CAA CONSULTATION ON COMMITMENTS EXTENSION

GATWICK AIRPORT LIMITED RESPONSE

1. Introduction

1.1 Gatwick Airport Limited (**GAL**) welcomes the CAA's initial view that its proposal to extend the contracts and commitments framework (the '**Commitments**') to 31 March 2029 is likely to be in the consumer interest.

1.2 Our consultation response is structured as follows:

- Section 1 provides a brief overview of the structure of the response.
- Section 2 provides context to the proposed extension, including an updated view of the competitive market in which GAL operates, why the Commitments framework delivers for the consumer, how the extension proposal was developed in close consultation with airline customers and why a timely conclusion to the consultation process is now critical.
- Section 3 comments on the CAA's assessment framework setting out why the CAA should focus on consumer outcomes and how the Commitments framework drives efficiency. It also identifies gaps in the assessment framework which should reflect the added risk that GAL takes and its investment and innovation.
- Section 4 responds to the CAA's analysis, setting out why the PA Consulting report evidences positive consumer developments and why the CAA's indicative future scenarios overestimate GAL's potential returns.
- Section 5 describes GAL's focus on delivering the highest service standards, including in CSS performance and coordinating activities across the airport. It also provides further evidence and plans for how GAL is addressing the CAA's concerns in the areas of departure lounge seating and special assistance services.
- Section 6 sets out GAL's commitment to growth, why the CAA overestimates returns in a 'no growth' scenario, why the Commitments framework is able to deal with such a scenario without regulator intervention and how GAL would take a commercially led approach in consultation with airlines if growth cannot be delivered.
- In the Appendix we set out further evidence to support the CAA's 'green' assessment ratings including in relation to environmental performance and innovation.

1.3 We welcome the constructive nature of the CAA's engagement and look forward to the CAA publishing its 'way forward' document shortly given the uncertainty that the delay to the process is causing for GAL and its airline customers and the need to start consultation on the tariff for 2025/6.

2. Context to the proposed extension

GAL operates in a competitive market

2.1 In our view, the CAA's assessment has not reflected that GAL faces competitive pressure which has increased significantly in recent years. Although we do not provide a detailed assessment of competition in this response, the CAA should have regard to the following areas in which the competitive landscape has changed since the Commitments framework was introduced:

- GAL must now compete even harder for business. Several airline customers have switched away from GAL, including Virgin Atlantic and Aer Lingus, both of which consolidated operations at Heathrow. Norwegian exited the long-haul sector and Norse's volumes are not expected to replicate this lost traffic. Long-haul passenger volumes remain nearly 30% below 2019. Traffic is now more seasonal than in 2019, especially in off-peak winter months [✂]. In contrast to the position at GAL, Heathrow and MAG are celebrating record passenger numbers.
- In contrast to the CAA's position in 2013, despite very significant investment, GAL can no longer be described as 'unique' in terms of its density of leisure routes, wealth of its catchment area and facilities. Former key customers such as Thomas Cook and Monarch have exited the market. Airlines with a significant leisure focus, such as Wizz Air, have also expanded at competitor airports. Luton's surface access strategy has broadened its catchment area which includes high wealth areas such as Hertfordshire and London. Stansted sits within one of the wealthiest catchment areas in the UK, being the closest major airport to Canary Wharf, Cambridge and the Silicon Roundabout which are at the forefront of global finance, technology and innovation. As evidenced in the PA Consulting report, both airports have made significant investment over the past decade.
- In 2013, the CAA stated that Luton and Stansted were less preferred options for airlines as they do not have the combination of necessary facilities, although it acknowledged that the change in Stansted's ownership may result in a greater competitive constraint on GAL over time. The constraint from both airports has increased materially since 2013:
  - Luton has undertaken transformative investment in its terminal including new seating areas, free Wi-Fi, 30 new retail outlets, upgraded executive lounges, an expanded security area and a new pier with eight additional boarding gates. The combination of the new DART light rail connection and Luton Airport Express has transformed surface access with journey times from central London now just 32 minutes. This is reflected in the significant expansion of airlines including easyJet, Tui and Wizz (which now serves 63 destinations from Luton).
  - Stansted has also benefitted from significant investment since it was acquired by MAG. The terminal has been reconfigured, with the security area doubled in size, additional e-gates added and a new international departure lounge opened. Facilities for premium passengers have been introduced (supplemented by the new 900m^2 Emirates lounge) and many new retail units opened. The airport has successfully attracted a wide range of airlines including British Airways, easyJet, Emirates, Royal Jordanian and Tui.

2.2 It is therefore critical to GAL's business that it strives to win new airline customers (which have the choice of operating services from airports across the UK and Europe) as well as retaining existing customers. GAL therefore offers highly attractive terms to its customers and is committed to ensuring the highest service standards as well as a comprehensive investment programme.

2.3 Airport expansion will also act to further strengthen the competitive constraints on GAL. Luton has secured permission to increase capacity to 19m passengers per year and has a DCO application to expand to 32m passengers per year by making the best use of its existing runway. In October 2023, Stansted received planning permission to extend its terminal building by 16500m^2 including an expanded departure lounge, new check-in desks, more shops and restaurants, increased baggage capacity and larger security hall. In August 2024, London City Airport was granted permission to increase the current planning cap on passenger numbers from 6.5m to 9m per year by 2031. Moreover, as the CAA notes, approval of GAL's DCO would reduce any incentive for GAL to exploit market power. With the delivery of the Northern Runway Programme (**NRP**), GAL would need to attract airlines to fill the new capacity.

The Commitments framework delivers for the consumer

2.4 We welcome the CAA's recognition that in the period since the Commitments framework was introduced, there have been a range of positive developments at London Gatwick which have been encouraged and supported by the framework, including strong traffic growth, new routes, an increase in overall passenger satisfaction and investment well above the minimum commitment. The CAA also highlights the benefits of GAL's bilateral contracts with airlines and our proposal to provide significant additional capacity by bringing the Northern Runway into regular use.

2.5 The CAA rightly recognises that:

- The Commitments framework helps to ensure that its regulatory activities are carried out in a way that is proportionate and targeted only at cases in which action is needed.
- Commercially based decisions made in a constructive environment are more likely to promote economy and efficiency than decisions taken by the regulator.
- Despite the impact of the pandemic, GAL did not seek to change its proposals for new commitments, with the Commitments framework serving the interests of consumers and airline customers through times of growth and unprecedented industry challenge.

2.6 In sections 3 and 5 we provide further evidence of how the framework delivers for consumers.

GAL's proposal was developed in close consultation with airline customers

2.7 To provide certainty for our airline customers, in July 2022 we proposed to extend the current commitments by four years and undertook eight months of detailed bilateral and multilateral engagement with airlines and passenger groups. In response to the feedback received and the changing market conditions since the original consultation, we evolved the terms of the proposed extension materially, taking the significant step of lowering the proposed price ceiling materially, substantially increasing the capital programme and enhancing Core Service

Standards (**CSS**) metrics. We also maintained our commitment to fund the cost of growth to 2029.

2.8 In 2023, we utilised the revised proposal to negotiate (or renegotiate) and enter into long-term bilateral commercial agreements with our airline partners. The process of negotiating with the largest airlines was an intense and challenging period. The key steps to reach the revised proposal were as follows:

- In July 2022 GAL shared a detailed 40 page proposal with the Airport Consultative Committee (**ACC**), GATCOM's Passenger Advisory Group (**PAG**) and the full charges group in which it proposed a simple extension to the previous commitments to provide stability and investment certainty as the industry recovered from the pandemic. Discussions took place with the Airport and Airlines Group (**AAG**).
- In July and August 2022, GAL held bilateral discussions with airlines and four sessions with the ACC covering each aspect of the proposal.
- Formal consultation continued until October 2022 and detailed bilateral and multilateral discussions continued until February 2023, with GAL holding numerous meetings and answering extensive information requests.
- Following careful consideration of stakeholder responses, GAL evolved the terms of the proposed extension materially. It took the significant step of lowering the proposed price ceiling, switching from RPI to CPI with a maximum annual increase of CPI-1% for the first two years of the extension (but not to reduce below 0% nominal) and a trajectory of CPI+0% thereafter. We estimate that this lowers the price ceiling by c.5% by March 2029 relative to our original proposal.[1] CSS metrics were enhanced and a substantially increased capital programme was developed, including bearing all planning, development and delivery costs associated with growth through the extension period.
- This proposal was submitted to the CAA in March 2023, confirming GAL's commitment to deliver significant consumer benefits under a lower price ceiling.

2.9 The revised proposal met the expectations of our airline partners as, using the revised proposal as a base, we entered into negotiations to agree long-term contracts with every airline that had sought a bespoke contract – some of which last beyond the period of the proposed extension.

2.10 easyJet's CFO publicly commented that he was very pleased with the long-term deal, stating on the 28 November 2023 full year results investor call that '*we signed a new long-term deal with Gatwick that we are very pleased with and secures easyJet as an anchor partner for Gatwick. So we've got a deal agreed now that moves us forward for the next six years*'.[2] IAG's response to the CAA's June 2023 consultation also welcomed GAL's proposal, including the proposed price path, stating that '*it was reasonable to suggest the starting point for flat prices*

[1] Based on OBR long-term economic determinants forecasts for RPI and CPI dated 16 May 24.
[2] Flight Global, 28 November 2023.

in real terms would be CPI', also moving away from its previous position that the net yield path was an important feature of the Commitments framework.[3]

A timely conclusion is critical

2.11 We now look forward to the CAA publishing its 'way forward' document without delay. What was originally intended to be a light touch cross-check that GAL's proposal is in the interests of consumers has lasted for over 18 months. This has caused uncertainty for GAL's business and its airline customers at a time when we are seeking to work collaboratively to realise the consumer benefits of the new contracts and plan for future growth and investment.

2.12 The CAA has itself highlighted that commercially based decisions made in a constructive environment are more likely to promote economy and efficiency – but any further delay to the review which now already lags the signing of new contracts risks taking the focus away from our collaborative work with airline partners to benefit consumers. Moreover, as the CAA is aware, GAL is also required to circulate a paper to the charges group in November setting out proposed charges for 2025/6 ahead of the charges group meeting on 9 December and needs to have regulatory certainty ahead of this. We would welcome a discussion with the CAA on how a faster process could be developed that is more proportionate to the Commitments framework.

3. Comments on the CAA's assessment framework

3.1 We welcome the CAA adopting an assessment framework that includes a broad range of consumer outcomes and which reflects its statutory duties. We also welcome the CAA rating the vast majority of its criteria as 'green'. This is consistent with GAL operating under competitive pressure to meet the needs of its customers. However, in preparing its 'way forward' document the CAA should address the following points regarding the framework which should reflect:

- A focus on consumer outcomes.
- The fact that the Commitments framework drives efficiency.
- The added risk that GAL takes relative to other airports.
- Key consumer benefits including investment and innovation.
- The full value that GAL provides to airlines.

The CAA should focus on consumer outcomes

3.2 In line with good regulatory practice, the CAA should be focused on consumer outcomes. However, the CAA appears to be putting a greater focus on GAL's profitability and returns.

[3] IAG response to the CAA's June 2023 consultation on extending the Commitments framework to March 2029.

- Profitability and returns are not good indicators of whether the proposal and GAL's wider regulatory framework are in the interests of consumers. The CAA has itself stated that higher profitability can be consistent with good consumer outcomes.
- Moreover, examining potential profitability over a relatively short four year extension period is not a reliable indicator of GAL's longer-term finances – particularly where the period relates to the recovery from an unprecedented global pandemic.
- In addition, airlines have already scrutinised the value offered by the proposal and used it as the basis for negotiating long-term commercial deals which include incentives and rebates.

3.3 As the CAA notes in its consultation, if higher profits arise from high levels of efficiency, there may be less or no detriment to consumers.[4] Moreover, the CAA rightly stated in its consultation on the current commitments that higher than expected profits are not necessarily a concern within an economic regulation framework, particularly if they result from improved outcomes that benefit consumers, such as increased choice, better facilities and improved service quality.[5] As the CAA recognises, the framework has delivered benefits in each of these areas.

3.4 The CAA notes that GAL's profitability increased in 2023 as passenger numbers increased, inflation rose and investment fell during the pandemic (we estimate that capex deferral during the pandemic increased returns in 2023 by [✂]). This is consistent with the CAA's decision to extend the commitments to March 2025 which stated that were GAL's profitability to increase towards the end of the period this would most likely reflect the impact of good performance across a number of different areas, which may well lead to better outcomes for consumers.[6]

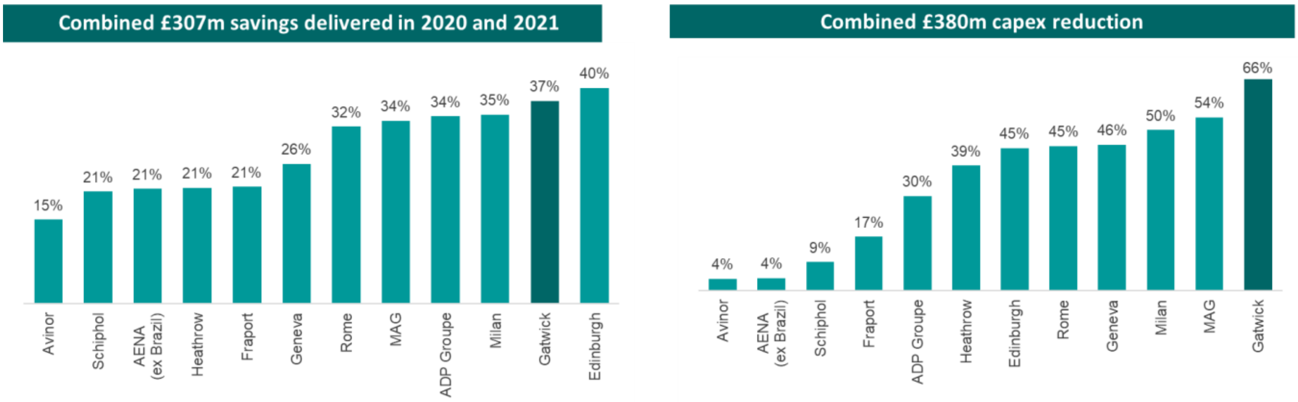
The Commitments framework drives efficiency which benefits consumers

3.5 We agree that it is important to consider the efficiency of costs incurred in the assessment of profitability and more broadly in considering the benefits of the Commitments framework for consumers.

3.6 As illustrated in Figure 1, the flexibility of the framework enabled GAL to take decisive actions during the pandemic to reduce operating costs by over £142m in 2020 and £165m in 2021 relative to 2019. A swift strategic reduction in capital expenditure resulted in the deferral or cancellation of over £380m from the investment originally planned in 2020 and 2021.

[4] CAP3012, Economic regulation of Gatwick Airport Limited: second consultation on extending the current commitments, August 2024, paragraph 3.16.
[5] CAP1973, Economic regulation of Gatwick Airport Limited: consultation on new commitments, October 2020, paragraphs 13 and 2.3.
[6] CAP2103, Economic regulation of Gatwick Airport Limited: notice of proposed licence modifications, February 2021, paragraph 1.4.

Figure 1: Capital efficiency achieved by GAL during COVID



3.7 GAL also has a strong track record of delivering investment efficiently which is incentivised by the Commitments framework. This is evidenced by the following recent case studies which set out the significant efficiencies that GAL has been able to achieve in three key capex projects. These innovations have benefited consumers through lower costs, enhanced sustainability and reduced disruption.

Figure 2: Case studies of efficiencies delivered by GAL under the Commitments framework

Case study 1: Next Generation Security

Since 2010, GAL has developed the most efficient passenger security screening in the industry, increasing throughput from 150 pax/lane/hr to 500 pax/lane/hr, with passengers benefiting from a fast, reliable and secure service.

New DfT rules required the introduction of new 'Next Generation' equipment which, whilst improving detection, offered less efficient throughput. To maintain service levels using Next Generation equipment we would therefore have needed additional machines, additional physical footprint to accommodate them and more staff to operate them, driving up opex. On this basis, the initial cost estimate in 2020 to upgrade passenger and staff screening equipment across 39 passenger and staff lanes was £240m (£6m/lane).

We undertook extensive equipment trials and worked closely with manufacturers and an innovative lane designer to refine the layout and drive up throughput to maintain our performance. GAL is able to achieve throughput of 1.1m pax/lane/year versus 0.4m pax/lane/year at Heathrow. This allowed us to remain within the existing central search footprints and consolidate screening of connecting passengers, significantly reducing the cost of the project. GAL is continuing to conduct innovation trials to explore further optimisation. In staff areas, GAL is [✂], further reducing costs.

The total capex for compliance at GAL is now forecast at £65m – a 70% (£175m) saving from the initial estimate. In contrast, public data indicates that the cost of introducing NGSC at Heathrow will be c.£1bn, with the CAA's Heathrow H7 regulatory proposal including a capex allowance of £825m for the 'regulated security programme' plus a significant opex allowance for increased security staff.

As we transition to the new equipment consumers will benefit from the reassurance of the latest security technology whilst continuing to experience fast, efficient service which achieves one of the toughest waiting time metrics in the world.

Case study 2: Main runway resurfacing

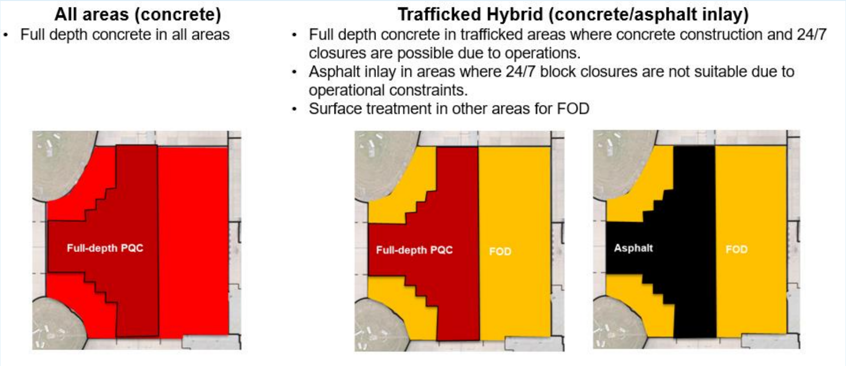
GAL developed an innovative plan to resurface its main runway for less than half the cost of the 2020 CIP estimate of £80m, also saving significant amounts of embodied carbon by using 70% less asphalt than traditional resurfacing methods.

In a break from the customary approach of simply resurfacing the entire runway, GAL invested in detailed condition testing and quality checking to determine that only the central most 'trafficked' parts of its main runway – where aircraft land and exit – required intervention as other sections were shown to still have seven to ten years of expected life. GAL also shifted from traditional resurfacing methodology of replacing the old runway surface in two layers laid over two nights by developing, with VINCI and Colas, an innovative technique that saw both layers laid in a single night. Instead of removing and replacing 143,000 tonnes of asphalt, the team replaced 40,000 – just 30% of the original assumption. This reduced the total cost of the project to £26m, just 30% of the estimated cost of using traditional approaches.

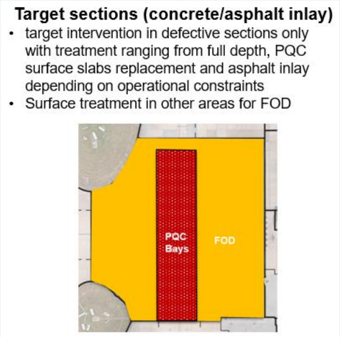
Case study 3: Taxiway rehabilitation

We are rehabilitating several key taxiways in three packages over the next four years. This work will re-life the blocks for 20-40 years.

The traditional approach to taxiway works was to completely remove and replace full depth concrete in all areas. In 2018 GAL adopted a hybrid approach, limiting full depth construction to trafficked sections only and concrete or asphalt inlays for other areas. This approach reduced the cost of Blocks 45 & 46 by 50% as well as shortening the programme and minimising disruption to Pier 2 stands.



To further optimise the solution, GAL has worked with Ramboll to develop a targeted approach which focuses on the defective areas, avoiding the need for a large-scale intervention without affecting quality and performance. This method has been successfully used by Ramboll at Copenhagen Airport.



This approach has reduced the scale of intervention required from the traditional approach across all three packages, reducing cost, carbon and disruption to the airport. The cost of the programme reduced by £12m between initiation and commencement of Package 1 delivery earlier this year. This is a saving of over 70% compared to the cost of full depth reconstruction of the Package 1 blocks, and a carbon emission saving of 75%, reducing from 102,000 tCO_2e to 25,000 tCO_2e.

3.8 As GAL continues to bear the cost risk of opex and capex whilst being subject to a price ceiling and locked into commercial deals, it will continue to have a strong incentive to operate efficiently during the extension period and beyond.

3.9 Efficiency is one of the drivers in the 2024 CIP which includes projects targeted at improving operational processes and reducing costs both for our airline and ground-handling communities as well as for the airport. We look at where efficiencies can be achieved through developing innovative processes which may necessitate capital investment to realise them. Some examples of proposed investment targeting efficiency include:

- Continued automation of check-in / bag drop which has enabled the release of staff to better support passengers most in need of help. Trials of the next generation of this technology, such as the Airware pilot currently being conducted by Ryanair, and the Materna installation currently being planned with WizzAir, will potentially lead to further efficiencies.
- The introduction of biometrics to the passenger process, which would support initiatives such as automation of boarding gates, which GAL trialled with easyJet pre-pandemic, with encouraging reductions in pressure on ground-handlers and therefore increased aircraft turn efficiency.
- Innovation trials (discussed at paragraphs 3.15 to 3.17 below) such as smart stand technology.
- Automation of baggage handling.
- Provision of next generation Stand Entry Guidance System to optimise taxi times, saving time, fuel and emissions.
- Automation of dynamic stand and baggage make-up allocation which are two resource intensive GAL planning activities and which potentially drive better ground-handler and infrastructure utilisation.
- The creation of an Airport Operations Control Centre (**APOC**) to bring together key personnel from across the airport eco-system into a single space, with common processes, systems and data to provide collaborative, comprehensive and cohesive management of the airport.

These projects will benefit consumers by offering them greater choice over their journey, a more personalised service, faster flow through the airport, increased on-time performance and greater sustainability.

The framework does not reflect the added risk that GAL takes

3.10 Under the Commitments framework, GAL takes a greater risk than both other regulated and unregulated airports and this is not reflected in the CAA's assessment framework. More specifically:

- In contrast to a RAB based regulatory model, increases in capex and opex (such as business rates) cannot be passed on to airlines. In addition, GAL does not benefit from any risk sharing mechanisms.

- In contrast to an unregulated airport, GAL operates under a price ceiling so cannot increase its charges to recover cost increases beyond this ceiling. It therefore takes the cost risk on capex and opex and has to absorb above inflation cost increases. This provides a strong incentive to operate efficiently and to grow traffic by offering excellent service and choice of routes.

The framework does not fully reflect GAL's investment and innovation

3.11 The assessment framework does not include investment within the factors considered by the CAA. As set out in our proposal, we are planning to invest £2.6bn between 2019 and 2029 which is substantially above the minimum commitment. Moreover, the Commitments framework enables annual consultation with stakeholders to ensure that the Capital Investment Programme (**CIP**) is tailored to their requirements.

3.12 This approach has transformed the airport in the first decade of the Commitments and, as set out in the 2024 CIP, will continue to ensure that GAL delivers market leading consumer outcomes.

3.13 The draft 2024 CIP has been shared with the CAA and stakeholders and a final non-confidential version will be published on GAL's website. Key elements of the 2024 CIP include:

- Investment of just under £2.2bn in facilities and services for our passengers and airline customers over the five years through to March 2029.
- Developing and delivering projects that were unavoidably delayed by the pandemic such as a new multi-storey car park and the extension of Pier 6.
- Development and delivery of a range of capacity and service projects such as the expansion of the North and South Terminal International Departure Lounges, significant investment to achieve ambitious sustainability goals and continued exploration of technology to transform the passenger experience.
- Investment to secure GAL's long-term future by developing and delivering plans to bring the Northern Runway into routine use.

3.14 We constantly strive to improve the experience of passengers and will continue to engage with our airline customers, both individually and multilaterally, as well as representatives of our passenger and community groups to understand the needs of all our stakeholders. Further details of the stakeholder engagement to shape the 2024 CIP is set out at **Appendix 1**. We are currently reviewing stakeholder consultation feedback and expect to publish the final 2024 CIP in October 2024.

3.15 In relation to innovation, the CAA's consultation document does not reflect the continuous innovation that GAL undertakes to further enhance the passenger experience.

3.16 GAL's innovation to date has transformed outcomes for consumers under the Commitments framework. We operate the most efficient single runway airport in the world, more than doubled hourly passenger security throughput to deliver one of the shortest waiting time metrics of any international airport, opened the world's largest self-service check-in area and state of the art early bag store and delivered the UK's first trial biometrics across the passenger journey.

3.17 We are currently working collaboratively with airlines to develop and trial innovations that will further transform the customer service experience. Key innovation trials are summarised at **Appendix 1**.

The framework should reflect the full value that GAL provides to airlines

3.18 We welcome the CAA's recognition that commercial deals are an important advantage of the Commitments framework and its acknowledgement that this is particularly important given GAL's diverse airline and passenger base where separate commercial agreements can be tailored to the requirements of individual airlines and their passengers.

3.19 The CAA notes that GAL has 'made progress' in commercial negotiations. In fact, we have now signed new bespoke contracts with the vast majority of airline customers which cover around 90% of traffic. The remainder of our airline customers have not sought a bespoke contract given their limited operations at the airport.

3.20 In relation to wider commercial behaviour the CAA has rightly recognised the value that the Commitments framework delivered during its initial seven years and, subsequently, during COVID when GAL did not ask for its regulatory settlement to be reopened and stood behind its proposal not to increase charges in real terms despite the very challenging circumstances of the pandemic. This stands in stark contrast to Heathrow which asked for a £2.6bn increase in its regulatory asset base, whilst GAL did not ask for any additional support. Indeed, GAL's shareholders made a £370m capital injection at a time of unprecedented losses.

3.21 Without any CAA intervention, GAL went much further and provided airlines with substantial value outside the core regulatory framework both multilaterally and through tailored agreements with individual airlines:

- We priced [✂] below the maximum gross yield despite the airport making very significant losses and did not ask to reopen the regulatory framework.
- We deferred over [✂] of deficit on ancillary service charges, making no recovery for 2021/22 and a three year phased recovery from 2022/23 to 2024/25.
- We simplified per passenger charging structures agreed with several airlines in order to provide price certainty and share volume risk. For example, we agreed and altered our bilateral contract with an airline to deliver a [✂] reduction in peak summer charges for S20 as well as the waiving of volume penalties.
- Parking charges were waived and / or heavily discounted for airlines with based operations or extended ground stays, supporting the commercial flying schedule.

3.22 These steps provide clear evidence that, in addition to delivering very substantial consumer benefits, the Commitments framework is able to deal with unprecedented issues without regulator intervention and it is important that the CAA reflects this in its assessment.

4. Comments on the CAA's analysis of charges and profitability

Airport charges will fall over the extension period

4.1 GAL sets its charges at a competitive level and we welcome the CAA's finding that there is no systematic evidence of real price rises over time. This is particularly striking given the consumer benefits that the Commitments have generated over the period since 2014.

4.2 The CAA recognises in its consultation document that these benefits include strong traffic growth, new routes, higher passenger satisfaction and investment well above the minimum requirement whilst charges were held below the 'fair price benchmark'.[7] In addition GAL has maintained excellent CSS performance, opened the world's largest self-service check-in area, delivered new baggage systems which include state of the art early bag store and twilight check-in and developed world-leading security process technology which has tripled throughput per hour during the period of the Commitments.

4.3 The CAA also recognises that the extension proposal should lead to a decrease in real charges per passenger by 2029.

4.4 Moreover, as the CAA is aware, bilateral contracts offer a range of further discounts and incentives [✂]. In addition, GAL has a track record of setting the tariff below the price ceiling. As set out above, GAL faces competition from a range of other airports and is continuing to see a slower recovery relative to other major UK airports. This further limits GAL's ability and incentive to increase charges.

The PA Consulting report evidences positive consumer developments

4.5 The CAA commissioned PA Consulting to undertake UK airports financial benchmarking, with the report relating primarily to the 2011-2019 period.

4.6 There are limitations to benchmarking the performance of airports given different characteristics including size, passenger, airline and route mix (notably the proportion of long-haul flights), infrastructure needs and ownership structure.

4.7 However, the analysis provides evidence of positive developments for consumers over the period:

- GAL's aviation revenue per passenger in 2019 prices was broadly flat between 2011 and 2019.
- The increase in GAL's EBITDA margin between 2011 and 2019 was underpinned by sustained passenger growth and costs growing at a slower rate than passenger numbers. As recognised by the CAA, significant consumer benefits were delivered over this period.
- GAL sits around third or fourth within the selected group in the ranking of net profit margin.

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[7] CAP3012, Economic regulation of GAL: Second consultation on extending the current commitments, August 2024, paragraph 2.21.

- GAL's ROCE was lower than the highest peers, including Manchester, Stansted, Birmingham, Edinburgh and Glasgow. GAL's ROFA was also lower than Edinburgh, Stansted, Glasgow and Birmingham.
- GAL achieved significant efficiencies and had the lowest CAGR of opex over the period (during which CSS scores and passenger satisfaction increased).
- Over £2bn was invested by GAL, with capex averaging £200m per year – double the minimum commitment.
- Between 2019 and 2020, GAL experienced the second largest reduction in real passenger revenues and its annual recovery did not begin until 2022.

4.8 As described at section 3 above, the Commitments framework delivered significant consumer benefits and airline value during the pandemic.

4.9 We do not agree with the CAA's broad statement that international comparisons of net aeronautical revenues per passenger are less relevant than the comparator set used in the PA Consulting report. GAL is a highly complex operation serving more destinations than any other UK airport and the CAA does not present any evidence that an airport operating as a hub, such as Heathrow, should by its very nature have higher aeronautical charges.

The CAA's indicative future scenarios overestimate GAL's potential returns

4.10 The CAA's initial high-level projections for the period from 2025/6 to 2028/9 significantly overestimate GAL's possible levels of profitability and return, even under the 'high opex' scenario.

4.11 As the CAA notes, the exercise required it to make high-level assumptions of key drivers of profitability. Table 1 below sets out why these assumptions lead to an overestimation of GAL's possible future profitability and returns.

Table 1: Comments on the CAA's indicative future scenarios

Category	Comments on CAA assumption
Passenger forecast	GAL's recovery is lagging behind other UK airports. In the year to date (Jan-July 2024), London airport traffic (excluding GAL) recovered fully to 2019 levels. Heathrow's traffic was 3% above 2019 levels whilst GAL's traffic was still 9% below. As at the end of August, across Summer 2024 GAL had already lost around [✂] passengers, including approximately [✂] passengers through Aer Lingus withdrawing from GAL at short notice and a further [✂]. This traffic loss alone is expected to reduce EBITDA by around [✂] for 2024. The weaker recovery in traffic is driven by several factors: • The short-haul network shift away from domestic and business focused nearby city routes (such as Amsterdam) has resulted in longer haul usage of these aircraft (e.g. to serve leisure destinations in Turkey and North Africa). This means that aircraft spend more time in the air relative to time on the ground, with longer sectors meaning that the aircraft can complete fewer turns per day. As such, demand for afternoon slots is weaker and passenger

	numbers at Gatwick are reduced. While longer sectors tend to drive yield for airlines, as GAL is compensated by aircraft movement and per passenger charges it simply means reduced revenue for GAL. This is compounded by airlines not increasing based aircraft per slot. • Traffic has become more seasonal and GAL continues to experience slower recovery during off-peak seasons. For example, in 2023, traffic recovered 94% of 2019 levels in the summer but only 84% in the winter. Airlines adopt a more cautious approach to capacity during these less profitable periods and we expect this to continue for some time. • Long-haul recovery has been slow, reaching only 70% of 2019 levels by Q2 2024. • Macroeconomic and geopolitical uncertainty is reducing consumer confidence. • Load factors [✂]. • GAL faces intense competition from other airports (as set out above) which is constraining its ability to recover traffic lost in the pandemic. • Very significant delays to aircraft deliveries are reducing the ability of airlines to up-gauge aircraft. [✂] **The CAA should update its analysis to reflect lower traffic figures in each of its scenarios. If the CAA adopted [✂] we estimate that EBITDA would be reduced [✂] over the extension period relative to the CAA's mid-case.**
Capex	In the 'No Northern Runway' scenario, the CAA has removed the full amount of capex associated with the NRP from the CIP. However, as set out at section 3.2 of the draft 2024 CIP and discussed at section 6 below, in consultation with airlines, other investment projects would need to be added back into the programme and we would expect to accelerate other initiatives. This would include required capex such as resurfacing the Northern Runway and rehabilitating taxiways as well as advancing other projects such as installing solar panels on land which the NRP requires and investment to enhance the passenger experience. We would seek airline and passenger representative views on the development of projects through the typical consultation process. The CAA should therefore take the significant cost of these projects into account in this scenario (further detail is set out in section 6). Even in the event that the CAA were to decide that there was insufficient progress in delivering growth, GAL may by that point already have made significant investment to deliver growth (for example, it has already spent £65m on the DCO alone). **The CAA's 'No NRP' scenario should include the significant costs of other investment projects that would be required in this scenario.**
Airport charges revenue	[✂] The CAA's yield per passenger assumes an average discount of 6.1% based on 2023/4 data. Discounts were at the low end of the scale in this period as most contracts were expiring (airlines typically request that discounts are weighted

	towards the start of the contract) or were not unlocking full discounts during the COVID recovery. As set out in the most recent economic monitoring report shared with the CAA, the 2024/5 discount is forecast to be [✂], driven by the new contracts. As the CAA is aware, airlines have been able to negotiate material discounts and incentives as part of their contracts [✂]. Moreover, the CAA should reflect that GAL has a track record of setting its tariff below the ceiling. The CAA should also reflect that the charge included in its calculations for the capital and funding costs associated with upgrading the hold baggage screening system to Explosive Detection System (**EDS**) Standard 3 is temporary. **The CAA should update analysis to reflect a discount of [✂] and pricing below tariff. We estimate that reflecting the correct average discount of [✂] alone would reduce EBITDA [✂] over the extension period relative to the CAA's mid-case.**
Costs / opex	The CAA's projections do not reflect the fact that costs are increasing well above CPI, despite GAL's focus on efficiency (see also paragraph 4.12 below). In contrast to RAB based regulation, under the Commitments framework, these costs cannot be passed onto airlines with GAL bearing full cost risk whilst its charges are subject to a price ceiling. a. To remain competitive in the market, GAL has made above inflation pay awards. This is expected to persist as wage inflation continues to remain above general inflation. b. Even after innovation to achieve efficiencies, GAL has needed to increase security headcount by [✂] FTEs due to the introduction of more resource intensive Next Generation Security Checkpoints, resulting in a material increase in costs of [✂] p.a. c. GAL has experienced significant inflation in its service contracts driven by wage deals, including high value contracts for cleaning and engineering. d. There has been significant construction price inflation (for example, [✂]). This cost pressure which is above CPI is expected to persist given factors including supply chain issues and labour shortages. Utility costs are also expected to increase above inflation. As the CAA is aware, there was a 25% rateable value uplift in 2023 with [✂] in rates from 2026. In contrast to Heathrow or any unregulated airport, GAL uniquely cannot pass this cost on to airline customers. Moreover, in contrast to the CAA's model, opex cannot be quickly reduced to reflect lower revenues without extreme actions (e.g. the closure of a terminal during COVID). **The CAA should update its analysis to reflect these above inflation opex increases which even its 'high opex' scenario underestimates.**

4.12 We also note that given the simplified assumptions in the model and the uncertainty regarding future traffic numbers, inflation and cost pressures there is a risk of spurious accuracy in the profitability scenarios.

4.13 The 'high opex' scenario which includes an extra £80m (2023/4 prices) per year from 2026/27 onwards is a closer reflection of GAL's expected opex than the mid-case scenario given developments in business rates, staff costs, service contract costs, construction and staffing for new technology not reflected in the mid-case. However, for the reasons set out in Table 1, this scenario still likely underestimates GAL's opex over the extension [✂]. This must be considered in the context of GAL committing to a real reduction in the price ceiling over the period even before airline discounts and incentives are considered. GAL is therefore entering a period where opex increases will be significantly higher than tariff increases, putting additional pressures on the business, including relative to other airports.

5. GAL will deliver the highest quality of service

5.1 GAL is committed to delivering the highest standards for consumers as it competes for airlines and passengers and focuses on its vision to be the airport for everyone whatever their journey. Service is a key differentiator for passengers and is therefore one of the most important ways in which GAL can compete for passengers in a highly competitive market. As such, there is Board level discussion and oversight of all these critical customer service priorities.

GAL is focused on delivering the highest service standards

5.2 We have a strong focus on delivering a CSS scheme that operates in the best interests of consumers.

- GAL has performed strongly in 2024, meeting all 322 metrics between January and July.
- We responded quickly and robustly to the small number of issues with CSS performance highlighted by the CAA, ensuring that our security continues to meet and regularly exceed one of the toughest metrics in the world (95% of passengers queuing for less than five minutes), working with ISS to enhance cleaning and, as set out below, leading collaborative work at top level to ensure that runway availability is maintained.
- 79% of consumers surveyed by Quadrangle as part of GAL's 2023 consumer research rated the airport as excellent or good.
- As the CAA recognises, we have proposed introducing a metric on air traffic control performance and a financial incentive in relation to the quality of special assistance services.
- As agreed as part of our current commitments, we undertook a review of our CSS metrics. We have made strong progress on the review of CSS with our airline customers. We have held 22 sessions to date, the notes of which are on the airline consultation website. GAL is aligned with airlines and PAG on the majority of metrics and is continuing to discuss the few outstanding metrics with a view to concluding the process as soon as possible. New metrics covering the availability of self-service bag drops and the airport's community app are agreed in principle and an additional metric covering inbound special assistance

service performance has been signed-off. A small number of metrics remain under active discussion.

Coordinating activities across the airport

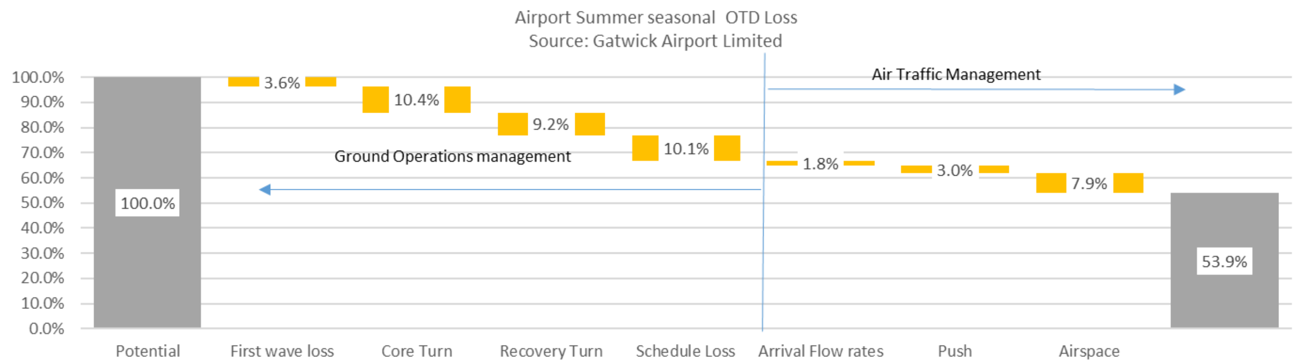
5.3 GAL plays a critical leadership role in coordinating activities across the airport and we welcome the CAA's recognition and 'green rating' of our efforts to better coordinate service.

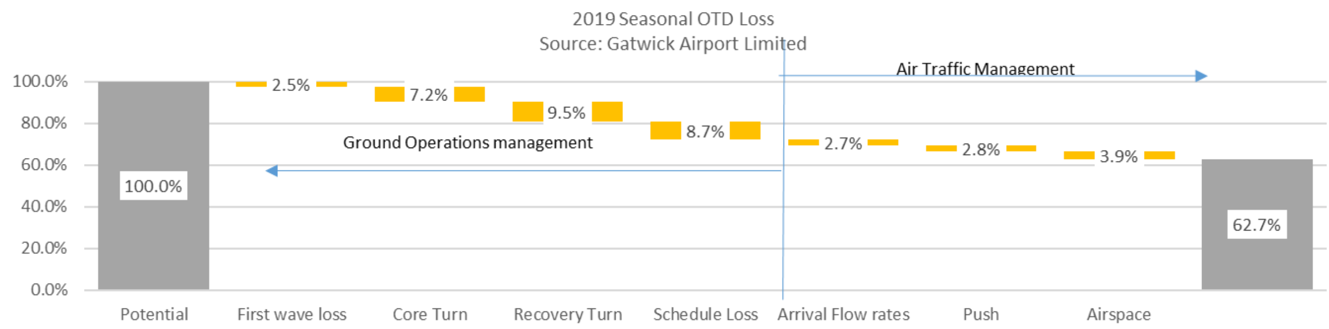
5.4 As the CAA notes, we have developed airline service standards and publish performance statistics. We have introduced targeted incentives to improve baggage delivery and aircraft turnaround service levels, monitored seasonal readiness of ground-handlers, promoted joint recruitment fairs, mobilised our own staff to assist airlines where there was a last minute need and contracted with a third party to support ramp operations with contingency resources.

5.5 The CAA correctly states that there are factors outside the control of the airport that have a significant influence on on-time performance (**OTP**). These include EUROCONTROL and NATS en-route regulation, airline turn performance and weather. As set out above, GAL operates in a competitive market and has a strong commercial incentive to achieve OTP as part of its strategy to win and retain airlines and passengers and also incurs costs itself as a result of delays.

5.6 As part of its commitment to cross-airport operational leadership, GAL undertakes detailed analysis of the root causes of delays. Figure 3 shows a waterfall of on-time departure (**OTD**) loss for S24 and S19 which has already been shared with airlines.

Figure 3: Waterfall of OTD loss for S24 v S19 (01 Apr – 31 Aug)





First wave loss	First wave flights arrived on schedule (including night stoppers) but called up more than 11 mins after Scheduled Off Block Time (SOBT)
Core turn	Flights arrived on schedule but called up more than 11 mins after SOBT
Recovery Turn	Late inbound flights that were recoverable through the turn (i.e. 21 mins off schedule) but call up was within 11 mins of SOBT
Schedule loss	Flights that have come in so late they are unrecoverable – not due to arrival flow restrictions at Gatwick
Arrival flow rates	Flights that have come in so late that they are unrecoverable – due to arrival flow restrictions at Gatwick
Push	Flights without a Calculated Take Off Time (CTOT) (take off time calculated by EUROCONTROL accounting for ATC flow constraints) which called up within 11 mins of SOBT but were not pushed within 5 mins
Airspace failure	Flights with a CTOT (i.e. subject to air traffic regulation) which called up within 11 mins of SOBT but not pushed within 5 mins

5.7 Figure 3 illustrates the factors leading to OTD loss. These fall into three broad categories:

- On-time arrival management – airlines schedule a flight plan with estimated block times (i.e. flight duration) for their sectors. 10.1 percentage points of OTD loss were the result of schedule loss where aircraft arrived so late that the delay was unrecoverable. Airlines also schedule a ground block time and set a minimum turn time for a late arriving flight. 9.2 percentage points of OTD loss were due to being unable to recover schedules through the turn.

- Ground operations – airlines (which have contractual relationships with ground-handlers) focus on achieving a target off-block time (**TOBT**). First wave loss where aircraft departing in the first wave called ready more than 11 minutes after scheduled off-block time (**SOBT**) despite having been parked overnight or arrived on time accounted 3.6 percentage points of OTD loss. Core turn loss where flights arrived on schedule but called up more than 11 minutes after SOBT accounted for 10.4 percentage point of OTD loss. Push delays, where flights called ready within 11 minutes but were not pushed within 5 minutes due to ATC Ground Movement Controller delays accounted for 3.0 percentage points of OTD loss.

- Network capacity – flights are subject to regulation by en-route air traffic control which is overseen by EUROCONTROL (e.g. due to airspace capacity or weather). 50% of first wave departures were subject to regulation. Overall, airspace regulation accounted for 7.9 percentage points of OTD loss.

Since 2019, it is evident that delays due to first wave, core turn and schedule loss have increased as have those due to push and particularly airspace failure. However, delays due to arrival flow rates and recovery turn have marginally decreased.

5.8 Given the number of factors contributing to OTP which are outside its direct control, GAL therefore plays a leadership role across airport services to drive OTP. This has included numerous actions to prepare for S24 including:

- Partnering with airlines including easyJet, British Airways, Wizz and Tui to ensure the availability of standby aircraft, stronger first wave performance, additional duty managers, efficiencies in the embarkation and disembarkation of passengers, changes to crew report times, regular performance reviews and training.

- Investing in a single operations centre to facilitate close working between GAL, airlines, ground-handlers and other operational partners.
- Extensive engagement with EUROCONTROL on resource plans for S24, daily interaction with the single operations centre on operational planning and direct engagement for exception management. GAL is supporting Airport Collaborative Decision Making (**ACDM**) deployment, with network trials commencing in Q4 2024 with go-live expected in Q1 2025.[8] GAL is also in constant dialogue with NATS and NERL (please see further below).
- Investing in the airfield, including opening the new rapid exit taxiway in February which is already delivering increased resilience. The 2024 CIP includes over £300m of planned investment in asset stewardship during the extension period.
- Driving continuous improvement by undertaking advanced data analysis which is shared with airline partners. This includes root cause analysis of delays, optimisation of the airfield and a weekly scorecard.
- Optimising staff security to ensure crews are not delayed.
- Working with ground-handlers to share best practice and putting baggage tipping resource in place to supplement ground-handler resources.
- Upgrading systems in the ID centre to reduce the time needed to process applications for staff passes, making it quicker for GAL and operational partners to bring in temporary people resource.

5.9 Our leadership to coordinate activity is already making a positive impact despite the external challenges to OTP. For example, Q2 2024 OTP improved by over 10 percentage points relative to the same period last year. GAL's S24 performance to date is one of the most improved of any airport in Europe and GAL has been shortlisted for EUROCONTROL's 'Most improved airport punctuality' award.

5.10 Our commitment to OTP is also underscored by our new bespoke contracts agreed with airlines, some of which include incentives for OTP which are already leading to investment in the customer experience through material changes in operating models. [✂]

5.11 In relation to the Gatwick tower, we welcome CAA's recognition that the tower service is a key priority for GAL and NSL both in the short-term and going forward, including extensive work and engagement with airlines and the CAA, new air traffic controllers joining in 2023 and 2024 and the implementation of significant changes at NSL to ensure reliable schedules for S24 and in the future. GAL's leadership in this area has led to significant improvements:

- In 2023 and 2024 to date, the Air and Ground Movement Controller seats have been staffed for 100% of the time. The Ground Movement Planner position was staffed for 99.7% of the time in 2024 to date against 97% of the time in 2023.

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[8] ACDM aims to improve the efficiency and resilience of airport operations by optimising the use of resources and improving the predictability of air traffic.

- Since January 2024, there has been a 75% reduction in Ground Movement Planner position closures compared to the same time period last year.
- Available ATCO FTE has improved from 22.8 in January 2024 to 28.6 as at September 2024. The number of rosterable ACTOs is planned to reach 34.6 FTE in 2025.

Departure lounge seating

5.12 In relation to the availability of departure lounge seating, GAL is committed to ensuring that all departing passengers have a high quality experience.

5.13 We are therefore continuing to enhance the passenger experience in our departure lounges.

- In addition to expanding seating in food and beverage areas and gaterooms, we have invested £4m in new seating in 2023 which has been rolled out in the North and South Terminal International Departure Lounges (**IDL**) and in many gaterooms.
- We have very nearly concluded the £11m transformation of the North Terminal IDL which delivers a multitude of improvements, including new flooring and wall finishes, upgraded lighting, contemporary seating with accessible power points, a sustainable planting scheme, an orientation zone, improved sightlines and new wayfinding (illustrated in Figure 4). Work will shortly commence on a similar refurbishment of the South Terminal IDL.

Figure 4: Transformed North Terminal IDL

- The 2024 CIP includes nearly £350m to expand both the North and South Terminal IDLs. This will transform the passenger experience, offering a wide range of additional food and beverage and retail options, more and varied seating, enhanced facilities for passengers requiring special assistance and those with hidden disabilities. Different 'mood zones' will offer passengers the opportunity to tailor their experience to suit their journey and make the airport easy, intuitive and efficient.

5.14 The CSS seating metric is measured through the monthly QSM survey which asks passengers at the gateroom '*how would you rate the ease of finding a seat in the main departure lounge?*'. This does not reflect the range of options open to departing passengers and evolving preferences:

- It relates only to seating in the main departure lounge and does not include food and beverage area seating, gateroom seating, special assistance lounges or premium lounges. To better reflect evolving passenger preferences, we have significantly expanded seating in food and beverage areas, pressure on which was an issue flagged by passengers in our 2023 research. We have also added additional seats where space permitted in gate areas as part of our seating refresh. These changes will not be reflected in the current survey question.
- Through summer 2024 we have trialled an additional question to capture passenger satisfaction with food and beverage seating (for example, whether there were queues at outlets, whether tables were clean and whether groups could find tables to sit together) and propose that this element of passenger experience is incorporated into an overall seating availability metric.
- The survey focuses on perception of seating availability and customers may indicate that seating availability was poor or average if the lounge was busy, even if seats were available.
- It does not reflect wider stakeholder priorities and we note that the availability of departure lounge seating is not an issue that has been raised recently by airlines or the AAG.

Action by GAL: **Consistent with our commitment to deliver a great service we are continuing to invest in our departure lounges and can confirm to the CAA that we are already in discussions with airlines in relation to the departure lounge seating target, including the inclusion of food and beverage seating and the possibility of raising the target to 4.0.**

Special assistance services

5.15 We have welcomed the opportunity to engage constructively with the CAA in relation to special assistance services over the past year.

5.16 The CAA has recognised that the issues it identified appear to have been mainly addressed and noted more recent improvements in performance.[9] Both GAL's internal audits and the CAA's own recent audits have confirmed that the special assistance service is performing strongly. In this section we summarise our work to ensure an excellent special assistance service and the assurances we have given to the CAA regarding the points noted in the consultation document.

5.17 We are committed to providing an excellent level of service and have strong track record of working collaboratively with the Independent Gatwick Accessibility Panel which is made up of experts in the travel needs of disabled passengers and people with reduced mobility. The panel meets quarterly and helps shape our accessibility strategy and improve services for passengers requiring assistance. It takes a broad view of accessibility provision and services at the airport, including setting new service standards and reviewing our performance against them.

5.18 To ensure we best reflect the needs of all special assistance passengers, we also work collaboratively with many disability groups and charities. For example:

[9] CAP3006, Airport accessibility performance report 2023/2024.

- Alzheimer's Society – we want to ensure passengers living with dementia have a positive experience during all stages of their journey and rolled out a GAL-specific Dementia Friends awareness package. Over 2,000 colleagues have become Dementia Friends.
- National Autistic Society – we are recognised as a leader in innovative solutions for passengers having been the first to introduce the hidden disability lanyard and for facilities such as our sensory room. We work with the charity and consult with them to make sure we are providing the right assistance.
- Guide Dogs for the Blind – we offer valuable airport experience for trainee puppies and host familiarisation visits several times a year.
- Crohn's & Colitis UK – we developed improved toilet signage to recognise hidden disabilities.
- Colostomy UK – over 1700 Airport Security Officers have been trained in stoma awareness to improve the passenger experience during the security process.
- West Sussex ADHD – we work with this local charity to support the needs of passengers or their family members travelling with ADHD.
- Action for Deafness – over 150 of our colleagues are trained to understand the challenges of travelling with a hearing impairment. Sessions are delivered several times a year to help our frontline team members to support passengers with a hearing impairment.

5.19 We acknowledge the CAA's findings in relation to data reporting and instances of excessive waiting times. We took rapid action to address these concerns and welcome the CAA's finding that the issues appear to have been mainly addressed.

5.20 We have welcomed regular engagement with the CAA's consumer enforcement team and have completed the following actions to address the specific concerns highlighted in the CAA's consultation document:

- We discuss data on special assistance at Board level and are committed to the highest level of data integrity. As set out in Table 2 below we have completed a full review of data and audit processes and adopted a new auditing software tool. Our internal audit found 100% compliance with ECAC standards.
- Airside service coordinators now monitor arriving passengers requiring special assistance to ensure that they do not become stranded. We have also installed new seating in gate areas to improve the passenger experience, even for short waits.
- In March 2024 we introduced 'Stronghold' location-based technology which shows controllers the real time location of all special assistance equipment enabling the optimisation of service provision. This is supported by the go-live of iBeacons tracking technology.
- We agreed a new contract with our special assistance service provider, Wilson James, which tightened existing service level agreements (**SLAs**) and introduced a suite of new SLAs to enhance the customer experience.

- Special assistance resourcing is flexed seasonally according to demand, with requirements calculated using forecast passenger numbers and a range of assumptions based on transaction times. We work closely with Wilson James to ensure sufficient resourcing to meet demand and regularly discuss resourcing with the Airport Operators Committee. Special assistance FTE was above or in line with forecast demand for 2023/24. Comparisons with other airports are complicated by the passenger mix, service utilisation, the charging/cost recovery and delivery models adopted and footprint of the terminals. We continue to flex resources to meet operational needs – for example, we recently ensured the recruitment of an additional 17 FTEs over and above our planned peak staffing levels to maintain the highest levels service standards.
- We are confident that our planned level of operational resources and investment will ensure high quality service delivery and care for passengers requiring assistance. We will continue to review and seek feedback on investment and staffing on a regular basis and look forward to continuing to work with the CAA on how to best serve the increasing number of flights with high volumes of special assistance passengers.
- We agree that our proposal to pay a rebate to airlines if ECAC arrival wait times targets are not met will provide a further incentive to continue to improve service.
- We confirm that we are committed to continuing to publish data on passenger satisfaction with special assistance.
- We continue to innovate in the provision of special assistance. We will trial a system to provide airline staff with greater visibility of the assistance service system and direct access to the assistance team, further enhancing the interface between the airport and airlines at this critical point in the passenger journey. We are also exploring innovations including autonomous pods and interactive equipment for reporting by special assistance passengers.
- In August 2024 we partnered with AccessAble to launch a series of bespoke detailed access guides, helping passengers navigate more easily, safely and confidently through the airport. The free guides cover 30 different areas of the airport and provide passengers with information such as flooring types, signage, light and noise levels, step-free access, walking distances, seating, and accessible toilets, alongside a host of other details. The guides have been checked on site by trained surveyors from AccessAble – a world leader in the provision of accessibility information.
- We will continue to work closely with the CAA's consumer enforcement team as part of our commitment to deliver a market leading special assistance service.

Action by GAL: Our vision is to be the market leader in special assistance services, offering a high quality experience tailored to passenger needs, embracing technology and innovation. Table 2 has been shared with the CAA's consumer team and sets out the plans and assurances we have put in place to address the points raised by the CAA.

Table 2: Actions in relation to the provision of special assistance services

Data Integrity	Auditing	Customer Experience	Communication and Engagement
Full review of processes and standard operating procedures iBeacons live in June Stronghold live in March – shows real time location of all special assistance buggies, Staxis, eMobbys and equipment	Introduced auditing software tool which automates audit documentation and pairs with flight/ECAC data Automated comparison of manual/iBeacon data CFO/COO/Head of Regulation audits of ECAC compliance and service quality Completed internal audit – found 100% ECAC compliance Introduced ongoing audit programme	New contract with Wilson James with tighter SLAs plus suite of new SLAs to promote the customer experience Introduced Airside Service Coordinators Compliment and complaint management to facilitate effective root cause analysis QSM/Salesforce feedback analysis and investigation Organised accessibility days for special assistance passengers considering travel started in May 24 Disability and Equality training rollout from April/May 24 Programme of work to assist with hidden disabilities Added special assistance passenger numbers to 'airport community app', enabling all staff to see numbers expected on any flight Developed AccessAble guides and trial of WeAssist Ongoing innovation work including potential for autonomous pods and advanced call points	Regular Wilson James service meetings at operational, senior leadership and Exec level GAL Board engagement and focus on service Engagement with CAA at C-Suite level and regular engagement with consumer enforcement team IGAP and stakeholder engagement with leading charities

6. Development of future growth and resilience

6.1 We welcome the CAA's recognition of the significant consumer benefits of growth, including additional choice and flexibility for consumers in terms of the number of flights, airlines and destinations served, enhanced operational resilience and a reduction in any incentives for GAL to exploit market power.

6.2 Moreover, growth will enhance the crucial economic role GAL plays in the South East, create approximately 14,000 new jobs and inject £1bn into the region's economy annually. The NRP plan aligns with current Government policy to make best use of existing infrastructure and is low impact, with most of the construction taking place within the current airport boundary.

GAL is committed to growth and resilience

6.3 We are committed to the delivery of capacity expansion and have already spent £65m on work to secure the Development Consent Order (DCO). The proposal was accepted by the Planning Inspectorate in August 2023 and a rigorous six month public examination concluded on 27 August 2024. A recommendation will be made in November ahead of a decision by the Secretary of State expected in February 2025.

6.4 Moreover, we are already investing in the delivery of growth and resilience. For example, earlier this year GAL completed the expansion the rail station in partnership with Network Rail, opened a new rapid exit taxiway to reduce runway occupancy time and increase resilience, progressed innovation trials to increase the flow of passengers and is preparing to open a new multi-storey car park with 3200 spaces.

The CAA's estimation of GAL's potential returns is incorrect and does not justify intervention

6.5 The CAA's proposal to potentially intervene in a no growth scenario is based on the level of GAL's potential returns over the extension period. However, as set out in section 4 above, the CAA's 'no growth' scenario is an even greater overestimate of potential returns than the 'growth' scenarios as it assumes that instead of spending £603.9m on the NRP, we would spend nothing. This is incorrect for two reasons:

- First, as set out in section 3.2 of the 2024 CIP and in Table 1 above, other required investment projects would be added back into the CIP. We also expect other projects would to be accelerated such as solar panel installations on land which the NRP requires on a temporary basis. More specifically:
    - Required investment will include resurfacing of the Northern Runway and taxiway rehabilitation. We also expect to need to replace the fire training rig, reprovision stands on taxiways Uniform and Sierra and extend taxiway Tango.
    - As passenger numbers grow we are also likely to need to expand check-in, immigration, baggage reclaim and security as well as the perimeter security access point. We need to upgrade sorters in the North Terminal baggage building (TBF) and anticipate the need to build decant space whilst we do so.
    - In the absence of NRP projects generating spoil, we also expect to accelerate solar panel installation.

- In determining capex, we would seek airline and passenger representative views on the development of projects in this scenario through the typical consultation process.
- The CAA should therefore take the significant cost of these projects into account this scenario.

- Second, as noted above, we are already incurring costs associated with the DCO and may have incurred significant additional costs by the time the CAA might determine that insufficient progress towards growth has been made.

6.6 We are already taking material commercial risk by pursuing growth, bearing the significant cost risk associated with a major construction project and plan to spend an estimated £2.2bn even though the first incremental revenue from additional flights would not be generated until 2029 at the earliest. This investor risk will be taken at a time of significant financial commitments to new major projects (such as Pier 6 extension and the IDL expansions) and when traffic may still not have recovered to 2019 levels. We will not be compensated in a 'downside scenario' but the CAA proposes to intervene in an 'upside scenario' which would itself be limited by the price ceiling, minimum investment commitment and the terms of commercial deals.

A commercially-led approach should be taken if growth cannot be delivered

6.7 The CAA's consultation is not precise on the action that it might take if growth is not delivered. For example, paragraph 3.66 states that it may be appropriate to include a mechanism for CAA to revisit GAL's Commitments during the price control period, paragraph 4.20 states that GAL should enter new discussions with airlines in a timely way and if appropriate bring forward new proposals for pricing and paragraph 4.26 states CAA would review level of pricing commitment. We set out below why the Commitments framework and associated commercial discussions are able to address this scenario without the need for regulator intervention.

The Commitments framework is designed to address this scenario

6.8 We do not consider it appropriate for the CAA to link progress on growth plans with rapid price renegotiation as this is exactly the type of scenario that the Commitments framework is designed to deal with.

6.9 As the CAA recognises in its consultation, we have a strong track record of working with airlines in response to market changes evolving proposals for regulatory periods and making amendments within regulatory periods. For example, we consult airlines on the tariff each year and have a track record of adjusting pricing to reflect market developments. As set out at section 3, during the unprecedented circumstances of COVID, without any CAA intervention we reduced tariff to [✂] below the maximum gross yield and provided airlines with substantial value outside the core regulatory framework both multilaterally and through tailored agreements with individual airlines.

6.10 Airline contracts are not dependent on NRP progress and will be renegotiated as they come up. As the CAA is aware, airlines and passenger representatives shape our regulatory proposals during extensive bilateral and multilateral engagement. We are required to submit a proposal for regulation from April 2029 to the CAA by March 2027 at the latest and will therefore be in discussions with airlines on commercial terms (including price, service and investment) from early 2026. As such, by the time the progress on growth is clear we expect to already be in negotiations for the next regulatory period.

6.11 The CAA can therefore be confident that the Commitments framework can address a scenario in which growth is not delivered in a way that protects the consumer interest, promotes collaborative engagement with airline partners and minimises regulatory burden and uncertainty.

GAL should engage in commercial discussions in the first instance

6.12 Given the flexibility and protections afforded by the Commitments framework, our overarching comment on the CAA's proposal is that if growth cannot be delivered, in the first instance GAL should engage in appropriate discussions with its airline customers.

6.13 As the CAA has indicated in the consultation document, commercial discussions are likely to achieve better outcomes for consumers than regulator intervention and GAL has a strong track record of commercial behaviour, including in its response to the pandemic.

6.14 In the event that growth cannot be delivered:

- GAL would open discussions with airlines with a particular focus on investment priorities. The flexibility to amend investment proposals is a key benefit of the Commitments framework. Paragraph 6.5 sets out some of projects that we expect would be accelerated or added back into the investment programme and airlines would be consulted in shaping these plans.
- GAL would consult airlines on its tariff proposal for the subsequent year (as it does every year). It would not be necessary to amend contracts.
- GAL would update the CAA on engagement with airlines and its proposals mindful that CAA has the option and legal right to intervene, including through giving guidance to GAL as part of its annual tariff consultation process.
- GAL would already be in commercial discussions with airlines in relation to price, service and investment for the next regulatory period.

6.15 GAL leading discussions with airlines with the CAA monitoring progress and considering if a review is necessary (more akin to the CAA's proposal at paragraph 3.66 of its consultation document) would therefore be the more appropriate and proportionate approach as opposed to the CAA committing ex-ante to review the level of pricing. It would also remove the uncertainty that an ex-ante commitment may create.

6.16 More generally, we would also urge the CAA to be extremely cautious in setting out its proposed approach in the 'way forward' document to avoid unintended consequences. Under s22 the Civil Aviation Act 2012, the CAA already has the power to modify a licence. As the CAA is aware, incumbent airlines at any airport are less likely to support capacity expansion and by stating that prices will be amended in the event that growth is not secured, it increases the incentive for incumbent airlines to work against a scheme that benefits consumers.

Action by GAL: In the even that GAL is unable or unwilling to deliver growth it would utilise the Commitments framework to enter into appropriate discussions with airlines in a timely way. We accept that the CAA has the option to intervene. However, an intervention would not be necessary as GAL would enter discussions with airlines on investment priorities and its tariff. By that time, GAL is also likely to be in commercial discussions with airlines regarding the next regulatory period.

7. Concluding remarks

7.1 We welcome CAA's initial conclusions which recognise both the very significant benefits to consumers of the Commitments framework and the proposed extension which will deliver a reduction in real charges, strengthened CSS metrics and transformational investment.

7.2 In reviewing consultation responses, the CAA should have regard to the competitive market in which GAL operates, our strong track record of commercial behaviour and the agreement of bespoke long-term contracts with each airline that requested one following intense commercial negotiations.

7.3 The CAA should also reflect the additional evidence provided on our delivery of efficiency, commitment to service, innovation, investment and sustainability. It should also have regard to the fact that in contrast to other regulated and unregulated airports in the UK, GAL carries traffic and cost risk whilst operating under a price ceiling. We also challenge the CAA's indicative scenarios which overestimate GAL's potential future returns.

7.4 We are committed to the delivery of growth and resilience. The Commitments framework and associated commercial discussions are able to deal with a 'no growth' scenario without CAA intervention, although it remains open to the CAA to intervene if it were to identify concerns.

7.5 We look forward to the CAA concluding its cross-check of the proposal and publishing its 'way forward' document without delay.

7.6 We remain available to answer any further questions the CAA may have following the consultation and look forward to the CAA concluding its review of our extension proposal.

GAL

27 September 2024

APPENDIX 1

FURTHER EVIDENCE IN SUPPORT OF THE CAA'S GREEN RATINGS

Shaping the 2024 CIP in partnership with stakeholders

The 2024 CIP was shaped through consultation with airline customers – both bilaterally and through the ACC and PAG. A cornerstone of the CIP was a continuous and extensive range of passenger feedback and research to understand their needs. Key milestones in the consultation to date include:

- Summer 2023 – independent qualitative and quantitative passenger research, conducted by Quadrangle, to ascertain travellers' post-pandemic wants and needs.
- January 2024 – two separate, half day workshops with the ACC and PAG focused on cross-checking the findings of the 2023 passenger research project against the CIP, prioritisation of the proposed 'look and feel' programme of work to address passenger and airline feedback on areas of the campus which are tired and outdated and an overview of airfield, sustainability and IT projects and programmes.
- February 2024 – a joint 'look ahead' session with the ACC and PAG giving an overview of the 2024 CIP.
- April-July 2024 – further development of the CIP to reflect changes to the delivery profiles of some key projects such as Pier 6 and Next Generation Security.
- July 2024 – draft CIP issued to the ACC and PAG.
- September 2024 – responses received from various stakeholders. We have studied the feedback received during the consultation and made a number of amendments to the final 2024 CIP which we expect to publish in October 2024.

In addition, GAL and the ACC engage every month at the AAG at which capital projects are a standing agenda item. A high level summary of any new major project initiated in the month is captured in a datasheet which is reviewed by the group and the level of engagement on the project required by airlines determined.

The AAG are further consulted on each project as they pass through Tollgate 2 (design) and Tollgate 4 (delivery) stages, or when material change occurs. The project datasheet is updated at each stage, tracking changes in scope, cost and schedule as the scheme matures. Datasheets are all stored on GAL's consultation website for easy access. In 2024 to date, the AAG has reviewed 23 new projects or programmes.

Finally, progress of the delivery of the overall CIP is reviewed each year with the ACC and PAG at GAL's annual Capital Investment Performance Review, most recently held on 7 August 2024 in relation to 2023-24 performance.

Environmental performance – achieving net zero by 2030

In relation to environmental performance, the CAA refers to GAL's plan to achieve net zero by 2030 with associated investment of over £200m. We also highlight the following developments:

- In 2023, we achieved the key milestone of Level 4+ 'Transition' certification under the Airport Carbon Accreditation scheme. The ACA 4+ certification recognises that the airport has fully accounted for and reported its direct and indirect CO_2 emissions from its activities and operations, has significantly reduced its direct emissions, offset its residual direct emissions and has started to reduce indirect emissions.

- In addition to the significant investment in sustainability set out in the 2024 CIP, GAL continues to partner to deliver innovative solutions. Having introduced SAF for the first time at the airport in 2021 through a collaboration between Q8Aviation, easyJet and Neste, in July 2024 we announced a partnership with Airbus, easyJet and Air Products (the world's largest hydrogen supplier) to expand hydrogen capability and infrastructure in the UK. The scope of the work covers liquid hydrogen supply and storage at the airport, refuelling and ground handling of hydrogen aircraft, as well as the exploration of other, shorter-term opportunities for using hydrogen at GAL.
- We created a sustainability forum to drive collaboration with over 70 on-airport partners. The inaugural meeting took place in March 2024. Three working groups were defined which will cover social value, environmental issues and climate action.

As the CAA notes, through modulations to aeronautical charges, we also incentivise the use of quieter aircraft and reductions in NOx and carbon emissions. As part of our commitment to incentivise airlines to enhance their environmental performance we will shortly consult stakeholders on the future structure of these charges, including a proposal to modify the existing carbon charge by introducing a SAF incentive to reduce the applicable carbon charge with effect from the 2025/26 charging year.

Innovation

We are currently working collaboratively with airlines to develop and trial innovations that will further transform the customer service experience. Key innovation trials are summarised in Table A1.

Table A1: Key current and forthcoming innovation trials at GAL

Area	Description	Partners
Passenger journey transformation	Making passenger journey faster and more convenient through technology provided by Airware. Empowers passengers to complete entire airport departure process utilising the power of their own smartphone and uses biometric technology to transform the check-in and boarding processes. Seek to increase throughput by 50%.	Ryanair
Passenger information platform	Personalised electronic passenger information and journey maps delivered through multiple channels including QR code, Wi-Fi landing page, airline and airport apps and kiosks.	Exploration stage
Operations	'Smart stands' which identify reasons for poor aircraft turn by monitoring turn events and off-stand holds. GAL will also assess the feasibility of centralised turn management and its potential efficiencies. Engaging with DHL, easyJet, GGS and BA.	easyJet and IAG
Operations	Remote control and autonomous jet bridges.	Exploration stage
Operations	Exploring viability of autonomous bag transfer from terminal to aircraft and back which could pave the way for improved reliability and efficiency in baggage handling.	IAG
Operations	Exploring use of autonomous staff shuttle to reduce time for airline crew to travel to Pier 6 from crewroom by c.15 minutes, positively influencing on time performance.	Oxa
Special assistance	Autonomous special assistance pods and wheelchairs which would deliver a much greater choice for service users regarding their airport experience. Engaging with airlines, Wilson James, IGAP, PAG. Alba and Blue Berry selected for trial delivery.	IAG
Special assistance	Enhancements to how special assistance passengers report at the airport including the ability to request assistance by scanning a boarding card and/or using video call facilities.	Exploration stage