

Q6 Capital Investment Triggers Handbook

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1 Purpose

The Q6 Capital Investment Triggers Handbook (known hereafter as the 'Handbook') has been defined in CAP1151 (Economic regulation at Heathrow from April 2014: Notice granting the licence), Chapter 3, paragraph C.1.12 (k);

'The handbook in existence when this [Q6] Licence comes into force, having been agreed by the Licensee [Heathrow] and the airlines. This handbook 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....'

This Handbook will provide guidance on the application of the Trigger management process jointly agreed between Heathrow and the Airlines, and will include details of:

- Trigger Principles;
- Governance and process applied to setting Triggers;
- Proposed Q6 Triggers;
- Change Control;
- Trigger Milestone Achievement;
- Trigger rebate process; and,
- Trigger Definition Sheets (detailing the Trigger date and payments)

This handbook will be updated regularly as Triggers are agreed at Gateway 3 of Heathrow's Gateway Lifecycle process.

2 Background

Through the Constructive Engagement process for the Q6 Regulatory period and through the Q6 Trigger Sub-Group, Heathrow and the Airline Community agreed the process and principles of Trigger Management.

3 Principles

The application of Triggers is underlined by Principles agreed with the Airline Community at the Q6 Trigger Sub-Group on 21st January 2014. They are as follows:

The purpose of Triggers is to encourage the timely and efficient delivery of appropriate Key Projects, incentivising on time delivery of agreed scope and/or benefits as defined within the Project or the Trigger Definition. If the Trigger date is missed, Heathrow pays an agreed rebate.

1. The Trigger mechanism prevents Heathrow from gaining advantage from the slow delivery of Triggered scope. The same Trigger rebate calculation applies in Q6 as in Q5, the monthly rebate equates to one twelfth of the return on the estimated completed value of the asset.
2. Triggers will be set as part of the Gateway 3 process, in which Heathrow shall need to assure itself that it has a sufficient level of management control or substantial influence over the elements of what could determine the successful delivery of a Triggered project. Post Gateway 3, Heathrow will deliver the Triggered project as agreed at Gateway 3.

3. Projects that meet the guidelines for the identification of “Key Projects” as set out in the CAA’s Information and Consultation Protocol (revised Annex G¹), and below, are to be considered for the possible allocation of Triggers. If a project meets any one of the following criteria it may be Triggered:

Scope and complexity: Projects that have bespoke design and delivery responses, or significant interfaces with other projects of significant time criticality; and/or,

Airline stakeholder impact: Projects with significant impact (positive or negative) on passengers and/or airlines (determined by operational or capacity impact during implementation, significant change management for Stakeholders to use new facility, or significant increases in operating costs arising from the proposed project.); and/or,

Strategic importance: High to significant impact on Heathrow KPI’s; and/or,

Capital value: Above £20m.

4. If projects are incentivised elsewhere, this will be considered when setting Triggers. Conflicting or duplicated incentivisation shall be avoided.
5. A practical approach is to be maintained in the allocation of Triggers, with the aim that benefits outweigh costs and administration burden is avoided.
6. The initial list of projects to be triggered in Q6 will be agreed by Airlines and Heathrow. If agreement proves to be impossible to achieve, the CAA will be asked to decide on a list of Triggered projects. Trigger allocation discussions will be concluded at Gateway 3 through capex forums. Any disagreement will be dealt with in accordance with the Q6 governance structure.
7. The Triggers Working Group will be a sub group of the Capital Portfolio Board (CPB) (but will need to work very closely with the major capital development group within the Governance structure/framework).
8. The Triggers Working Group, and ultimately the CPB, will have the authority to approve, or reject, detailed Trigger proposals developed by Stakeholder Groups or proposed at Gateway 2 and Gateway 3 events.
9. The IFS will be used to provide independent project monitoring and reporting against specific Trigger projects².
10. Where a project is agreed to be triggered, it may be triggered at the project level or at the level of specific defined scope. This will be developed by agreement through the Gateway 2 / Gateway 3 process.
11. Where a Trigger has been set, the intention is for the Trigger Change Control process not to be used post Gateway 3. Where a Trigger Change cannot be avoided, the process in section 7 of this Handbook should be followed.

¹ Annex G will be replaced by the Consultation Protocol, which will be developed jointly by Heathrow and the Airline Community by 1st October, 2014.

² See Appendix 3. Projects may be added to Appendix 3, following consultation and joint agreement between Heathrow and the Airline Community. Appendix 3 lists the proposed Key, Trigger and IFS projects. The IFS will be appointed on projects, following the process outlined in the Capital Efficiency Handbook.

4 Governance and Process

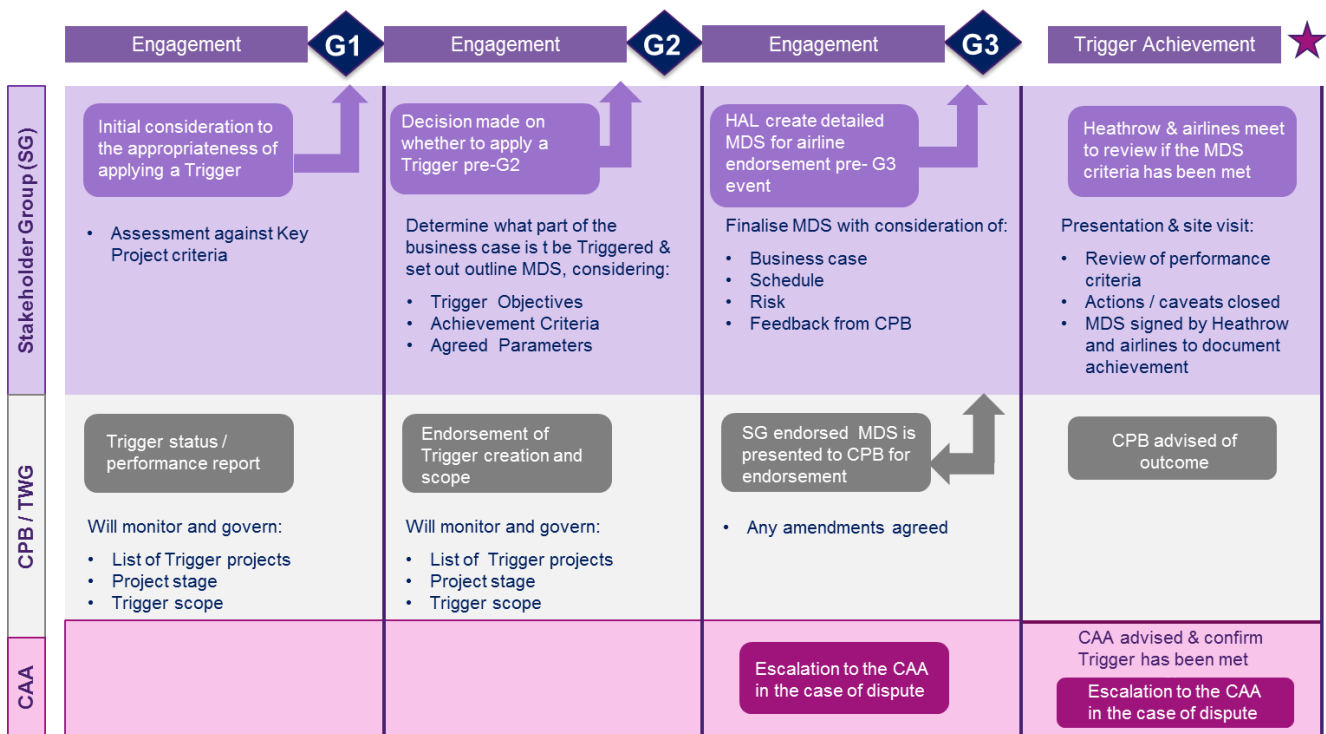
The Triggers Working Group as a sub-group of the CPB, and ultimately the CPB, will have the authority to approve, or reject, detailed Trigger Definition Sheets (TDS) developed by Stakeholder Groups or proposed at Gateway 2 and Gateway 3 events.

Heathrow will provide the administrative support to the Triggers Working Group, and will:

- Ensure that it is run as a decision making body;
- Ensure that necessary information flows from Stakeholder Groups/Gateway Events into the Triggers Working Group; and,
- Ensure that decisions and necessary information is referred to or reported to the CPB.

All decisions of the Triggers Working Group will be jointly agreed. Any failure to agree will be referred to the CPB.

The diagram below illustrates the Q6 Trigger process:



At G2, a draft Trigger Definition Sheet will be issued so that it can be reviewed, discussed and updated accordingly.

The Trigger Definition Sheet including achievement criteria will then be submitted 10 working days prior to the G3 event to the Airline Community for final review. If approved, it will be finalised, endorsed and signed-off at G3.

5. Proposed Triggers

Appendix 3 is the initial list of Q6 agreed Key Projects, Triggered projects, and projects where it is proposed the IFS will be engaged. This selection process will continue throughout the Quinquennium and any amendments agreed from time to time, will be reissued.

6 Trigger Milestone Achievement

When the Trigger has been achieved, Heathrow and members of the Airline Community familiar with the project will review whether the criterion within the TDS has been met, at a sign off event.

This sign off event can take place on site, and /or Heathrow can present to the Airline Community how the criterion has been met. The Trigger Sign Off and Acceptance Sheet (Appendix 2) will be signed by all attendees, to demonstrate and document the Trigger achievement.

The signed Trigger Sign Off and Acceptance Sheet will be sent to the AOC General Secretary for a final review and AOC endorsement.

Following this, a joint letter from Heathrow and the AOC will be sent to the CAA, with the TDS attached to advise of the Trigger achievement.

Heathrow will provide a monthly status schedule on Trigger projects at the CPB. This schedule will provide updates on the latest view of projected completion dates and any resulting Trigger payments, which will be used to set airport charges. The calculation of the Trigger payments will be in accordance with the Licence.

The CPB and Trigger Working Group should be advised of the outcome.

7. Change Control

In Q5, the issues below were identified as the main reasons for Change Control:

- Triggers were set for some projects at a very early development stage with undefined scope, cost and schedule
- The change in project prioritisation / sequencing
- An inconsistent approach to development of Trigger Definition Sheets
- Definitions were not always clear, and this led to issues of misinterpretation

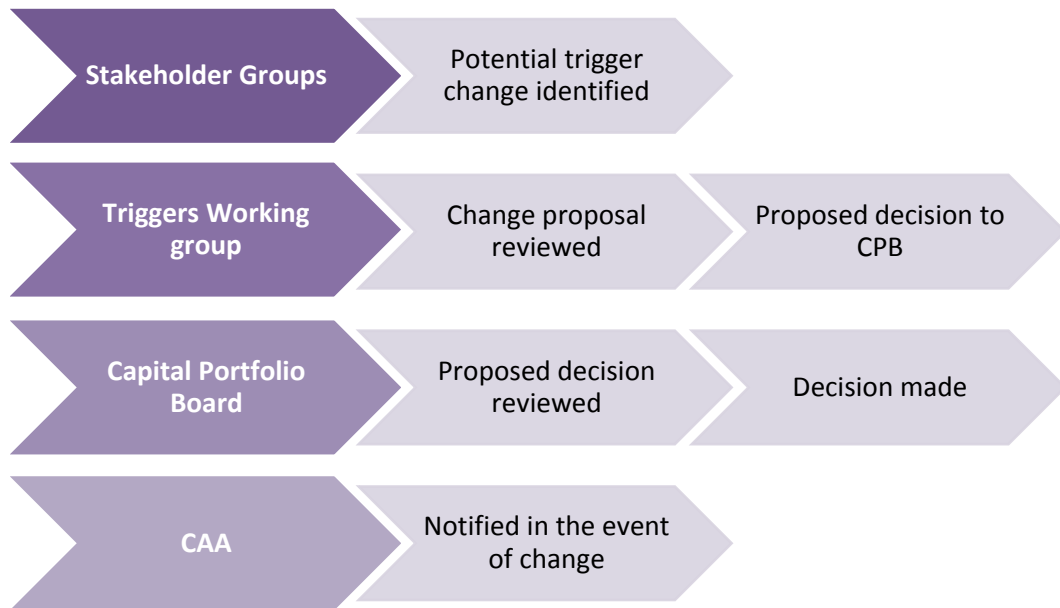
These issues will be addressed in Q6 through:

- Considering which Triggers to apply and jointly discussing the content of the TDS from Gateway 1
- Trigger definitions developed in consultation with the Stakeholder Groups and the Trigger Working Group
- Trigger definitions developed and agreed at Gateway 3 at the transition between Development and Core capex
- Applying a consistent approach to the creation of TDS
- Input from the Independent Fund Surveyor

Any event or situation that might warrant change to a Trigger will be dealt with by the Triggers Working Group and Capital Portfolio Board.

The diagram below shows the simplified approach to Change Control, where the authority to approve a change will be with the CPB. The detailed process to be followed is attached in Appendix 4³:

³ It is not appropriate to agree a definitive Change Control Process until the broader issues of governance are considered. Appendix 4 should therefore be considered as a provisional guideline, until 1st October 2014.



Appendices

- 1) Trigger Definition Sheet Template
- 2) Trigger Sign off and Acceptance Sheet Template
- 3) Initial List of Q6 Triggers
- 4) Detailed Change Control Process

Appendix 1: Trigger Definition Sheet template

Trigger Definition Sheet	
Programme	Insert the name of the Programme
Q6 Business Case	Insert the Business Case Number and Name
Project	Insert the name of the Project
Trigger description	Insert a very high level description of the scope which is to be Triggered (e.g. Bravo Taxiway Open for Code F operation)
Trigger Date	Insert date

Capital Investment Value @ G3	£TBC (2011/12 prices)	Monthly Rebate	£[Insert value]
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Trigger Definition
<p>Introduction – Overall Business Case</p> <p>A précis of the overall Business Case.</p> <p>Trigger Objective</p> <p>To further incentivise timely completion of [insert a compact description about the scope which is to be triggered].</p> <p>Achievement Criteria</p> <p>[Insert a compact description here about how the achievement of the Trigger milestone will be demonstrated? E.g. construction complete of the T3 Integrated Baggage cut-ins.]</p> <p>Agreed Parameters</p> <p>[What has been agreed with the Airline Community as to what the parameters / assumptions are?]</p>

The trigger calculation has been based on the CAA settlement price control licence condition (February 2014).

The monthly rebate for late delivery of the triggered project is as detailed above. The payment of the rebate will be for complete calendar months following the target date and will continue until the end of the month following the fulfilment of the triggered project as specified above.

Endorsement and approvals

Title	Name	Signature	Date
Heathrow Programme Director			
Heathrow Exec Sponsor			

Stakeholder Group endorsement	Insert the date of endorsement together with the documentum reference number of the minutes
Capital Portfolio Board endorsement	Insert the date of endorsement together with the documentum reference number of the minutes

Title	Name	Signature	Date
Heathrow CPB Representative	Phil Wilbraham		
Airline CPB Representative	Gerry O'Connell		

Appendix: [This is optional, depending on the scope triggered. For instance if the delivery of stands is the triggered scope, then a diagram of where these stands will be, can be inserted as an appendix

Appendix 2: Trigger Sign-Off and Acceptance Sheet

Trigger Milestone Acceptance And Sign-off Sheet	
Programme	Insert the name of the Programme
Q6 Business Case	Insert the Business Case Number and Name
Project	Insert the name of the Project
Trigger description	Insert a very high level description of the scope which is to be Triggered (e.g. Bravo Taxiway Open for Code F operation)
Trigger Date @ G3	Insert date from TDS

Date: [Insert date of Sign-off event]

We, the undersigned, have agreed that the above Trigger milestone element has been achieved as of [insert date of Trigger achievement] and that the works, as defined in the Trigger Definition Sheet, have been achieved.

Signed Agreement of Acceptance

Name	Company	Signature	Date

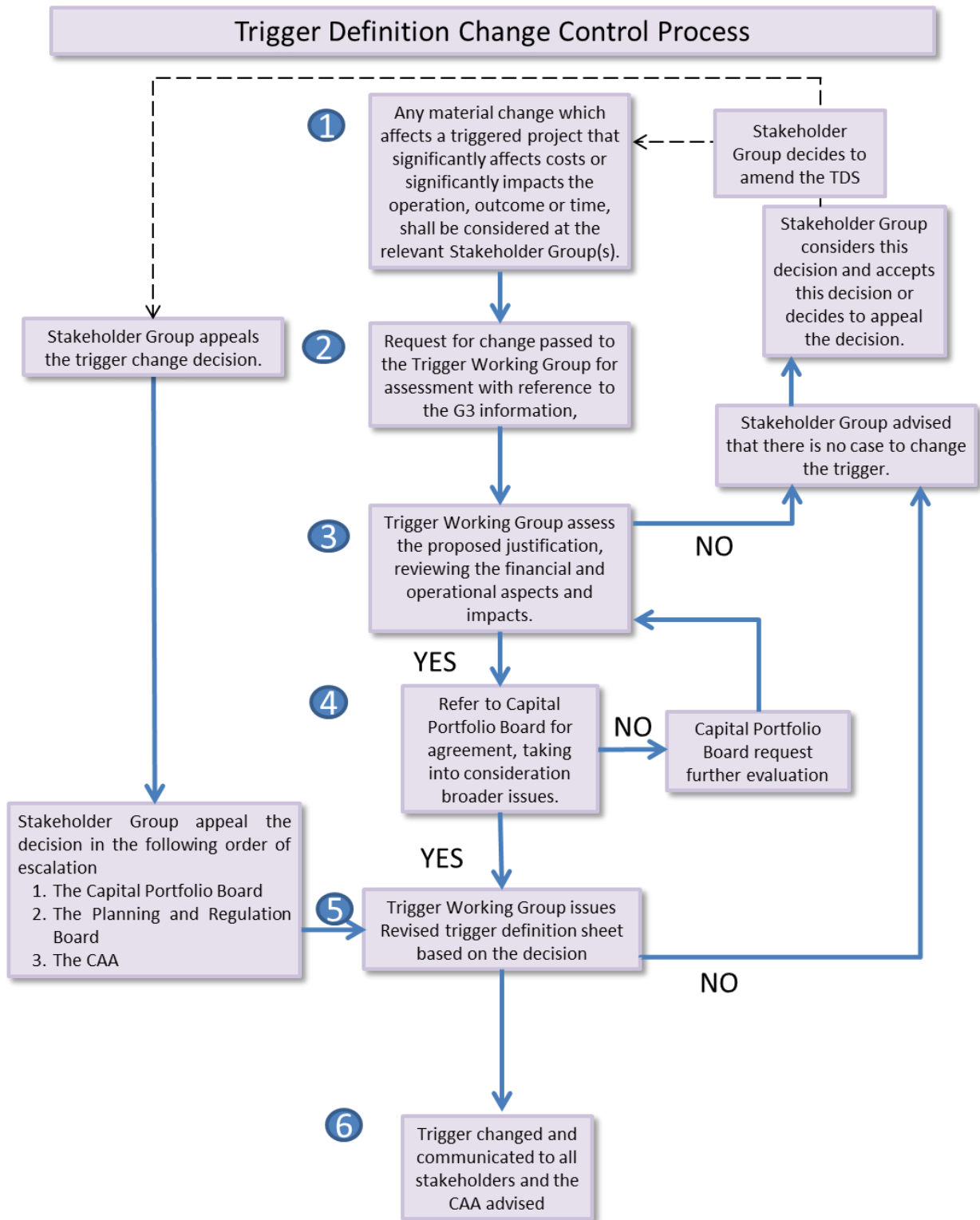
Appendix 3: Initial List of Q6 Triggers

Version Control:

Document	Version	Notes
10000-XX-EC-XXX-000124	1.0	Settlement update - presented to 170214 Triggers sub-group
	2.0	Update post 170214 Triggers sub-group. Capex now in output and for 4 years and 9 months. Quinquennial
	3.0	Update post 060316 Triggers sub-group. Airline proposed triggers added, ex-BC asset/retail rates added, totals added, minor format changes
	4.0	Update post 18/03/14 sub-group. B082 T5 CIP removed from airlines column, minor updates to comments to reflect airline feedback awaited on B016, B017, B068, B102), note added re IFS total
	5.0	Update post 08/04/14 sub-group. BC numbers updated
	5.1	Update post 29/04 sub-group to latest review wording against B102
This version	6.0	Updated post 10/02/15 Triggers sub-group review

Items	Key Project Scope/Category/BS Airline Status Impact RIS Strategic Importance RIS Retail Value (€)	Heathrow and Airline Jointly Agreed Triggers	Incentivised	IFS Proposed	Comments	BC Start	BC End	Trigger date	Trigger Capital Inv Value (£1/12 prices) €m	Forecast Monthly Trigger rebate (£1/12 prices)	Output Q6 value (€m)
B101 Engineering Asset Replacement											635
Airbridge, FEGP, PCA	SI	1		Y	Trigger:T3 Airbridge Replacement - to be reviewed March 15	2014	2018	2018	TBC	TBC	17
Airfield Civils					Note - Northern Runway moved to B207 Asset Management Rollover						
Building Environment Systems											
Civils											
Electrical Lighting Infrastructure											
Electrical Power Infrastructure	All	1		Y	Trigger:T4 LV Electrical Infrastructure - to be reviewed March 15	2014	2018	2018		TBC	16
Fixtures and Fittings											
Lifts, escalators, and passenger conveyors											
Life Safety systems H & S	SC / CV CV	2		Y	Trigger:Fire main replacement/pressure reduction - to be reviewed March 15 Trigger:T3 Life Safety Systems - to be reviewed March 15	2014 2014	2018 2017	2018 2017		TBC TBC	30 15
Mech & electrical											
Personal Rapid Transport											
Security Equipment											
Structures											
Technology											
Toilets											
Track Transit											
Works Approval / IT Rooms											
B103 IT Asset Replacement											107
B216 Combined Baggage Standard 3 and Asset Replacement	All	4	Y	Y	Trigger:4 x Sals HBS (T1/2/4/5). T4 trigger post 2018	2014	2018	2018		TBC	59
B008 Improved baggage capacity and resilience	All	1		Y	Trigger:T5 Early Bag Store	2014	2017	2017		TBC	6
B008 Crossrail											10
B009 Northern Perimeter											14
B010 CTA redevelopment (Aug-13 version)											14
B111 Enabling New Generation of Wide Body Aircraft - Airfield	All	1		Y	Trigger:Bravo North taxiway agreed. IFS Scope Bravo and Sierra AC taxiways	2014	2016	2016	48.9	217,983	85
B311 Enabling New Generation of Wide Body Aircraft. RAT, RETs, Remote Stands and FEGP	All	1		Y	Trigger: CTA remote stands						112
B112 Airfield Efficiency and Resilience	All	1		Y	Trigger scope TBC	2014	2018				32
B312 Airfield Efficiency and Resilience	All										19
B014 Wayfinding											11
B015 Operational Systems Critical Asset Replacement											23
B116 T3 Security Capacity	All	1		Y	Trigger:T3 Security capacity	2014	2017	2017		TBC	56
B316 - T3 Refurbishment and Enhancement - Facades, IDL and Arrivals Concourse	All										27
B117 T4 Refurbishment Improvement	ASI/ SI	1		Y	Q6 rollover trigger complete (stand 410).	2014	2015	Dec-14	9.8	43,600	20
B317 T4 Refurbishment Improvement - HV and Arrivals	ASI/ SI	1		Y	Trigger:T4 HV						
B018 T5 Security Capacity	All	1			Trigger: Transfers security escalator	2014	2016	2016		TBC	35
B020 Commercial IT and Telecoms			Y								15
B023 Business development for Heathrow			Y								8
B024 Commercial Advertising and Sponsorship			Y								34
B025 Premium Passenger Products & Services			Y								7
B026 Security Fixed Post Modernisation			Y								10
B127 Surface Water Management Infrastructure											16
B317 Surface Water Management Infrastructure - Southern											8
B028 Metering & Energy Demand Management											14
B129 Automation of the Passenger Journey											10
B329 Automation of the Passenger Journey	All	1		Y		TBC	TBC	TBC		TBC	58
B030 T1 Closure	SC/ASI/SI	1	Y								9
B031 CTA & Cargo Tunnels	All	1		Y	Q6 rollover trigger agreed (Main tunnel)	2014	2016	Jan-16	20.5	91,400	117
B033 Additional Fuel Infrastructure	All	1		Y		TBC	TBC	TBC		TBC	160
B134 PCA Additional Infrastructure											2
B334 PCA Additional Infrastructure											3
B035 Aircraft De-icing Infrastructure & Process	All	1			Key Project/Trigger to be reviewed if process only Q6 solution						55
B036 VIP Strategy - Commercial and facility			Y								7
B037 Airline Moves	All		Y	Y	IFS review of EI At T4 move G3 cost only						24
B038 Ops Efficiency and Continuous Improvement			Y								6
B039 Noise Compliance			Y								2
B041 Commercial BAU fund			Y								33
B045 APOC			Y								10
B044 Commercial systems replacement and upgrades			Y								3
B045 Enhanced Terminal Facilities for Passengers			Y								21
B047 Consolidated HAL landside Ops/Eng facility											5
B051 T3B Q5 Rollover	All	1		Y	Q6 rollover trigger agreed (Cut-ins complete and system operational)	2014	2016	Jan-16	82	365,900	90
B154 T2A Phase 2 and T2C - planning	All			Y	To be reviewed end of 2015	TBC	TBC	2018		TBC	5
B354 T2A Phase 2 and T2C - enabling	All										180
B156 Surface Access Development Fund											2
B356 Western Rail Access & High Speed 2 Interface & Assurance											7
B058 Innovation, Research and Trials											5
B059 Visitor Centre											0.2
B062 Cargo Centre Southside											16
B066 Energy and Utilities Management - Supply											22
B068 Security SQR Harmonisation			Y								4
B169 Asset Management Programme											12
B073 Air Quality - vehicle charging											5
B176 Funds for Independent Funds Surveyor											7
B077 Hillington Community Trust											3
B078 LACC Project Manager											0.6
B081 T4 IDL Masterplan Phase 4 and enhancements											8
B082 T5 CIP expansion											5
B089 Additional Rollover											0
B092 LKSF Accommodation											5
B094 Crossrail Contribution											87
B097 T1 Baggage Resilience											12
B098 Kilo taxiway and stands 23A/5	All	1		Y		2014	2017	2017		TBC	113
B099 T3 baggage enhancements											9
B102 Rail Asset Replacement					To review IFS appointment on this BC in 2016						53
B150 Terminal 2 Phase 1 Completion	All										65
B164 Back Office IT											32
B165 Waste Management Infrastructure											6
B090 Lakeside											5
B206 Airport Resilience Programme Rollover											28
B207 Asset Management Programme Rollover	All	1		Y	Q6 rollover trigger complete (Northern runway)	2014	2014	Sep-14	16.4	73,000	37
B205 Baggage Programme Rollover											17
B204 Passenger Experience Programme Rollover											23
B208 Q6 Realisation Programme Rollover											3
Totals	1,880	1,736	177	1,525							3263.4
% of plan	58%	53%	5%	47%	Note IFS total indicates % of plan subject to IFS review						
Total capex: HAL + Airline proposed triggers		2,379									
% of plan: HAL + Airline proposed triggers		73%									
Total capex: HAL + Airline proposed triggers + otherwise incentivised		2,555									
% of plan: HAL + Airline proposed triggers + otherwise incentivised		78%									

Appendix 4: Draft Trigger Change Control Process



Any Trigger change should reflect the overriding Trigger Principles.

Version 1.3 29th April 2014