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Response to CAA Outcome Based Regulation Mid-Term Review Final Proposals

Further to CAA CAP 3108 setting out the CAA's Final Proposals to the Outcome Based Regulation (OBR) Mid-Term review at Heathrow Airport, the airline community at Heathrow, as represented by the London (Heathrow) Airline Consultative Committee (LACC) and Heathrow Airline Operators Committee (AOC), collectively the "Airline Community", welcomes the opportunity to provide the CAA with comments on the Final Proposals.

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

Overview

This document responds specifically to the CAA's OBR Mid-Term Review Final Proposals contained in CAP 3108. The airline community will respond more broadly to OBR issues within the H8 Constructive Engagement process.

The airline community have noted in CAP 3108 that the CAA have not agreed to change the Departure baggage "Baggage System Delivery Measure" from a reputational to a financial incentive and have also chosen to not increase the targeted level of performance from 98% of bags delivered on time to 99.9% of bags delivered on time as recommended by the airline community in our response to the OBR mid-term review in 2024¹.

It is clear that HAL has significant baggage system reliability issues that are regularly impacting consumers:

List of significant baggage system issues by month Dec 2024-date

¹ OBR Mid-Term Review Consultation_Scope – Airline Community Response_Final

[illegible]

Source: HAL Below Wing AUC and Baggage SRM monthly reports.

The airline community would again ask how are the CAA planning to address the baggage system issues at Heathrow in next two years without any changes to the OBR scheme?

Airline Community comments on the CAA's Final Proposals:

1. To adopt HAL's existing carbon measure definition (as published in its Annual Accounts) as the basis for a reputational incentive;

1.1 We would repeat our ask from the CAA consultation response letter of April 2024 . Reducing carbon output is important to consumers, but there are wider legislative and legal requirements which HAL already report on. Having raised this before, the Final Proposals still remain unclear on the benefit in introducing a repeat of already publicly reported information into the OBR framework.

1.2 The OBR objectives and measures should focus on HAL's operation of the airport for the benefit of the consumer. As per our response in CAP2618, the CAA need to be mindful of who / what it is seeking to regulate and the potential for unintended consequences. We would also note that the vast majority of carbon is related to aircraft and outside of HALs control, and so notwithstanding our view on this as an OBR measure, this should always remain "Reputational".

2. To set targets of 30-minutes for the Airport Departures Management and 10 minutes for the Airport Arrivals management measures as a reputational incentive;

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

Figure 1.1: Airport Departures Management performance and proposed targets

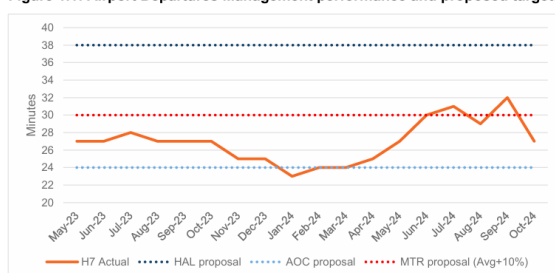
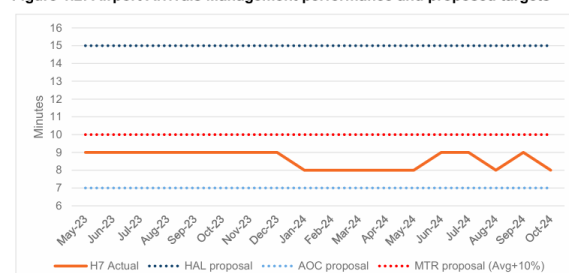


Figure 1.2: Airport Arrivals Management performance and proposed targets



Performance since Oct 2024 (source: <https://www.heathrow.com/company/about-heathrow/performance/airport-operations/measures-targets-and-incentives>)

	Nov 24	Dec 24	Jan 25	Feb 25	Mar 25	Apr 25	May 25	Jun 25

Departures Management performance (mins)	26	26	25	25	27	25	27	28
Arrivals Management Performance (mins)	8	8	8	8	8	8	8	8

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

2.3 The number of minutes measured in the Airport Departures management measure (Average time taken (across all departing passenger flights) between the Actual Start Request Time and the Actual Take-Off Time of an aircraft) has also been relatively stable across all the months measured at between 23.0 and 32.0 minutes.

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

2.5 Setting the targets at 10.0 minutes for arrivals and 30 minutes for departures as recommended in the Final Proposals does not set an incentive for HAL to perform any better than currently as currently (as has been shown from HALs MTI data above) both these targets are being consistently exceeded by HAL already.

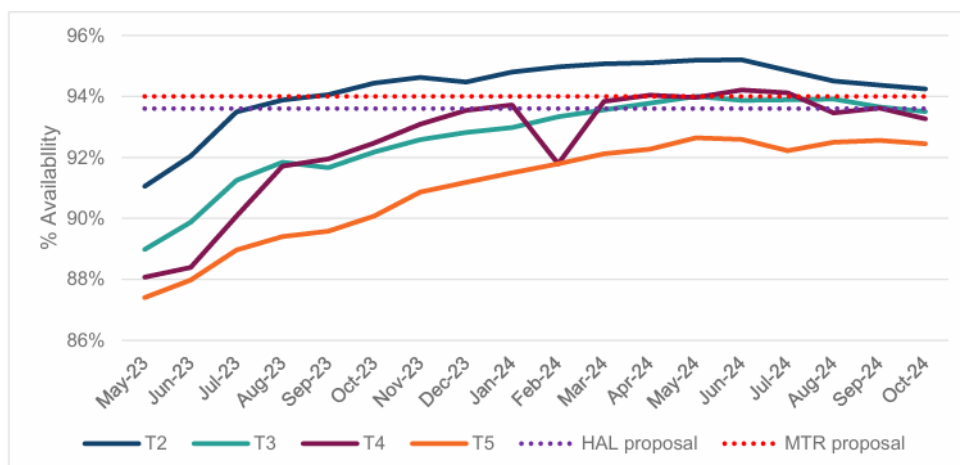
2.6 The airline community further recommend that this measure continues to be reported across H7 as a Reputational Measure and that during the H8 process, agreement is reached on whether this measure is included as a performance target under the Financial Measures, due to its impact on passenger experience and carbon reduction.

3. To set a 94.0% target for the “An Airport that meets My Needs” measure as reputational incentive

3.1. As stated before in our response to the H7 Initial and Final Proposals the “Airport that meets my Needs” measure along with the “Overall satisfaction”, “Customer effort (ease)”, “Enjoy my time at the airport”, “Airport that meets my needs”, “Feel safe and secure” and “Helpfulness /attitude of airport staff” should be summarised with a Net Promoter Score (NPS) measure.

3.2 We would repeat our previous statement: NPS is a common measure across industry types to understand overall customer satisfaction. This should be the ‘Hero’ measure, the North Star that is the overall outcome Heathrow’s Leadership Team should be aiming to improve. It is important to ask this question once customers have been able to experience the full extent of Heathrow’s services, but this score helps to bring together all the touchpoints and elements of the customer journey into one simple question. Not only that, but we also feel that NPS is a great tool to be able to monitor and benchmark Heathrow against comparator airports and service providers (eg: Eurostar, GWR, Starbucks, Schiphol (AMS) airport, Emirates Airlines, United Airlines, Virgin Atlantic, Tesla, Amazon etc.

Figure 1.3: An Airport that Meets My Needs performance and proposed target



3.3 Without prejudice to our above position, we note the CAA’s Final Proposal for a single airport wide reputational incentive Moving Annual Average target score of 94%. The airline community are supportive of the target of 94%. The airline community also notes the CAA’s view that NPS should be considered for H8 and looking forward to further engagement with the CAA on an NPS approach.

4. That HAL should facilitate and pay for an independent service quality audit of the Measures Targets and Incentives (“MTI”) scheme in 2025 to provide assurance ahead of the H8 price control period starting in 2027;

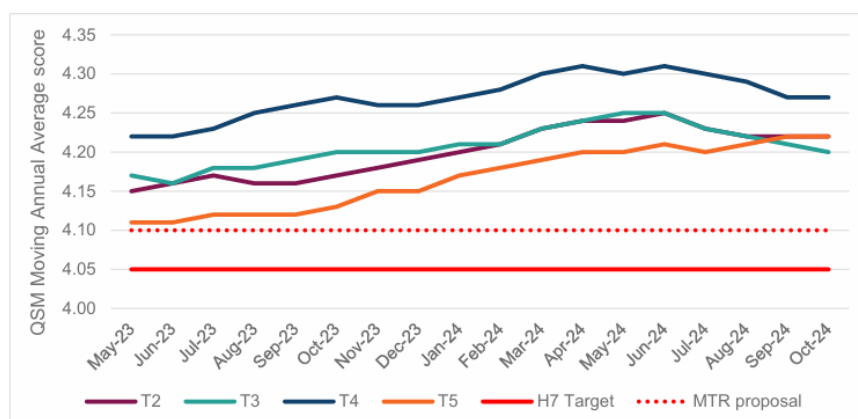
4.1 The airline community strongly support an independent service quality audit of the MTI scheme before 2027. This audit should cover how the MTI data is captured and processed, what checks are in place to ensure unbiased, transparent and error free reporting and also how the rebate and bonus totals are calculated and paid (and what checks are in place to ensure this is correctly completed). The auditors should also be tasked with commenting on the setup, flexibility and efficiency of HALs processing of MTI data. The airline community have been advised by HAL that it takes significant time and effort to generate relatively simple additional details,

4.2 We would also request that the independent advisors are tasked with recommending a minimum frequency for future independent audits.

5. To increase the wi-fi performance target from a Quality of Service Monitor (QSM) survey score of 4.05 to 4.10;

5.1 HAL has exceeded 4.1 in every month since May 2023. We would also note that HAL’s performance on this measure has steadily improved from May 2023 to March 2024. We would therefore strongly support an increase in the target for WIFI Performance from 4.05 to 4.10. We would also add that based on HALs performance, the CAA should consider increasing this target further in H8.

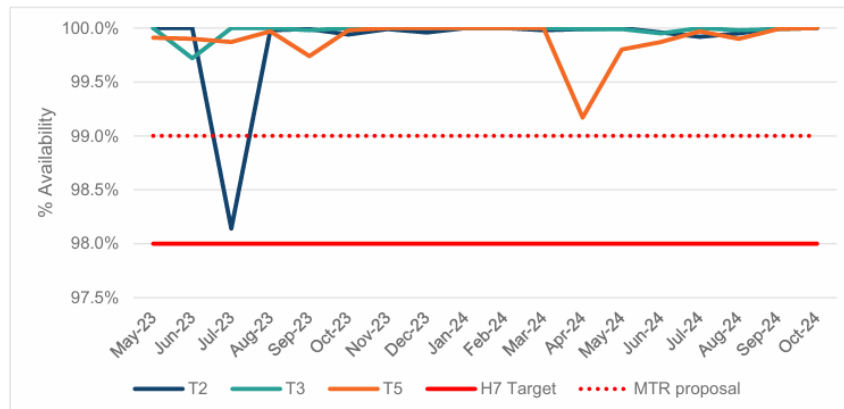
Figure 7.1: Wi-fi performance and targets



6. To increase the Pre-Conditioned Air availability target from 98 per cent to 99 percent;

6.1 The airline community note that since the May 2023 HAL has consistently delivered PCA Availability performance of over 99% - frequently achieving 100%. Increasing the target to 99% would increase HAL's incentive to provide a reliable service and therefore ensure that maximum use can be made of the PCA service which in turn ensures there is a significant reduction in carbon emissions at the airport. The airline community strongly support this increase.

Figure 7.3: Pre-Conditioned Air availability performance and targets



7. To maintain the check-in infrastructure availability target at 98 per cent.

7.1 The airline community would repeat our statements provided to the first consultation on this matter: This is a critical area of the consumer experience. Any failure of this HAL provided infrastructure will immediately cause queues and consumer stress and also impact punctuality. In our previous response we urged the CAA to adopt a performance target of 99.5% availability each day from 0500 - 2300. This would equate to one or fewer 5 minute periods of down time for check in each day.

7.2 We also note that if the target is maintained at 98% availability, then that would equate to 4 x 5 minute periods of check-in down time on each day on each day of the month measured (ie over 10 hours of downtime per terminal per month). This is excessive downtime and if this standard is continued across H7 and H8 will cause unnecessary stress to consumers and unnecessary delays to departing flights. As such, the airlines continue to argue for a target of 99.5% - which would equate to only 1 x 5 minute period of downtime each day across the month.

7.3 We are therefore strongly supportive of the CAA increasing this target to 99%. (Note: we would include check-in baggage input feeds in the category check-in infrastructure as these are essential to ensuring the smooth operation of check-in.)

8. We are not proposing changes relating to the granularity of the security queue targets or the groupings of control posts at this time, although we are asking HAL to produce additional information on its daily performance. We are also not proposing any changes relating to new investment projects, security programme changes and the asset availability target methodology as part of this Review.

8.1 We are encouraged that the CAA will be asking HAL to produce additional information on daily performance of both security queues and control post queues.

8.2 In our response to the H7 Final Proposals we stated it could be beneficial to all consumers using Heathrow if the CAA were to introduce daily performance targets, in particular for queues at Security and Control Posts.

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

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

9. In addition to these matters, chapter 8 sets out a number of possible clarifications to HAL's licence (the "Licence"), to increase the clarity of the regulatory framework, which is consistent with the interests of consumers. These possible changes and clarifications include: updates to the Price Control and Charges for Other Services in Part C; and improvements to MTI scheme references in Schedule 1.

9.1 The airline community are supportive of the changes specified by the CAA in Chapter 2 of the Final Proposals.

10. Additional statements on the OBR Mid Term Review Final Proposals:

- a) The CAA state several times in its Final Proposals that changes can't be made to the MTI scheme as they would be likely to increase the level of risk to HAL over the H7 period. The airline community would note that HAL is already significantly insulated against risk through a layering of measures, as we set out in our responses to the H7 Final Proposals. If not addressed within H7, we strongly press the CAA to consider appropriateness and balance of these as part of H8.
- b) The CAA state that the proposal to switch the "Timely Delivery from Departures Baggage System" from a reputational to a financial metric in H7 would very likely change the level of risk and would be complicated to implement. Furthermore, the CAA did not consider the proposal to increase the target from 98 per cent to 99.9 per cent was reasonable.

The airline community would again state that: The analysis of 2023 performance presented in our first response to the OBR Mid-Term Review has shown that although the significant majority of passengers travel with their bags, there are still a considerable number of passengers who do not travel with their bags directly due to HALs management of the Heathrow baggage systems. As such it should be in the consumers' interest to provide a financial incentive for HAL to improve this performance area.

In 2023 there were 37.6m departing bags. A Baggage System Delivery target of 98% (as suggested in the Final Proposals) would mean that it would be acceptable for circa **752,000** bags per year to not make their intended flight due to **HAL baggage system issues only**. This number is not acceptable. The airline community would recommend a rate of 99.9% instead be the target. Should HAL reach that performance target it would equate to less than 37,600 bags per year not making their intended flight due to HAL baggage system issues.

The airline community are convinced that HAL should be held financially accountable for the part it plays in ensuring passengers depart with their bags and that the measure should change from being reputational only to financial as part of the interim review. This is the best way to incentivise HAL and its contracted supplier to deliver world class baggage system performance.

To make this happen and to ensure the total figure in scope and at risk across all OBR measures does not change, the airline community proposes to amend the hygiene testing measure to become reputational and switching the financial element to departing baggage performance instead.



- c) We note HALs response to the mid-term review includes a call to change the Runway Operational Resilience Measure to an asset availability-type measure. The airline community would note that we do not support this change and continue to support the existing measures assessment methods.