strategy, including service levels;
- Forecast traffic demand and associated demand for airport capacities and services;
- The capacities that the airport intends to provide, taken in the context of forecasted demand; and
- The cost of the capital investment programme and the resulting effect on the Asset Base of the airport.

3.3. The forecast cost of the capital investment programme will:

- Summarise expenditure on each of the Major Development Projects;

- Summarise aggregate expenditure on the Asset Stewardship Programme (across all five elements);
- Summarise aggregate expenditure on Minor Development Projects;
- Be at a level of detail that naturally reflects the planning horizon and Tollgate status for projects, with those in the short-term being more granular and certain than those in the final years of the forecast; and
- Provide an explanation as to any material differences (+/- 10% cost and/or programme) between the latest forecast and:
  - The prior year forecast; and
  - The forecast per the CAA's price control review.

#### **4. Airline consultation**

4.1. Consultation between GAL and the airlines and their chosen representative(s) will take place at a number of different levels, with groups formed appropriately. We anticipate that the structure set out below is sufficient; however this may evolve over time:

- ACC – to consider strategic matters involving the medium to long term development of the airport, the consultation with the Airport will be held at the Joint Steering Group (JSG);
- Capital Programme Board (CPB) – to consider any changes to the outcomes, cost or timescales of the identified projects (for the avoidance of doubt, these are the major development projects including the five asset stewardship projects / programmes identified as critical to airline operations / passenger service and any minor projects as reasonably requested by the ACC); and, any interdependencies involved in the delivery by GAL of the capital development programme; and
- Working groups (informal and formal) to consider operational impacts of projects on the day to day activities of the airlines operating at the airport. These working groups (where required) will be project or programme (e.g. North Terminal Programme) specific, involve affected airlines and may require a formally constituted working group (e.g. the AOC) for significant projects requiring a high degree of airline input into the design and execution planning (e.g. check-in transformation).

4.2. As part of the annual CIP consultation with the ACC, GAL will consult with airlines in relation to Major Development Projects covering:

- High-level options for the development of Major Development Projects and the trade-offs involved between alternatives;
- The outputs that are expected to be delivered in terms of service, capacity, operating cost and revenue;
- Scope, programme and cost of the project required to deliver the business objectives; and

- The business case for the project. (This would be in a form consistent with those prepared by GAL for the ACC in Q5).
- 4.3. GAL will consult, as each project timescale requires, with the CPB and JSG in relation to the Major Development Projects at Tollgate 2 (only for major projects not already at Tollgate 2 in the CAA's price control settlement), Tollgate 3 and Tollgate 4. In order to formalise airline support the ACC and GAL have agreed that a document would be jointly signed at each stage support from the airlines is sought; support from the airlines will only be sought if there are any changes to the original TG2 outcomes, cost and timescale. The current process of change control record sheets (CCRS's) is anticipated to continue. Where airline support is not forthcoming then the CAA will be required to apply the two tests prior to a decision whether the capital spend is included within the RAB. The ACC believe that this process should be applied annually. GAL thinks this would be a disproportionate change of policy compared to the current five year model.
- 4.4. Following Tollgate 4, progress with the delivery of Major Development Projects will be reviewed by the CPB. Any changes in cost +/-10% or £500k, whichever is the lesser, for the project would be consulted with the airlines in advance at the CPB.
- 4.5. GAL will meet annually with the ACC to review GAL's delivery of the Capital Investment Programme, specifically:
- In relation to the following 12 months:
    - The schedule and expenditure for each Major Development Project (including those identified from the Asset Stewardship programme in point 2.1);
    - The priorities and aggregate expenditure of the Asset Stewardship Programme across each of the five broad elements (separately identifying individual projects in excess of £1m and providing a list of all projects between £500k and £1m)
    - The expenditure on Minor Development Projects (separately identifying individual projects in excess of £1m and providing a list of all projects between £500k and £1m); and
    - If the ACC request further meetings/details on any one of these projects GAL will make reasonable endeavours to meet the request
  - In relation to the preceding 12 months, works undertaken and progress with:
    - Each Major Development Project;
    - Minor Development Projects (separately identifying individual projects in excess of £1m and providing a list of all projects between £500k and £1m); and
    - Asset Stewardship Programme across each of the five broad elements (separately identifying individual projects in excess of £1m and providing a list of all projects between £500k and £1m).

### ***Master Plan***

- 4.6. GAL published a Master Plan in July 2012. GAL will aim to publish a revised Master Plan every five years, in consultation with the airlines (including the ACC), other business partners and the local community. The exact timing of Master Plan updates will be dependent on Government airport policy consultations/decisions (e.g. in relation to the Airports Commission) and on the need to keep the overall long-term vision for the airport up to date.

## 5. Development capital

5.1. Over the past two years there has been continued consultation between the ACC and GAL prior to GAL publishing their Business Plan. In this plan GAL recognised that there may be times during the regulatory period whereby either GAL or the ACC may wish to bring forward new projects and for these purposes GAL supported the creation of the concept of core and development capital. However, GAL has been very clear that for business planning purposes once a project passes through Tollgate 2, there exists an agreed business case and a set of business outcomes to be achieved for a defined capital cost and therefore the project is incorporated within core capital. The ACC agree with the need for a core and development capex process but do not agree that projects which reach tollgate 2 are moved from development to core. The ACC's view is based on the fact that tollgate 2 does not contain the level of data that allows the ACC to make an informed decision on the project and believe tollgate 3 is when the project is appropriately developed. This opinion has been developed over the consultation process based on experience of viewing tollgate 2 data.

5.2. The ACC and GAL agree on principle with the proposed core and development capital expenditure approach. The areas of agreement are that:

- 'Core' capital goes into the RAB and price cap
- 'Development' capital stays outside the RAB and price cap until and if it becomes 'core'
- There will be an annual process for moving capital projects from 'development' to 'core'
- The price cap will be updated annually to reflect any changes in core capital
- Where there is disagreement between GAL and the ACC over whether a project should move from development to core, the CAA will take the final decision

5.3. GAL is proposing, as part of its business plan, four development capital projects; projects that are not sufficiently advanced in their development (i.e. not yet reached tollgate 2) to be included within core projects. These are:

- Requirement to replace HBS equipment to meet standard 3 by 2018
- Further liquid explosive detection requirements
- Business Systems Transformation
- Runway 2 (£10m)

There are also potential projects, which GAL identified in the RBP which may come to fruition during the next period; there may also be other projects identified during the period that neither GAL nor the airlines are currently aware of – such as mandated changes or technological developments. The ACC propose that all projects which haven't reached tollgate 3 remain as development and that these are not put in the price settlement. This is based on the fact that tollgate 2 does not contain the level of data that allows the ACC to make an informed decision on the project and believe tollgate 3 is when the project is appropriately developed. The ACC's view is that GAL itself does not commit to a project until it reaches tollgate 4. This is a misunderstanding of GAL's internal governance process, whereby contracts over £10m in value get final approval by the GAL Shareholder Board at tollgate 4. The GAL Executive Board has full authority to commit budget and release funds to projects at tollgate 2.

GAL does not agree with the ACC's view that tollgate 3 is the appropriate milestone as the lack of certainty that this would create would put in place impossible conditions for GAL to plan and deliver a CIP for the next 5 years. GAL considers that the extensive consultation, first to establish the required outcomes and then to detail the requirements for projects to deliver these, has given excellent transparency and a vast amount of background information as to why each project should be progressed. The agreed automatic mechanism for introducing development projects into the core capital programme is set out below:

- The inclusion of new development projects will be consulted upon by GAL with the ACC. Unless there is a dispute, the price cap will be adjusted and the capex incorporated;
- In the event that the ACC disputes the new project, the CAA will decide whether the price cap should be re-opened and the project included;
- Irrespective of the category of project, the consultation will follow the same format as that set down for major projects until it is incorporated within the price cap. It will then follow the consultation format applicable for its category;
- GAL encourage airlines to suggest new development projects and to provide the necessary business rationale to promote the project, these will also be consulted upon prior to automatic inclusion in the price cap in the absence of any dispute, or included within the price cap following a CAA decision where a dispute has been raised; and
- Except in the case of dispute (see above) the movement of development projects into the core capital budget will mean that incorporation into the price cap will occur on a yearly basis, following the current price cap update process the CAA control. The ACC believe the suitable point is tollgate 3 as this is when the project is appropriately developed. GAL development costs would be supported by the ACC between tollgates 2 and 3 provided that the consultation governance set out in this document has been followed. GAL's view is that tollgate 2 is the appropriate stage; at this point we have defined the required outcomes and allocated an expected budget within +/- 30% based on the understood scope at that point. It is also at this tollgate when GAL commits capital to a project based upon the business case.