

Economic regulation of Gatwick Airport Limited: notice of proposed licence modifications

CAP 2103



Published by the Civil Aviation Authority, 2021

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

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First published February 2021

Enquiries regarding the content of this publication should be addressed to: stuart.holder@caa.co.uk

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About this document

This document gives formal notice under section 22(2) of the Civil Aviation Act 2012 (“CAA12”) of our proposal to modify Gatwick Airport Limited’s (“GAL”) economic licence to accept GAL’s proposed new commitments for the four year period from 2021/22 to 2024/25.

This statutory consultation follows on from the consultation on our proposed approach in October 2020.

Comments invited

We welcome views on the proposed modifications to GAL’s licence, which are set out in Appendix B.

Please e-mail any comments to economicregulation@caa.co.uk by no later than 25 March 2021. We cannot commit to take into account representations received after this date.

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

If you would like to discuss any aspect of this document, please contact Stuart Holder (stuart.holder@caa.co.uk).

Executive summary and introduction

Purpose of this document

1. This document is a formal notice under section 22(2) of the Civil Aviation Act 2012 (“CAA12”) to modify the licence of Gatwick Airport Limited (“GAL”).
2. In October 2020 we consulted on a proposal to accept the commitments put forward by GAL for the four year period from 2021/22 to 2024/25 (“the October 2020 Consultation”).¹ Having carefully considered the responses received, our view remains that we should accept GAL’s proposals. We are therefore inviting stakeholders to comment on the proposed modifications to GAL’s licence set out in Appendix B. Due to the statutory process under CAA12, if we decide to modify GAL’s licence following this consultation, the modifications will not take effect until some time after 31 March 2021 when the current commitments expire. Nevertheless, they are intended to apply to GAL’s revenues for the full year from 1 April 2021.
3. This document also deals with other issues raised in the October 2020 Consultation, including unresolved issues related to service quality targets and some changes to our ongoing monitoring of GAL’s performance. It explains our proposed approach in cases where stakeholders have remaining concerns about GAL’s proposals, and sets out how we propose to ensure that GAL continues to act in a way consistent with the interests of consumers.²

Main issues raised in this document

Consultation on licence modifications to implement the commitments

4. Our economic regulation of GAL is currently based on a set of commitments given by GAL during the ‘Q6’ price control review and which expire on 31 March 2021. They cover, among other things, the maximum level of airport charges that GAL can levy, a system of rebates if GAL misses certain service quality targets, and a minimum level of investment that GAL will undertake.³

¹ Economic regulation of Gatwick Airport Limited: consultation on new commitments www.caa.co.uk/cap1973.

² In this document we use the term ‘consumers’ to refer to passengers and cargo owners. This is equivalent to ‘users’ of air transport services as defined in CAA12.

³ See Appendix B of the [October 2020 Consultation](#) for a summary of the current commitments. The commitments are also conditions of GAL’s licence.

5. Following our June 2018 consultation on the timetable and process for the current review,⁴ GAL and airlines entered discussions on several different aspects of the commitments, including possible changes to service quality metrics and targets, and changes to the investment consultation process.
6. GAL then finalised its proposals for a new set of commitments for our review in January 2020,⁵ before the potential impact of Covid-19 was clear. These proposals included a cap of Retail Prices Index (RPI) + 0% for published charges (but no separate cap on charges after allowing for discounts – we refer to these as “net charges”), a number of detailed changes to service quality targets, and a minimum investment commitment of £120 million per year on average.
7. In the October 2020 Consultation we said that, viewed as a whole and bearing in mind the significant impact of Covid-19 on the future outlook, we considered the package of changes set out by GAL was likely to be in consumers’ interests.
8. While GAL supported our proposed approach, consultation responses from airlines raised some concerns, including:
 - a request for details of the analysis that led us to conclude that GAL’s proposals were likely to be in consumers’ interests, and one comment that the proposed price appeared too high;
 - concerns that, as there will no longer be a separate cap on net charges, GAL will be able to lower discounts and thereby raise its charges; and
 - statements that the new investment commitment does not provide certainty that required investment in airfield assets and passenger facilities will be delivered.
9. In response to the first of these points, we have provided airlines with an overview of our analysis.⁶ This notes that there are plausible scenarios under which GAL’s profits are likely to remain at a relatively low level throughout the next period and that, if anything, the outlook for the start of the period has deteriorated since we carried out the analysis.
10. In reaching a view on GAL’s proposed price cap, we have also taken account of the potential long-term benefits to consumers of a regulatory framework that facilitates commercial discussions rather than one that relies on regulator-led decision making. We welcome the fact that GAL has not sought to amend its

⁴ Future economic regulation of Gatwick Airport Limited: initial consultation www.caa.co.uk/cap1684.

⁵ GAL’s finalised, extended Commitments, 27 January 2020
[https://www.caa.co.uk/uploadedFiles/CAA/Content/Accordion/Standard_Content/Commercial/Airports/GAL_Extended_Commitments_\(Jan2020\).pdf](https://www.caa.co.uk/uploadedFiles/CAA/Content/Accordion/Standard_Content/Commercial/Airports/GAL_Extended_Commitments_(Jan2020).pdf).

⁶ [CAA letter of 23 December 2020 to the Airport Consultative Committee](#).

proposals, despite the very significant deterioration in the outlook since it finalised its proposed new commitments.

11. Rather than imposing a cap on GAL's net charges, our preferred approach is to monitor GAL's average discounts and to be ready to take action if necessary (including mid-period) to protect consumers' interests. This view takes account of, among other things, GAL's pricing behaviour during the current period and its likely weakened market position at the start of the next period. However, we will also carry out a focused assessment of GAL's net charges once traffic levels have recovered.
12. Finally, on investment, we already monitor GAL's airfield investment and will continue to do so during the next period. We also plan to carry out a focused assessment of how the new investment consultation process is working and whether airfield investment is being reinstated sufficiently quickly once traffic levels have recovered and the new consultation process has been tested in a more normal environment.
13. We therefore propose to accept GAL's proposed new commitments as the basis of our economic regulation of GAL from 2021/22 to 2024/25. Appendix B sets out the proposed modifications to GAL's licence (including the commitments as set out in GAL's Conditions of Use) that are required to implement this.

Addressing unresolved issues

14. In the October 2020 Consultation we noted that there were some aspects of GAL's service quality targets and rebates where GAL expected discussions with airlines to continue. These included security queues, for which GAL has committed to invest in new measurement technology, and airfield assets, where GAL has indicated its willingness to examine an alternative approach suggested by airlines.
15. In general, airlines supported the continuation of these discussions, though some were concerned about possible delays in the required investment. Some airlines suggested that we should impose specific deadlines on GAL, and that existing metrics should be retained if agreement is not reached in time.
16. We understand that GAL and airlines have continued discussions since October. They have reached a common understanding on the capabilities the new security queue measurement system should have, and they have also agreed new targets for airfield asset availability. We expect GAL to take the actions necessary to ensure that the new measurement system is in place for the peak summer months of 2021 if traffic volumes are likely to be significant by that stage, and to ensure that queue times can be properly measured if the airport becomes busy before the new system is operational.

17. We will monitor progress on these issues and, if we consider that insufficient progress is being made, we will review the situation and consider whether further intervention is necessary to protect consumers' interests. Once traffic has recovered we intend to carry out a focused assessment to check that these issues have been resolved and, more generally, that the new service quality metrics included in the commitments are working well.

Monitoring GAL's performance

18. We said in the October 2020 Consultation that we proposed to add two specific items to our ongoing monitoring of GAL's performance. These were:
- GAL's performance in relation to seating facilities in its departure lounges, which was one of the areas for improvement highlighted in GAL's 2019 passenger research; and
 - the average level of discounts that GAL offers to airlines, as there will no longer be a separate price cap on GAL's net charges.
19. Among other responses, the ACC and GATCOM expressed disappointment that GAL had not been willing to make further changes to its Quality of Service Monitor (QSM) metrics.⁷ Airlines expressed concern that simply monitoring GAL's average discounts will not provide sufficient protection, and the ACC stated that we should take a more active approach to governance and monitoring, including a formal mid-term review.
20. Regarding QSM scores and departure lounge seating in particular, we are mindful of the current uncertainty about how fast traffic will recover and potential changes in passengers' behaviour and views. Rather than proposing any specific changes at this point, therefore, we consider that monitoring survey scores is a proportionate approach. Similarly, for the reasons described above, we believe that monitoring the average level of discounts is preferable to introducing an additional layer of regulation.
21. Especially in view of the relatively short duration of the next period, we are not persuaded that a formal mid-term review would be appropriate. Nevertheless, as described above, during the next period we plan to carry out focused assessments of specific issues, which we expect to include:
- GAL's average discounts;

⁷ While the target scores for QSM metrics have not changed, in future they will be assessed as quarterly moving averages rather than annual moving averages as at present. This represents some tightening of the targets, for example because it will reduce the extent to which poor performance during the busiest times of the year can be offset by good performance during less busy periods.

- whether the outstanding service quality issues have been resolved and how the new metrics are working; and
- how the new investment consultation process is working and whether airfield investment is being reinstated sufficiently quickly.

Our duties

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

Structure of this document

23. The structure of this document is as follows:
- Chapter 1 confirms our proposal to accept GAL's proposed new commitments, and therefore gives formal notice under section 22(2) of CAA12 of the proposed licence modifications set out in Appendix B;
 - Chapter 2 addresses the current situation on the service quality issues where discussions are continuing between GAL and airlines; and
 - Chapter 3 discusses our monitoring of GAL's performance over the next period.

Next steps

24. We invite comments from stakeholders on the proposed modifications to GAL's licence, which are set out in Appendix B, by 25 March 2021. We cannot commit to take into account representations received after this date.
25. Having considered stakeholder views, we will decide what modifications, if any, to make to GAL's licence. If we decide to modify GAL's licence, we will publish a notice of the modification in accordance with section 22(6) of CAA12. If we decide not to modify the licence, we will publish a notice giving our reasons for not doing so in accordance with section 22(5) of CAA12.
26. Due to the impact of the pandemic on the timing of this process, if we decide to modify GAL's licence, the modifications will not take effect until some time after 31 March 2021 when the current commitments expire. Nevertheless, our intention is that the modifications will apply to GAL's revenues for the full year from 1 April 2021.

Chapter 1

Consultation on proposed licence modifications

Introduction

- 1.1 As discussed further below, this document gives formal notice under section 22(2) of CAA12 of our proposal to modify GAL's licence in order to accept GAL's proposed new commitments for the period from 2021/22 to 2024/25.⁸ The specific licence modifications are set out in Appendix B.
- 1.2 In summary, the new commitments include:
- a price commitment with a cap of Retail Prices Index (RPI) + 0% for published charges, but no separate cap on net charges (i.e. charges paid after allowing for discounts);
 - a service standards commitment which features a number of detailed changes to service quality targets, including a switch from annual to quarterly moving averages for passenger survey scores, detailed changes to asset availability targets and a new runway availability measure; and
 - an investment commitment which increases GAL's minimum average spend to £120 million per year.⁹
- 1.3 Our proposal to accept GAL's proposed new commitments is consistent with the approach set out in the October 2020 Consultation. We said then that, taken as a whole and bearing in mind the impact of Covid-19 on the future outlook, our view was that the package of changes would strike a reasonable balance between the interests of GAL and airlines, and was likely to be in consumers' interests.
- 1.4 We said that while we could not rule out scenarios under which GAL's proposed price cap might allow it to earn relatively high profits towards the end of the next period, we noted that GAL's profitability at the start of the period was likely to be substantially lower than in recent years, and that there were other scenarios under which GAL's profits might remain at relatively low levels throughout the period. We also noted that if GAL were to earn relatively high profits, 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. In addition, as the

⁸ GAL's proposals are described in full in the document "GAL's finalised, extended Commitments", dated 27 January 2020, which has been distributed to airlines and is available on CAA's website at [https://www.caa.co.uk/uploadedFiles/CAA/Content/Accordion/Standard_Content/Commercial/Airports/GAL_Extended_Commitments_\(Jan2020\).pdf](https://www.caa.co.uk/uploadedFiles/CAA/Content/Accordion/Standard_Content/Commercial/Airports/GAL_Extended_Commitments_(Jan2020).pdf).

⁹ This is assessed over the six years from 2019/20 to 2024/25.

next regulatory period lasts for only four years, there will be a relatively early opportunity to review the level of charges.

- 1.5 We considered that the proposed changes to GAL's service quality metrics and targets, which reflected the outcome of detailed discussions between GAL and airlines, were likely to lead to a number of improvements compared with the current targets. Though we recognised that GAL did not agree to every change proposed by airlines or GATCOM's Passenger Advisory Group (PAG), we considered that GAL's proposed changes were part of an overall package that was likely to be in consumers' interests.
- 1.6 Similarly, though GAL has proposed only a minor change to its investment commitment, we said that we were not aware of any evidence to suggest that a more substantial change was required to protect consumers' interests. We also noted that we already monitor GAL's planning and delivery of airfield investment projects and will continue to do so during the next regulatory period.

Stakeholders' views

General comments

- 1.7 GAL welcomed the proposed approach set out in the October 2020 Consultation. It highlighted that it has not sought to change the commitments despite the catastrophic impact of Covid-19, and that it considers the stability provided by the commitments will assist both GAL's and its customers' recovery efforts.
- 1.8 While making some more detailed points and also supporting the ACC's response, easyJet said that, overall, it broadly supports GAL's proposed new commitments. Similarly, GATCOM made some specific points but said that, overall, it supports our proposed approach and also welcomes GAL's commitment to stand by its original proposals.
- 1.9 The ACC and some individual airlines referred to the statement, in our June 2018 consultation document, that "We encourage GAL to come forward with a compelling, evidence-based proposition that both responds to airlines' input about the outcomes and outputs that it should deliver and demonstrably promotes consumers' interests". They do not consider that GAL had provided such evidence.

The price commitment

- 1.10 There were two consistent themes in the comments from the ACC and from individual airlines about GAL's proposed price commitment. The first was a request that we share the analysis that allowed us to conclude that GAL's proposed new commitments are likely to be in consumers' interests.

- 1.11 The second was a concern that the lack of a cap on net charges (after discounts) would allow GAL to reduce the level of discounts and thereby increase its charges in real terms. Several respondents argued that our proposed monitoring of GAL's average discounts would not provide adequate protection, with the ACC saying that it provides no protection for consumers and only forms part of a discussion at the next consultation period. Some also called for us to establish a new 'fair price' path for the next period.
- 1.12 Other comments on GAL's proposed price commitment included the following:
- IAG referred to recent significant decreases in the cost of capital, and said that its modelling suggests that, with a very conservative traffic forecast and adjustment to the cost of capital, GAL's proposed yield is still almost 30% above a yield that would be permitted under price control regulation determined with 'building blocks';
 - easyJet stated that GAL will still need to demonstrate efficiency in the application of the cap across its charges structure;
 - IAG also argued that the method of indexation used in GAL's price control should transition from RPI to the Consumer Prices Index (CPI) or CPI-H, as the robustness of the RPI has been called into question; and
 - GATCOM stated that we need to take account of the environmental consequences of holding down airport charges given the concerns of local communities about the impact of traffic growth on noise and environmental impacts. Communities Against Gatwick Noise and Emissions (CAGNE) made a similar point, and argued that 'consumers' are also people who do not fly.¹⁰

The service standards commitment

- 1.13 Many of the comments on service quality made by the ACC and individual airlines related to the two main areas where discussions with GAL are continuing. These are addressed in Chapter 2. The ACC and some airlines proposed that if agreement is not reached, then the relevant metrics in the current commitments should be retained.
- 1.14 Several respondents welcomed the changes that had been agreed with GAL and included in its proposed commitments. However easyJet, while noting that discussions had resulted in an overall improvement in the targets and measures,

¹⁰ CAGNE also made points about the licence condition that would allow GAL to recover up to £10 million of costs related to the second runway and about GAL's new runway availability measure. In both cases CAGNE appears to have misunderstood the situation. The first is a condition that would have allowed GAL to recover £10 million from airlines (rather than a 'tax break' as described by CAGNE), though this condition was never used as the Government decided instead to support expansion at Heathrow. And the second refers to a new measure of availability for the existing runway (rather than a measure related to a new runway).

said that targets need to go further to deliver improved customer experience and operational performance.

1.15 More specific comments about different aspects of GAL's proposed service standards included the following:

- the ACC drew attention to the difference between the 2019 YouGov research findings and the more favourable results from GAL's QSM scores, and expressed disappointment that GAL had not been willing to make substantive changes to QSM metrics. Both the ACC and easyJet argued there should be a stronger link between likely QSM impacts and capital spend;
- Norwegian welcomed the move from annual to quarterly moving average targets for QSM scores, and removing the core hours concept from availability targets;
- IAG welcomed the new runway availability metric and GAL's agreement to increase the rebates payable. However, the ACC expressed disappointment that the rebates proposed were not representative of the impact on users. Norwegian also stated that compensation should be based on the impact on airlines;
- IAG suggested a higher target for outbound baggage, and stated that the current airline service standards (which can reduce the rebates payable for GAL service failures) can lead to unintended outcomes;
- easyJet stated that the new (reputational rather than financial) targets for punctuality are not ambitious, particularly given the low traffic levels forecast for the next few years, and that the use of quarterly moving averages could mask poor performance in one month; and
- GATCOM noted that service quality rebates are currently suspended, and stated that performance monitoring needs to be re-established at the earliest possible time as traffic starts to recover.

The investment commitment

1.16 Airlines' main comments on GAL's proposed investment commitment were that it provided no certainty that specific types of investment, for example in airfield assets and passenger facilities, would be delivered. The ACC stressed that the current drop in passenger volumes should not be allowed to delay such investments any longer than necessary, and also argued that the new commitment should be based on a four year period (rather than the six year period 2019/20 to 2024/25 as proposed by GAL).

1.17 Several respondents also noted that, while GAL had agreed to changes in the capital consultation process, this had not yet been tested in practice.

Way forward

- 1.18 Having considered stakeholders' responses, our view remains that we should accept GAL's proposed commitments as the basis for modifying GAL's licence. We consider that, taken as a whole, and especially in the light of the impact of Covid-19 and the changed outlook for the next regulatory period, GAL's proposals form part of a package that is likely to be in the interests of consumers. We are also mindful of the proposals set out Chapter 2 (on our approach to dealing with certain unresolved issues) and Chapter 3 (for strengthening our ongoing monitoring). Taken together this approach should ensure that consumers' interests are properly protected and they can benefit from the innovative approaches that greater competition and lighter touch regulation can encourage.
- 1.19 Appendix B sets out the proposed modifications to GAL's licence (including the commitments as set out in GAL's Conditions of Use) that are required to implement our proposed decision. They largely reflect the proposals that GAL put to us in January 2020, though the service standards have been updated to reflect the outcome of subsequent discussions between GAL and airlines.

The price commitment

- 1.20 We recognise airlines' concerns about the lack of evidence provided by GAL to justify its proposals (especially the proposed price commitment). We will consider whether to carry out a focused assessment of issues that have arisen during the current process in order to support the next review.
- 1.21 We have already responded to airlines' requests for details of our own analysis.¹¹ As we noted in the October 2020 Consultation, while we cannot rule out GAL being able to earn relatively high profits towards the end of the period, there a number of other scenarios under which GAL's profits will remain at a relatively low level for the whole of the next period.
- 1.22 If anything, the outlook for the start of the next period has deteriorated since October 2020, following the emergence of a new variant of Covid-19 with higher transmission rates, very significant new travel restrictions (in the UK and other countries) and a return to national lockdown conditions. As well as lowering the likely levels of traffic for the first few months of the next period and perhaps longer, these developments risk deepening the ongoing economic impact of the pandemic and worsening the prospects for recovery at Gatwick more broadly.
- 1.23 Our view remains, therefore, that GAL's proposed cap seems likely to strike a reasonable balance between the interests of GAL and those of its passengers and airlines. We welcome the fact that GAL has not sought to amend its

¹¹ [CAA letter of 23 December 2020 to the Airport Consultative Committee.](#)

proposals, despite the very significant deterioration in the medium term outlook since it finalised its proposed new commitments.

- 1.24 In reaching this view, we have also taken account of the potential long-term benefits to consumers of a regulatory framework that facilitates commercial discussions rather than one that relies on regulator-led decision making. While noting IAG's argument about the decrease in the cost of capital, we note that at present the cost of capital for airports is relatively uncertain. We would also observe that changes in the cost of capital that we might set for an airport subject to a price cap based on a regulatory asset base do not necessarily translate to a fully equivalent change in the price that we might consider appropriate for an airport subject to lighter touch regulation.
- 1.25 Regarding the removal of the cap on GAL's net charges, we are conscious that on average over the current period GAL has set its charges below both the caps in its commitments and our own fair price benchmark. In addition, it has set its charges for 2021/22 at a level that it expects to result in an average yield that is five per cent below the price cap (RPI+0%) in its proposed new commitments.
- 1.26 Furthermore, as a result of reduced demand from some of the airlines that have used Gatwick in recent years, plus the likelihood that there may be capacity available at other London airports, we would expect GAL's market power in the early years of the next period to be weaker than it was before the spread of Covid-19. This is likely to reduce the risk that GAL might seek to secure a significant real increase in charges by reducing the level of discounts available to airlines.
- 1.27 Rather than introducing a potentially cumbersome additional layer of regulation, therefore, our preference is to monitor GAL's average discounts and to be ready to take action (including mid-period) if necessary to protect consumers' interests. We will also carry out a focused assessment of GAL's net charges once traffic levels have recovered, to see whether there is any evidence that the absence of a cap on net charges is acting against consumers' interests.
- 1.28 Regarding other points made about GAL's proposed price cap:
- we see a relatively strong case for GAL's price cap switching from RPI to CPI indexation in the future, but we do not believe the arguments are sufficiently strong to justify changing the proposal that GAL has already put forward to airlines as part of this review; and

- regarding noise and other environmental impacts, we note that the main function of the licence is to prevent GAL from abusing its market power, for example by increasing the overall level of charges or by reducing service quality below acceptable levels, and these are the matters that we have focused on in the current review. Within the overall price cap, GAL is still able to determine the structure of its charges and this allows it, for example, to increase charges for the noisiest types of aircraft while reducing charges for quieter aircraft. Any wider interventions are likely to be best driven by Government, which has overall responsibility for environmental policy.

The service standards and investment commitments

- 1.29 For both the service standards and investment commitments, our view is influenced by two general considerations. The first is that we are considering GAL's proposed new commitments as an overall package that we believe is in consumers' interests, rather than a menu from which we should pick and choose.
- 1.30 We are also conscious of the significant uncertainty facing the entire aviation industry over the next few years. This relates to both the speed at which traffic volumes will recover, and whether there will be significant changes in passengers' behaviour or priorities as a result of Covid-19 or related factors. This is a further argument against imposing additional service quality or investment requirements on GAL at this time.
- 1.31 Nevertheless, we understand airlines' concerns, especially about the QSM target scores for departure lounge seating availability. As discussed in Chapter 3, we will monitor GAL's performance and, if scores fall within the new amber range or we become aware of any other information that suggests that consumers are receiving poor service, it is likely that we will investigate the reasons for this and the potential impact on consumers.
- 1.32 We will also carry out a focused assessment of investment issues, specifically to consider how the new consultation process is working and whether airfield investment is being reinstated sufficiently quickly. This will take place after there has been an opportunity to test the new consultation process in a more normal environment.
- 1.33 Regarding other points made about GAL's proposed service commitment:
- only one minor modification of the security queue targets has been included in Appendix B, therefore the existing targets will remain in place until GAL and airlines have agreed a new set of targets following the installation of the new measurement system. The airfield asset availability targets have been updated as GAL and airlines have now reached agreement on a new set of targets;

- we welcome GAL's decision to increase the rebates associated with the new runway availability metric compared with those it proposed in October 2019. Though these rebates may still be lower than the potential financial impact on airlines, we note that the service quality rebates are intended primarily as an incentive mechanism for GAL rather than a means of providing compensation to those affected by poor performance; and
- we would encourage airlines (and other stakeholders, including PAG) to discuss with GAL in the first instance any further changes to service quality targets that they believe are necessary to protect consumers' interests.¹²

The reasons for and effect of the proposed modifications

- 1.34 GAL's current commitments expire on 31 March 2021. Absent any modification to GAL's licence:
- some parts of the commitments would cease to apply after 31 March 2021. These include the limit on the maximum airport charges that GAL can levy, the requirement to undertake a certain minimum level of investment and to consult airlines and PAG on its annual capital investment programme, and the requirement to ensure certain financial information is available to airlines;
 - other parts of the commitments would continue to apply in their current form. These include the service quality targets and rebates, the requirement to maintain and develop the airport infrastructure to allow GAL to meet its service quality targets, and requirements in relation to continuity of service, operational and financial resilience.
- 1.35 It is necessary to modify GAL's licence, therefore, to ensure that there remains a limit on the maximum level of airport charges that it can levy and a specific obligation to carry out a minimum level of investment. Without such continuing protection, there would be a risk that GAL would be able to exploit its substantial market power to the detriment of consumers.
- 1.36 In addition, modifying GAL's licence to implement the proposed new commitments provides an opportunity to update the service quality targets and the investment consultation process in order to introduce changes that are likely to benefit consumers in future.
- 1.37 Our reasons for proposing the specific modifications set out in Appendix B are discussed above. In summary:

¹² The new service standards commitment also includes provision for a periodic review of the structure and content of the service quality targets and rebates.

- taken as a whole, and especially in the light of the impact of Covid-19 and the changed outlook for the next regulatory period, the modifications form part of a package (alongside the measures described in Chapter 2 and Chapter 3) that is likely to be in the interests of consumers;
- a price cap of RPI+0% applied to GAL's published charges seems likely to strike a reasonable balance between the interests of GAL and those of its passengers and airlines;
- rather than setting a cap on net charges, our preference is to monitor GAL's average discounts and to be ready to take action if necessary (including mid-period) to protect consumers' interests; and many of the changes to service quality targets and the investment consultation process were agreed between GAL and airlines, and are likely to lead to improvements for consumers.

1.38 As a result of these modifications, consumers will continue to be protected from the risk that GAL will exploit its substantial market power. Among other things, GAL will be prevented from raising its published charges in real terms, it will have revised service quality incentives that are likely to lead to better outcomes for consumers, and it will be required to undertake a minimum level of investment and to follow an improved consultation process when planning its future investment.

Views invited

1.39 We invite comments from stakeholders on the proposed modifications to GAL's licence, which are set out in Appendix B, by 25 March 2021. We cannot commit to take into account representations received after this date.

Chapter 2

Continuing to address unresolved issues

Introduction

- 2.1 Although GAL and airlines had made significant progress in agreeing a number of changes to service quality targets and rebates, in the October 2020 Consultation we noted that there were still several areas where there was scope for discussions with airlines and PAG to continue. These included:
- security queues, as GAL planned to install a new queue measurement system and new targets would need to be agreed once this is complete;¹³ and
 - airfield assets, as airlines had made a relatively late proposal for a ‘service delivery’ approach to replace the current asset availability measures.
- 2.2 Noting that changes to service quality targets and rebates may be implemented at any time by agreement between GAL and a sufficient number of airlines, we stressed the importance of GAL and airlines continuing to work together on these and any other unresolved issues. We said that we are ready to assist the parties in these discussions, if that would be helpful, and if there is insufficient progress we will consider whether any further action is required to protect consumers’ interests.
- 2.3 We also encouraged stakeholders to monitor how the new commitments are operating in practice, and more generally to keep service quality metrics and targets under review and to start discussions with other stakeholders if they believe a change would be beneficial.

Stakeholders’ views

- 2.4 GAL’s response stated that discussions were still ongoing and that it was optimistic that it would be possible to report progress on both of the main unresolved issues shortly. It stated that it is working to ensure that a new measurement system for security queues is in place for the summer peak season 2021, but this timescale might need to be revisited if the Covid-19 situation worsens again. And it confirmed that it will continue to engage actively with airlines regarding new security queue targets and will also consult PAG.
- 2.5 Airline respondents generally supported the continuation of discussions on both security queue measurement and airfield asset availability. The ACC also

¹³ In addition, it was still to be decided whether the new targets would be set on a per passenger basis (as proposed by airlines) or on a per time segment basis (as then favoured by GAL).

welcomed our comments that service quality metrics and targets should be kept under review and any changes that are beneficial within the regulatory period should be acted upon.

2.6 More specific comments included the following:

- IAG said that GAL needs to commit to have security queue measurements through a jointly agreed new system from 1 April 2021. Similarly, the ACC expressed concerns that GAL did not have a plan to provide accurate queue measurement for the start of the next period. It requested that we require GAL to provide a solution for accurate measurement of queue times from 1 April 2021;
- the ACC and individual airlines reiterated their support for a metric that is weighted by passengers rather than time segment;
- GATCOM welcomed GAL's commitment to investment in new measurement technology for passenger security queues, and stated that it is important that GAL continues to engage with PAG on new proposed targets and core hours; and
- the ACC and some individual airlines said that if agreement is not reached then the relevant measures and targets in the existing commitments should be retained. On security queues, the ACC also said that in the absence of agreement to change the measurement process GAL would need to revert to a system of manual measurement.

Way forward

2.7 We understand that discussions between GAL and airlines have continued since the October 2020 Consultation, which we welcome. We understand that:

- GAL and airlines have reached a common understanding on the capabilities the new security queue measurement system should have, and have also agreed that the metric will be weighted by passengers rather than based on time segments. GAL states that while it is possible to install the new measurement system in time for the peak summer period, it is cautious about incurring the upfront cost while the traffic outlook for summer 2021 remains so uncertain; and
- GAL and airlines have also agreed the new approach to be used for measuring airfield asset availability, together with an initial set of targets.

2.8 We will continue to monitor progress on these issues. If there is a reasonable prospect of traffic recovering, then we will expect GAL to take the actions necessary to ensure that a suitable queue measurement system is in place for the peak summer period this year. And we expect GAL and airlines to work constructively together to discuss the potential need for interim measures, such

as reverting to a manual measurement system, if this is required before any new system is installed.

- 2.9 We do not consider it sensible to specify a firm deadline for the installation of the new measurement system, as there is still considerable uncertainty about when traffic will recover and in particular whether there is likely to be a significant volume of traffic in summer 2021. A flexible approach is therefore needed. However, we will continue to monitor the situation and, if insufficient progress is being made, we will review the situation and consider whether further action is necessary to protect consumers' interests.
- 2.10 If necessary, we have powers to amend GAL's licence (including the commitments) and therefore to introduce new service quality targets during the next regulatory period.¹⁴ However our preference is that such changes are implemented by agreement between GAL and a sufficient number of airlines.
- 2.11 We also intend to carry out a focused assessment to check that these outstanding issues have been resolved and also whether the new service quality metrics (including the new security queue targets that will need to be agreed once the new measurement system is in place) are working as intended. The timing of this review will depend on the timing of both the installation of the new measurement system and the recovery of reasonable traffic levels.
- 2.12 As stated in the October 2020 Consultation, we encourage stakeholders to keep all service quality metrics and targets under review, including any new metrics that may not be performing as expected and also any other cases where a change might be beneficial (for example, because of changing passenger tastes or behaviour). We see potential benefits from addressing issues as they arise, rather than waiting to address them as part of a larger review each time the commitments are renewed.

¹⁴ These powers are subject to appeal (by either GAL or an airline that is materially affected by the decision) to the Competition and Markets Authority. The formal licence modification process is set out in section 22 of CAA12. Among other things, we must issue a notice setting out the modification (together with the reasons for and effect of it), allow a reasonable time for representations, and then issue a further notice confirming the modification (provided it does not differ significantly from the original proposal). The modification will then take effect a minimum of six weeks after the issue of this second notice.

Chapter 3

Monitoring GAL's performance

Introduction

- 3.1 We currently monitor several areas of GAL's performance. These include the level of charges, service quality, operational resilience, airfield investment and GAL's relationship with airlines and other stakeholders.¹⁵
- 3.2 In the October 2020 Consultation we said we would add two new items to our ongoing monitoring. The first of these was GAL's performance in relation to seating facilities in its departure lounges. As noted above, this was one of the areas for improvement highlighted in GAL's 2019 passenger research, and the current target QSM score is lower than those for other service standards measured by passenger surveys. Although the new target has been tightened as a result of the switch from annual to quarterly moving averages, GAL resisted requests for a further increase and instead offered to report any survey score between 3.8 and 4.0 (where 1 is extremely poor and 5 is excellent) as amber rather than green.
- 3.3 The second was the average level of discounts that GAL offers to airlines, which we proposed to monitor as there will no longer be a separate price cap on net charges. We acknowledged, however, that the level of discounts is primarily a commercial decision for GAL, and that there are legitimate reasons why the average level of discounts may change from year to year.

Stakeholders' views

- 3.4 GAL said that it agrees with our proposed monitoring of the average level of discounts. On the monitoring of QSM scores for departure lounge seating availability, it stated that the impact of Covid-19 on passenger perceptions is still very uncertain and may remain volatile for some time, and that our monitoring will need to be sensitive to shifting passenger perceptions in the next period.
- 3.5 The ACC stated that we need to take a more active approach to governance and monitoring, including a clear plan of the reviews we will carry out and what interventions we will make if required. It proposed that we should undertake a formal mid-term review, supported by annual reviews, and that these should cover service quality (performance, progress against new measures, how the exemption process is working), investment (consultation, investment levels and progress on airfield and passenger investment) and pricing and traffic (net and

¹⁵ See Appendix B of the [October 2020 Consultation](#) for a summary of our current monitoring.

gross pricing paths and discounting levels). IAG made similar comments but focused on investment issues.

- 3.6 As reported in Chapter 1, the ACC and individual airlines expressed concern that our proposed monitoring of GAL's average discounts will not provide adequate protection, and the ACC expressed disappointment that GAL had not been willing to make substantive changes to QSM metrics.
- 3.7 GATCOM also expressed disappointment that GAL did not propose a higher QSM target score for departure lounge seating availability and stated that its aspiration is a target of 4.0. In the meantime it welcomed our monitoring of any scores in the amber range, and stated that our ongoing monitoring should also focus GAL's attention on the need for social distancing measures within the terminals.

Way forward

- 3.8 We set out in Chapter 1 the reasons why we are not proposing a separate cap on GAL's net charges or increasing any of the service quality targets in GAL's proposed new commitments. Instead, therefore, we will expand our ongoing monitoring of GAL's performance:
- we will monitor GAL's performance in relation to departure lounge seating. This will take account of GAL's QSM survey scores and also any other feedback that is available. If scores fall within GAL's amber range (3.8 to 4.0), or we become aware of any other information that suggests that consumers are receiving poor service, it is likely that we will investigate the reasons for this and the potential impact on consumers. We will then consider whether any further action is required to protect consumers' interests; and
 - we will monitor the average level of discounts that GAL offers to airlines. GAL already provides information that allows airlines to calculate the average discount each year. In addition to monitoring this figure, we will ask GAL to provide us with a short commentary each year that explains the main reasons for any material change in the average level of discounts, and also to say what it expects to happen to average discounts over the forthcoming year.
- 3.9 Even though we are not proposing to change GAL's proposed commitments, we would stress that both of these are serious issues and we will take further action if necessary to protect consumers' interests. This includes introducing new measures part way through the next period, rather than simply waiting for the next regulatory review.
- 3.10 Especially as the next period is only four years, we do not consider that a general mid-term review would be appropriate. However, as described in Chapter 1 and Chapter 2, we plan to carry out three focused assessments. These will review:

- GAL's net charges and the average level of discounts, to see whether there is any evidence that the absence of a cap on net charges is acting against consumers' interests;
- service quality issues, to check that the outstanding issues have been resolved and that the new metrics (including the new security queue targets) are working as intended; and
- investment issues, to consider how the new consultation process is working and whether airfield investment is being reinstated sufficiently quickly. We note that concerns about airfield investment have been a consistent theme of airline feedback to us throughout the current period.

3.11 The timing of these assessments will depend on the recovery of traffic, as it will be important to consider how GAL's bilateral contracting with airlines, new queue measurement systems and service quality metrics, and new investment consultation process operate in more normal conditions. And we will consider carrying out more assessments and investigate possible interventions if new issues arise during the next period.

Appendix A

Our duties

- A1 The CAA is an independent economic regulator. Our duties in relation to the economic regulation of airport operation services (AOS) are set out in the Civil Aviation Act 2012 (CAA12).
- A2 CAA12 gives the CAA a general ('primary') duty to carry out its functions under CAA12 in a manner which it considers will further the interests of users of air transport services regarding the range, availability, continuity, cost and quality of AOS.
- A3 CAA12 defines users of air transport services as present and future passengers and those with a right in property carried by the service (i.e. cargo owners). We often refer to these users by using the shorthand of 'consumers'.
- A4 The CAA must also carry out its functions, where appropriate, in a manner that will promote competition in the provision of AOS.
- A5 In discharging this primary duty, the CAA must also have regard to a range of other matters specified in CAA12. These include:
- the need to secure that each licensee is able to finance its licensed activities;
 - the need to secure that all reasonable demands for AOS are met;
 - the need to promote economy and efficiency on the part of licensees in the provision of AOS;
 - the need to secure that the licensee is able to take reasonable measures to reduce, control and/or mitigate adverse environmental effects;
 - any guidance issued by the Secretary of State or international obligation on the UK notified by the Secretary of State; and
 - the Better Regulation principles.
- A6 CAA12 also sets out the circumstances in which we can regulate airport operators through an economic licence. In particular, airport operators must be subject to economic regulation where they fulfil the Market Power Test as set out in CAA12. Airport operators that do not fulfil the Test are not subject to economic regulation. As a result of the market power determinations we completed in 2014 the airport operators of both Heathrow and Gatwick airports are subject to economic regulation.

- A7 We are only required to update these determinations if we are requested to do so and there has been a material change in circumstances since the most recent determination. We may also undertake a market power determination whenever we consider it appropriate to do so.

Appendix B

Proposed changes to GAL's Licence

The proposed licence modifications are set out below, with the proposed changes marked against the current provisions of GAL's licence (including parts of GAL's Conditions of Use which are also conditions of GAL's licence). Where a condition, or part of a condition, is not set out below, no modifications to it are proposed.

The reasons for and effects of the proposed modifications are set out in Appendix C.

Proposed changes to GAL's licence

C1 Commitments

- C1.1 The Commitments are conditions of this Licence and shall be set out in the Conditions of Use.
- C1.2 Obligations placed on third parties in the Commitments shall not be treated as conditions of this Licence.
- C1.3 In complying with this Condition C1 and the Commitments the Licensee shall, so far as reasonably practicable, do so in a manner designed to further the interests of passengers regarding the range, availability, continuity, cost and quality of airport operation services.

Modification of the Commitments

- C1.4 The Licensee shall not modify the Commitments otherwise than:
- [\(a\) in the circumstances set out in the modification provisions of the Commitments \(as defined in Condition C1.7\(c\)\); or](#)
 - [\(b\) in accordance with Condition C1.6.](#)
- ~~C1.5 The modifications that can be made under Condition C1.4 are modifications set out in the modification provisions of the Commitments at:~~
- ~~(a) paragraph 6.1 of Schedule 2 to the Conditions of Use (price commitments)~~
 - ~~(b) paragraph 6.2 of Schedule 2 to the Conditions of Use (recovery of second runway costs in the price commitments) up to a total limit of £10 million in any one charging year;~~
 - ~~(c) paragraph 5 of Schedule 3 to the Conditions of Use (service commitments); and~~
 - ~~(d) the final paragraph in Schedule 3 Appendix I to the Conditions of Use (core~~

~~service standards).~~

- C1.65 Modifications can be made to the Commitments under Condition C1.4(a) at any time.
- C1.76 Where the CAA makes any changes to the conditions of this ~~licence~~ Licence under section 22 of the Act, the Licensee shall, as soon as reasonably practicable and subject to the outcome of any appeal to the Competition and Markets Authority under section 25 to 30 of the Act, make any necessary consequential changes to the Conditions of Use.

Recovery of second runway costs

- ~~C1.8 — Where a provision in the Commitments at paragraph 6.2 of Schedule 2 to the Conditions of Use allows any amendments to the Indicative Gross Yield Profile to allow for the recovery of second runway costs, any such amendments necessary to recover expenditure by the Licensee above the £10 million in any one charging year allowed under Condition 1.5(b) shall be subject to the modification provisions under sections 22 to 30 of the Act.~~
- ~~C1.9 — The CAA may, following consultation, issue guidance to the Licensee with regard to the recovery of second runway costs.~~
- ~~C1.10 — Where the Licensee requires a modification to the Indicative Gross Yield Profile in accordance with Condition C1.8, it must inform the CAA in writing, setting out its reasons and justification for the modification in accordance with any guidance issued by the CAA under Condition C1.9.~~

Definitions

- C1.447 In this Condition C1:
- (a) the Commitments means the contractual obligations given by the Licensee to providers of air transport services at Gatwick Airport and in the case of certain obligations also to other service providers of Gatwick Airport as contained in the following provisions of the Conditions of Use as agreed by the CAA and to be effective from the date this Licence comes into force and as amended from time to time under Conditions C1.4 to C1.76 namely:
- i. Condition 2.1.2 of the Conditions of Use (Applicability and Enforceability of Conditions of Use);
 - ii. Condition 2.1.3 of the Conditions of Use (Variation);
 - iii. Conditions 2.1.11-2.1.20 of the Conditions of Use (Dispute Resolution Procedure);
 - iv. Condition 5 of the Conditions of Use (Price Commitment);
 - v. Condition 6 of the Conditions of Use (Service Standard Commitment);

- vi. Condition 7 of the Conditions of Use (Continuity of Service Plan, Operational and Financial Resilience);
 - vii. Condition 8 of the Conditions of Use (Investment and Consultation Commitment);
 - viii. Condition 9 of the Conditions of Use (Financial Information Commitment);
 - ix. Schedules 2, 3 and 4 to the Conditions of Use and associated appendices; and
 - x. Annex to the Conditions of Use (the Gatwick Airport Core Service Standards Handbook);
- (b) the Conditions of Use means the Gatwick Airport Conditions of Use, published by the Licensee; and
- ~~(c) the Indicative Gross Yield Profile has the meaning set out in Paragraph 1.11 of Schedule 2 to the Conditions of Use; and~~
- ~~(d) the recovery of second runway costs means the recovery of reasonable costs (capital, operating and financing) of applying for planning permission for a second runway and the subsequent development of the second runway and associated airport infrastructure~~
- (c) the modification provisions of the Commitments referred to in Condition C1.4(a) means the modification provisions set out at:
- i. Condition 8.2 of the Conditions of Use (investment and consultation commitment);
 - ii. paragraph 3 of Schedule 2 to the Conditions of Use (price commitment);
 - iii. paragraph 5 of Schedule 3 to the Conditions of Use (service commitments); and
 - iv. the final paragraph in Schedule 3 Appendix I to the Conditions of Use (core service standards).

D1 Financial Resilience

...

D1.5 If the Licensee or any of its linked companies (or, where applicable the directors and officers of any of those undertakings) seeks, or is advised to seek, advice from an insolvency practitioner or any other person relating to:

- (a) the Licensee's financial position or ability to continue to trade; or

- (b) that linked company's financial position or ability to continue to trade, only to the extent that it would affect the Licensee's financial position or ability to continue to trade; ~~the Licensee must inform the CAA within 3 working days~~
[the Licensee must inform the CAA within 3 working days.](#)

...

Definitions

D1.10 In this Condition D1:

- (a) the Covenantor means a company or other person which is at any time an ultimate holding company of the Licensee;
- (b) a linked company means any company within the Licensee's Group where the financial position of that company or its inability to continue to trade would have an adverse effect on the Licensee's financial position or ability to continue to trade;
- (c) Permitted Business means:
- (i) any and all business undertaken by the Licensee and its subsidiary undertakings as at 1 April 2014;
 - (ii) to the extent that it falls outside Condition D1.10(c)(i), the business of owning, operating and developing the Airport and associated facilities by the Licensee and its subsidiary undertakings (including, without limitation, any and all airport operation services, provision of facilities for and connected with aeronautical activities including retail, car parks, advertising and surface access and property development letting and management development thereof); and
 - (iii) any other business, provided always that the average over the term of the Commitments of any expenses incurred in connection with such businesses during any one financial year is not more than 2% of the value of the shadow Regulatory Asset Base at the start of the financial year;

[\(d\) the shadow Regulatory Asset Base means the asset base calculated annually in accordance with guidance issued by the CAA from time to time and provided to the CAA on a confidential basis.](#)

Proposed changes to the Commitments in GAL's Conditions of Use

- 2.1.3 Gatwick Airport Limited may at its sole discretion vary amend or add to these Conditions of Use and any such variation, amendment to, or addition may be promulgated by means of a GAD save that, [except where required by legislation](#)

[or to comply with a licence modification made by the CAA under Section 22 of the Civil Aviation Act 2012](#), no variation which has effect before 1st April 2024⁵ may be made to the following Conditions and Schedules:

Condition 1.1.22 (Term)

This Condition 2.1.3 (Variation)

Conditions 2.1.11-2.1.20 (Dispute Resolution) Condition 5 (Price Commitment)

Condition 6 (Service Standard Commitment)

Condition 7 (Continuity of Service and Financial Resilience Commitment)

Condition 8 (Investment and Consultation Commitment) [other than in accordance with Condition 8.2](#)

Condition 9 (Financial Information Commitment)

Schedules 2, 3 and 4 other than in accordance with the variation provisions contained in paragraph 63 of Schedule 2, paragraph 5 of Schedule 3 and in the final paragraph of Schedule 3 Appendix 1.

...

7. Continuity of Service Plan, Operational and Financial Resilience Commitment

7.1 Gatwick Airport Limited shall prepare and at all times maintain a continuity of service plan. The plan shall describe such legal, regulatory, operational and financial information that an administrator, receiver, or new management might reasonably be expected to require, in addition to the aerodrome manual and other statutory or regulatory documents which Gatwick Airport Limited is required to maintain, in order for it to efficiently carry out its functions and to remain compliant with its aerodrome licence. ~~Gatwick Airport Limited shall supply such continuity of service plan to the CAA by 1 October 2014 and shall make such reasonable amendment to the form, scope and content of the plan as the CAA may reasonably require.~~ Gatwick Airport Limited shall provide the CAA with details of any material variations to the continuity of service plan.

7.2 Gatwick Airport Limited will develop and maintain an operational resilience plan which will set how it intends to operate an efficient and reliable airport to the levels required by the Core Service Standards or otherwise agreed with users and, in particular, how it will secure the availability and continuity of airport operation services, particularly in times of disruption. Gatwick Airport Limited will consult annually on the resilience plan with all interested parties including the CAA.

- ~~7.3~~ In pursuance of the above obligation Gatwick Airport Limited will by 1 October 2014 publish one or more plan(s) or other documents setting out the principles, policies and processes by which it will comply with Condition 7.2. Such plans and any amendments will have regard to any relevant guidance issued by the CAA.
- 7.43 Prior to publishing any plans or other documents under Condition 7.2. Gatwick Airport Limited shall consult all relevant parties on those plans or documents in a fair and timely manner providing consultees with an adequate level of information.
- 7.54 Gatwick Airport Limited shall so far as is reasonably practicable coordinate and cooperate with all relevant parties at the airport to meet the requirements of this operational resilience commitment and shall at least twice a year hold a meeting to which all relevant parties or organisations representing them shall be entitled to attend to discuss any issues pertinent to this operational resilience commitment.
- 7.65 All providers of air transport services and ground handlers shall use best endeavours to cooperate with Gatwick Airport Limited in implementing the plan(s)
- 7.76 During periods of service disruption Gatwick Airport Limited shall use reasonable endeavours to coordinate the communication of operational information and to ensure the provision of timely, accurate and clear information about its operations to users of air transport services as well as information as to their rights under denied boarding regulations.
- 7.87 The Directors of Gatwick Airport Limited will provide an annual confirmation of adequate financial resources to operate the airport and provide the Core Services; and
- 7.98 Gatwick Airport Limited shall not amend, vary, supplement or modify or concur in the amendment, variation, supplementation or modification of any of its finance documents in respect of credit rating requirements (whether in each case in the form of a written instrument, agreement or document or otherwise (a "Variation") unless it has given prior written notice thereof to the CAA. Gatwick Airport Limited shall, as soon as reasonably practicable notify the CAA of the possibility of any such Variation; and provide a summary of the executed change. The provisions of this Condition shall not apply to any administrative or procedural variation.
- 8. Investment and Consultation Commitment**
- 8.1 Gatwick Airport Limited shall maintain the airport to comply with all applicable safety and environmental requirements and to maintain and develop the infrastructure of the airport to enable the Core Service Standards to be met. In

complying with the immediately preceding obligation Gatwick Airport Limited shall invest at least £7020m (Seven Hundred and twenty million pounds) during the Term period commencing 1 April 2019 and ending 31 March 2025, save where condition 8.2 applies.

8.2 Gatwick Airport Limited may invest less than £720m during the period commencing 1 April 2019 and ending 31 March 2025 if consent to such a proposal is given in writing by:

8.2.1 Operators carrying at least 67% of Passengers in the 12 months immediately preceding the date on which Gatwick Airport Limited notified Operators of its proposal to invest less than £720m (during the period commencing 1 April 2019 and ending 31 March 2025); and

8.2.2 by Operators representing at least 50% of the Operators responding in writing.

8.23 Gatwick Airport Limited will undertake consultation in relation to the capital investment to be undertaken during the Term in accordance with the provisions of Schedule 4.

9. Financial Information Commitment

9.1 To ensure there continues to be the provision of sufficient information for Operators to understand whether charges are reasonable, Gatwick Airport Limited will ensure that throughout the Term it provides either through its statutory accounts or through a separate audited statement a level of disclosure in relation to operating costs, revenues, fixed asset base, depreciation and capital expenditure equivalent to the level of disclosure in its statutory accounts for the year ended 31 March 2012nine months ended 31 December 2019.

~~9.2 During each year of the Term Gatwick Airport Limited shall publish a statement of its assessment of the value of its asset base. This will set out the underlying assumptions and calculations, including: the initial asset based (carried forward from the end of the prior year); depreciation; additions; disposals; indexation factors; other adjustments that may be relevant; and the closing asset base (carried forward to the start of the next year).~~

...

Schedule 2: Price Commitment

1 For the purposes of this Schedule, the following definitions apply:

1.1 'Actual Gross Yield' means the Gross Yield determined following the completion of a Relevant Year.~~'Aggregate Blended Revenue' or 'R_t' is the sum in a Relevant Year of:~~

- ~~1.1.1~~ revenue arising from ~~Core Service Charges and Selected Ancillary Service Charges~~ for relevant commercial passenger services operated under the terms of the published airport tariff set out in the Conditions of Use; and
- ~~1.1.2~~ revenue arising from charges equivalent to the ~~Core Service Charge and Selected Ancillary Service Charges~~ for relevant commercial passenger services operated under the terms of ~~Bilateral Contracts~~ but excluding revenue from any other charges not included within the definition of ~~Core Service Charges or Selected Ancillary Service Charges~~ whether levied under the terms of these Conditions or under the terms of ~~Bilateral Contracts or separate commercial arrangements~~.
- ~~1.2~~ 'Aggregate Core Revenue' or 'T₄' means the sum in a Relevant Year of:
- ~~1.2.1~~ revenue arising from ~~Core Service Charges and Selected Ancillary Service Charges~~ for relevant commercial passenger services operated under the terms of the published airport tariff set out in the Conditions of Use; and
- ~~1.2.2~~ revenue arising from charges equivalent to the ~~Core Service Charge and Selected Ancillary Service Charges~~ for relevant commercial passenger services operated under the terms of ~~Bilateral Contracts~~, but substituting for the actual revenue received the revenue that would have been received if such services had been offered and charged under the terms of the ~~Schedule of Charges~~ set out in the then applicable ~~Conditions of Use~~ but excluding revenue from any other charges not included within the definition of ~~Core Service Charges or Selected Ancillary Service Charges~~ whether levied under the terms of these Conditions or under the terms of ~~Bilateral Contracts or separate commercial arrangements~~.
- 1.32 'Bilateral Contracts' means any contract relating to Airport Charges payable between an Operator and Gatwick Airport Limited other than the Conditions of Use.
- 1.43 'Core Services' means such services and facilities in connection with the landing, parking or taking off of aircraft at the airport as were provided as at 1st April 20139 in consideration of charges, whether specifically referable to such services or facilities or not, levied under Appendix I (Schedule of airport charges) of the Gatwick Airport Conditions of Use effective from 1st April 20139 including those charges determined by reference to number of passengers on board the aircraft, any separate charge for aerodrome navigation services and charges levied on aircraft passengers with their arrival at, or departure from, the airport by air. Services or facilities which would have been provided for such

charges as at 1st April 2013³⁹ but for the facility or service being unserviceable or subject to refurbishment shall fall within the definition of Core Services.

1.54 'Core Service Charges' means those charges referred to in Appendix I of the Schedule of Charges as may be varied from time to time with the exception of any charges levied in respect of whole plane cargo flights, positioning flights and general and business aviation.

1.5 'Gross Revenue' means the sum in a Relevant Year of:

1.5.1 revenue arising from Core Service Charges for relevant commercial passenger services operated under the terms of the published airport tariff set out in the Conditions of Use; and

1.5.2 revenue arising from charges equivalent to the Core Service Charges for relevant commercial passenger services operated under the terms of Bilateral Contracts, but substituting for the actual revenue received the revenue that would have been received if such services had been offered and charged under the terms of the Schedule of Charges set out in the then applicable Conditions of Use but excluding revenue from any other charges not included within the definition of Core Service Charges whether levied under the terms of these Conditions or under the terms of Bilateral Contracts or separate commercial arrangements.

1.6 'Gross Yield' means the Gross Revenue divided by the total number of Passengers using the airport in any Relevant Year.

1.7 'Maximum Gross Yield' for a Relevant Year or '(MY_t)' is defined as:

$$MY_t = U_t + S_t$$

1.8 'Planned Gross Yield' refers to the Gross Yield assumed at the time the Core Service Charges for the Relevant year were set, as detailed in GAL's annual charges consultation documents. The Planned Gross Yield shall not exceed the Maximum Gross Yield.

~~1.6~~ 'Core Yield' means the Aggregate Core Revenue divided by the total number of Passengers using the airport in any Relevant Year.

~~1.7~~ 'Blended Yield' means the Aggregate Blended Revenue divided by the total number of Passengers using the airport in any Relevant Year.

~~1.8~~ 'Cumulative Gross Revenue Difference' or 'CGRD_t' is calculated as follows:

$$CGRD_t = (T_t - Q_t \cdot GY_t) + CGRD_{t-1} \cdot (1 + I_{t-1}) \text{ and where } CGRD_{2013/14} = 0$$

~~1.9~~ 'Cumulative Net Revenue Difference' or 'CNRD_t' is calculated as follows:

$$CNRD_t = (R_t - Q_t \cdot NY_t) + CNRD_{t-1} \cdot (1 + I_{t-1}) \text{ and where } CNRD_{2013/14} = 0$$

1.10 ~~'Indicative Net Yield Profile' for a Relevant Year or 'NY_t' is calculated as follows:~~

$$NY_t = U_t + S_t$$

1.11 ~~'Indicative Gross Yield Profile' for a Relevant Year or '(GY_t)' is defined as:~~

$$GY_t = W_t + S_t$$

1.12 ~~'i_{t-1}' means the annual percentage interest rate equal to the sum of:~~

1.12.1 ~~the average of the UK Treasury Bill Discount Rate (expressed as an annual percentage interest rate) published weekly by the Bank of England, during the 12 months from the beginning of September in t-1 to the end of August in the Relevant Year; and~~

1.12.2 ~~if the CNRD_{t-1} or the CGRD_{t-1} to which the indexation rate is being applied has a positive value, 3%, otherwise, 0%.~~

1.13 ~~Selected Ancillary Service Charges means charges for other services provided by Gatwick Airport namely: Staff ID, airside licences, FEGP (net of the cost of electricity), Airside Parking, Hydrant Refuelling~~

1.449 'Q_t' means the total number of Passengers using the airport in a Relevant Year.

1.4510 'Relevant Year' or 't' means the period of twelve months ending on 31 March in each year and 't-1' means the year immediately preceding 't'.

1.4611 'RPI_{t-1}' means the percentage change (positive or negative) in the RPI All Items Index (CHAW): Jan 1987=100 published by Office for National Statistics between August in year t-1 and the immediately preceding August.

1.4712 "S_t' means the permitted security cost per passenger in relevant year t, if any, being: the aggregate of:

1.172.1 90% of the amount by which the increase, or decrease, in security costs at the airport in year t, which arise as a result of a change in required security standards at the airport, exceeds £1.75m; and

1.172.2 the cost of installing new hold baggage screening equipment in order to meet the requirements of the Department for Transport, the European Commission or other aviation security regulator ~~consulted on by Gatwick Airport Limited in accordance with the capital investment programme consultation process.~~ With the cost in year t ~~will be~~ calculated by amortising the capital costs and associated funding costs over the assessed life of the equipment, in equal annual amounts divided by the total number of Passengers using the airport (Q_t). A methodology for recovering the costs associated with the EDS Standard 3 project was consulted on with the airline community in 2016. Full details can be found in '2017/18 Airport Charges Consultation, New

Hold Baggage Screening Equipment, Explosive Detection Systems (EDS) Standard 3' published by GAL on 6 June 2016 and '2017/18 Airport Charges Consultation, New Hold Baggage Screening Equipment, Explosive Detection Systems (EDS) Standard 3, Decision Advice' published by GAL on 2 September 2016.

1.12.3 The capital and operating costs of implementing the Department for Transport mandate for Next Generation Security Checkpoints which includes new requirement for screening of passengers and staff and their belongings (i.e. body scanners and C3 cabin baggage technology). The capital costs and associated funding costs will be subject to consultation in accordance with Schedule 4 and a similar methodology to the amortisation of costs will be adopted as for hold baggage screening as outlined in paragraph 1.12.2.

1.18 'U_t' is the underlying net yield in Relevant Year t, calculated as follows:

$$U_t = U_{t-1} (1 + RPI_{t-1}) \text{ where } U_{2013/14} = \text{£}8.894$$

1.193 "WU_t" is the underlying gross yield in Relevant Year t, defined as the Underlying Gross Yield:

$$WU_t = WU_{t-1} (1 + RPI_{t-1} + 1\%) \text{ and,}$$

$$\text{Where } WU_{2013/14} = \text{£}10.291$$

2 GAL shall set the Core Service Charges in any Relevant Year to recover the Planned Gross Yield.

2.1 Subject to paragraph 2.3 below, should the Actual Gross Yield be greater than the Maximum Gross Yield, a rebate will be issued to those carriers that paid Core Service Charges or operated under Bilateral Contracts where such contracts adopt the airport tariff as a reference price index in the Relevant Year. For each carrier, the value of the rebate for the Relevant Year will be equal to the Core Service Charges or equivalent paid by the carrier multiplied by the percentage difference between the Maximum Gross Yield and the Actual Gross Yield. Rebates will be issued to carriers by no later than 31 August following the Relevant Year, one month after the deadline for GAL to publish its price monitoring report for the Relevant Year to the CAA.

2.2 Should the Actual Gross Yield be less than or equal to the Maximum Gross Yield, no rebates will be due.

2.3 The provisions of paragraph 2.1 of this Schedule 2 shall not have effect before the Relevant Year ending 31 March 2023. The amount by which the actual Core Yield differs from the Indicative Gross Yield Profile in a Relevant Year will generate a revenue difference which, over the course of the Term, will give rise

~~to the Cumulative Gross Revenue Difference (CGRD_t). Gatwick Airport Limited shall ensure that the Cumulative Gross Revenue Difference does not exceed:~~

- ~~2.1~~ £10 million in any Relevant Year during the Term; and
- ~~2.2~~ nil at the end of the Term.
- ~~3~~ The amount by which the actual Blended Yield differs from the Indicative Net Yield Profile in a Relevant Year will generate a revenue difference which, over the course of the Term, will give rise to the Cumulative Net Revenue Difference (CNRD_t). Gatwick Airport Limited shall ensure that the Cumulative Net Revenue Difference does not exceed nil at the end of the term.
- ~~4~~ The Indicative Net Yield Profile and the Indicative Gross Yield Profile represent the intended yield profiles of Gatwick Airport Limited in setting the Core Service Charges. They are indicative only and actual yield profiles may vary due to unanticipated circumstances, deliberate business decisions including responses to market conditions or to adjust for prior year under or over recoveries.
- ~~5~~ GAL shall set the Core Service Charge in any Relevant Year with the intent that the Core Yield in that year shall not exceed the Core Yield in the prior year by more than RPI + 10% unless it is required to do so to attain a CGRD_{2020/21} equal to zero.
- ~~6.3~~ Any amendment to the IndicativeMaximum Gross Yield Profile may be made by Gatwick Airport Limited if:
- ~~6.1~~ consent to that amendment is given in writing by:
- ~~6.13.1~~ Operators carrying at least 67% of passengers (in the 12 months immediately preceding the date on which Gatwick Airport Limited notified Operators of the proposed amendment to the IndicativeMaximum Gross Yield Profile) on airlines operating at the airport paying the Core Service Charges or under Bilateral Contracts (where such contracts adopt the airport tariff as a reference price index) and
- ~~6.13.2~~ by Operators representing at least 50% of the Operators responding in writing; ~~or~~
- ~~6.2~~ following the completion of the work of the Airports Commission the Government support the development of a second runway at Gatwick Airport, to allow for the recovery of the reasonable costs (capital, operating and financing) of applying for planning permission for a second runway and the subsequent development of the second runway and associated airport infrastructure. Any amendment to the Gross Yield Profile for recovery of such costs will follow any policy guidance that may be issued by the GAA in relation to the recovery of costs of new runway development for price regulated airports.

- 74 When undertaking the annual consultation on airport charges, Gatwick Airport Limited will publish a comparison of the actual net yield, the Actual Gross Yield and the Maximum Gross Yield for the most recently completed year and estimates for the current year. Gatwick Airport Limited will also publish the Planned Gross Yield and the Maximum Gross Yield for the year which is subject to consultation~~the Cumulative Gross Revenue Difference and the Cumulative Net Revenue Difference for prior years updating using actuals data when available), and estimates of the Cumulative Gross Revenue Difference and the Cumulative Net Revenue Difference for the current year and the following year (including underlying assumptions and estimated data).~~
- 85 Gatwick Airport Limited shall notify the CAA and all Operators at the airport at least 2 years prior to the end of the Term of its intention with regards to the continuation of commitments, if any, on pricing, service standards, continuity of service, operational and financial resilience, investment consultation and financial information.
- 96 Gatwick Airport Limited shall make available Core Services to all Operators at the Core Service Charges rate as amended from time to time.
- 107 Subject to complying with paragraph 96 above Gatwick Airport Limited may offer enhancements or additions to the Core Services either under Bilateral Contracts or at charges separate from the Core Service Charges.

Schedule 3: Service Commitments

1. The Core Service Rebate to Qualifying Operators in the aggregate in month 'j' shall be calculated as:

Core service rebate_{T-j} = Service Rebate Percentage_{T-j} x Annual Core Service Charge_T

Where:

Annual Core Service Charge_T =

in respect of terminal "T", in relevant ~~financial~~ year ending 31 March, the annual revenue arising from Core Service Charges or equivalent charges under Bilateral Contracts for relevant commercial passenger services operated by Qualifying Operators under the terms of the published airport tariff set out in the Conditions of Use.

The rebate by each terminal will be allocated to Qualifying Operators that used the terminal pro-rata with the Core Service Charges or equivalent charges under Bilateral Contracts payable by each Qualifying Operator in relation to that terminal in that month. The deduction to be made from this rebate amount if a Qualifying Operator fails to meet airline standards will be calculated as:

Deduction from Core Service Rebate $_{a,T,j}$ = Airline Standard Reduction Percentage $_{a,T,j}$ x Core Service Charge $_{a,T,j}$

For the avoidance of doubt, the deduction only operates to reduce the Core Service Rebate (if any) payable by GAL to a Qualifying Operator; it cannot result in a payment due from the Qualifying Operator to GAL.

2. The Service Rebate Percentage in month 'j' for each terminal 'T' shall be calculated as follows:

$$\text{Service Rebate Percentage}_{T,j} = \sum_{\text{Standard } i} 2 \times (p_{i,T} / 12) \times (x_{i,T,j})$$

Where:

$p_{i,T}$ = the maximum potential Core Service Standard rebate percentage for standard "i", for terminal "T", as set out in Appendix 1 to this Schedule. If the standard "i", for terminal "T", in month "j" is greater than or equal to the Core Service Standard rebate level, as set out in Appendix 1 to this Schedule then $x_{i,T,j} = 0$. If the standard "i", for terminal "T", in month "j" is less than the Core Service Standard rebate level, as set out in Appendix 1 to this Schedule, then $x_{i,T,j} = 1$ ~~or, 1.25, in relation only to Selected Passenger Facing Measures, if the relevant standard "i", for terminal "T", in months "j" and in each of the six immediately preceding months (i.e. "j-1", "j-2", "j-3", "j-4", "j-5", "j-6") is or was less than the Core Service Standard rebate level, as set out in Appendix 1 to this Schedule 3. Provided that the maximum aggregate Service Rebate Percentage payable in relation to all Selected Passenger Facing Measures shall not exceed 2.85% in any financial year ending 31 March;~~ or 0, if prior to month "j" there have been any six or more months in a relevant financial year ending 31 March in which the standard "i", for terminal "T" was less than the service rebate level, as set out in Appendix 1 to this Schedule. This provision applies in precedence to, and overrides, the provisions above providing for the calculation of $x_{i,T,j} = 1$ ~~or 1.25.~~

~~For the purposes of this calculation, the Selected Passenger Facing Measures comprise: Departure Lounge Seat Availability; Cleanliness; Way-Finding; Flight Information; Central Passenger Search (times < 5 minutes, times < 15 minutes); Passenger Sensitive Equipment (General); Passenger Sensitive Equipment (Priority); and Arrivals Reclaim (Baggage Carousels)~~

3. Airline Standard Reduction Percentage for each airline "a" shall be calculated as:

$$\text{Airline Standard Reduction Percentage } a_{T,j} = \sum_{\text{Standard } k} r_{k,T} \times Z_{a,T,j,k}$$

Where:

$r_{k,T}$ = the potential Airline Service Standard Reduction Percentage per month for standard “k”, for terminal “T”, as set out in Appendix II to this Schedule.

$Z_{a,T,j,k} = 0$ if the standard “k”, for terminal “T”, in month “j” is greater than or equal to the Airline Service Standard Target Level, as set out in Appendix II to this Schedule; or

1 if the standard “k”, for terminal “T”, in month “j” is less than the Airline Service Standard Target Level, as set out in Appendix II to this Schedule.

4. Gatwick Airport Limited shall be under no obligation to pay the Core Service Rebate to an Operator which has failed to pay Gatwick Airport Limited any amounts due and owing under these Conditions of Use.

Amendment

5. Any amendment to the Airline Service Standards or the Core Service Standards may be made by Gatwick Airport Limited following consultation with the Gatwick Airline Operators Committee and the Gatwick Airport Consultative Committee if consent to that change is given in writing by:
 - 5.1 Operators carrying at least 67% of passengers (in the 12 months immediately preceding the date on which Gatwick Airport Limited notifies Operators of the proposed amendment) travelling through the airport on airlines operating at the airport paying the Core Service Charge or operating under Bilateral Contracts which have not waived or replaced these Core Service Standards provisions and by
 - 5.2 Operators representing at least 50% of the Operators responding in writing.

Monitoring

6. Gatwick Airport Limited shall monitor and publish on the Gatwick Airport website ~~and in the terminals~~ a monthly report in relation to certain airport-wide activities including:
 - 6.1 The Core Service Standards
 - 6.2 The Airline Service Standards

- 6.3 Special Assistance service and notification
- 6.4 On-time performance (departures and arrivals); and
- 6.5 Immigration performance; and
- ~~6.6 ACI Airport Service Quality ranking.~~
- 7. If Gatwick Airport Limited fails to meet any Core Service Standard for any six consecutive months it will prepare an improvement plan to address the failure and will consult with the Gatwick Airline Consultative Committee and the CAA on its proposals and will then implement the improvement plan.

On Time Performance

- 8.1 GAL will continue to seek ways to expand its capacity, resiliently, to meet the growing demand through innovation, investment and process improvements. GAL will provide leadership and focus in the drive for on-time performance, while recognising that punctuality is a product of efficient delivery from many organisations; airlines, ground handlers and air traffic controllers, as well as the airport operator.
- 8.2 Starting from the IATA Summer 2021 season, GAL will introduce new service targets to underpin its continuing focus on improving punctuality and operational resilience:
 - 8.2.1 Average departure punctuality will have a target of least 70% in the summer season and 75% in the winter season. (Punctuality is defined as the percentage of scheduled flights which depart from their stand no more than 15 minutes and 59 seconds after their scheduled departure time.)
 - 8.2.2 GAL will report to airlines and their ground handlers on the punctuality performance of each season within one month after its conclusion and publish results on its website.
 - 8.2.3 If the reported seasonal punctuality drops below the relevant target set out in 8.2.1, then GAL will within three months of the publication of the punctuality performance set out in 8.2.2 consult with the airlines, their handlers and PAG on a root cause analysis of the airport's and airlines' collective performance over the season, and then develop with airlines a punctuality improvement plan for the following equivalent season. If appropriate, GAL may invest in a portfolio of operational incentives and financial incentives for airlines and/or their ground handlers.
- 8.3 For avoidance of doubt, it is the responsibility of airlines operating at Gatwick to ensure that they procure sufficient ground handling resources to enable them to operate their schedule and deliver baggage to their customers in a reasonable

time. GAL will design any measures to not disadvantage those airlines who already run a resilient operation at Gatwick.

Periodic Review

9.1 By 31st March 2023 Gatwick will undertake a consultation with the Airline Consultative Committee and Passenger Advisory Group regarding the structure and content of the Service Commitments (set out in Appendix I and II of this Schedule 3) to ensure these remain appropriate and relevant and present relevant passenger research and evidence to inform the consultation. Any changes will be subject to the change process set out in paragraph 5 of this Schedule 3.

9.2 To inform the consultation detailed in paragraph 9.1, GAL will commission an audit of the robustness of the rebate calculations.

Schedule 3: Appendix I Core Service Standards (rebates)

	Standard "i"	Metric	Rebate Target Level	Maximum potential rebate (both terminals, unless noted)
(i)	Passenger satisfaction measures			0.870%
1	Departure Lounge Seat Availability	Moving <u>Quarterly</u> Average QSM	3.8*	0.20%
2	Cleanliness	<u>Sscore</u>	4.0	0.20%
3	Way-Finding		4.1	0.20%
4	Flight Information		4.2	0.210%
	<u>Passenger Wi-Fi</u>		4.0	N/A
	<u>Special Assistance</u>	<u>Moving Quarterly Average PRM survey</u>	4.0	N/A
(ii)	Security			2.60%
5	Central Passenger Search	Times <5 Minutes & Times <15 Minutes	95%*** 98%***	1.0%
6	Central Passenger Search**	Day when single time slice > 30 Minutes	Single event per day***	0.05% per day (0.7% max per month)
7	Transfer Passenger Search	Times <10 Minutes	95%	0.20%
	<u>Staff Search (Atlantic and Jubilee)</u>	<u>Times <5 Minutes</u>	<u>97%</u>	<u>0.175%</u>
8	Staff Search (Terminals and Crew)	Times <5 Minutes	95%	0.3175%
9	External Control Posts Search	Times <150 Minutes	95%	0.35%
(iii)	Passenger operational measures			1.050.55% (ST) 1.551.05% (NT)
10	Passenger Sensitive Equipment (General)	% Time Available	99%	0.05%
11	Passenger Sensitive Equipment (Priority)	% Time Available	99%	0.50%
12	Inter Terminal Shuttle System	% Time 1 Car Available & % Time 2 Cars Available	99% 97%	0.50% (NT)
13	<u>Arrivals Reclaim (Baggage Carousels)</u>	<u>% Time Available</u>	<u>99%</u>	<u>0.50%</u>
(iv)	Airline operational measures			1.60%
14 a	<u>Outbound Baggage</u>	<u>OBP** Daily</u>	<u>97%</u>	<u>0.175% daily</u>

14-b	Outbound Baggage	OBP Monthly	99%	0.70% monthly (0.7% max per month)
15	Stands	% Time Available% of required occasions (arriving aircraft)	99.5%****	0.015%
16	Jetties	% Time Available% of required occasions (arriving aircraft)	99%****	0.30%
17	Pier Service	Moving annual average % passengers pier served	95%	0.50%
18	Fixed Electrical Ground Power	% Time Available% of required occasions (arriving aircraft)	99.5%****	0.015%
	Runway Availability	Number of unavailable events	Single event metric	Duration of runway not available penalty: Up to 15 minutes: No penalty 15min-45min: £50,000 >45min: £100,000 Up to 0.50%
	Airfield Travel Time	Reporting metric	n/a	Reputational only
(iv)	Aerodrome congestion term			0.70%
19	Airfield congestion / availability	{maximum cumulative movements deferred following a material event which has a material impact}	>3**	0.70%
(v)	Baggage measures			1.20%
	Arrivals Reclaim (Baggage Carousels)	% Time Available	98.5%	0.50%
	Outbound Baggage	OBP Daily	98%	0.175% daily
	Outbound Baggage	OBP Monthly	99%	0.70% monthly (0.7% max per month)
(vi)	IT measures			0.10%
	Flight Information Display Screen system	% Time Available	99.9%	0.10
	Total			7.25% (NT) 6.75% (ST)

* Scores of less than 4.00 will be published as “amber”, rather than “green” (pass)

** In a day when the single time slice is greater than 30 minutes the maximum daily penalty is 0.05% with a maximum monthly penalty of 0.70%

*** Or alternative metric following agreement with the ACC

**** To be reviewed once data from a sufficient period of normal operations is available

** Refer to the ~~Gatwick Airport Core Standards Handbook for detail~~. Calculation and measurement of the passenger satisfaction measures, the security queues, the Passenger operational measures and the Airline operational measures shall ~~be undertaken in accordance with the “Gatwick Airport Core Service Standards Handbook” annexed to these Conditions which may be amended from time to time by agreement between Gatwick Airport Limited, the Gatwick Airline Operators Committee and the Gatwick Airport Consultative Committee.~~ Core Service Standards will be undertaken in accordance with the “Gatwick Airport Core Service Standards Handbook” annexed to these Conditions which may be amended from time to time by agreement between Gatwick Airport Limited, the Gatwick Airline Operators Committee and the Gatwick Airport Consultative Committee.

Schedule 3: Appendix II – Airline Service Standards

Standard “k”	Metric	Target Level	Reduction Percentage
Check-in performance – queue time	Times <30 Minutes	95%	1.0%
Arrivals bag performance – lastbag on carousel	Times <50 Minutes (largeaircraft) Times <35 Minutes (small/medium aircraft)	95%	0.50%

Calculation and measurement of the Airline Service Standards will be undertaken in accordance the “Gatwick Airport Airline Service Standards Calculation Guide” annexed to these Conditions which may be amended from time to time by agreement between Gatwick Airport Limited, the Gatwick Airline Operators Committee and the Gatwick Airport Consultative Committee.

Schedule 4: Capital Investment Consultation

1. Definitions

For the purposes of this Schedule the following definitions apply:

- 1.1 [‘ACC’ means the Gatwick Airport Consultative Committee \(the airlines’ consultative body\)](#)
- 1.2 [‘PAG’ means the Gatwick Passenger Advisory Group \(a sub-group of GATCOM, the local community’s consultative body\)](#)
- 1.3 [‘Major Development Projects’, means those](#)
- 1.3.1 [individual projects or individual programmes of projects with a budget in excess of £105m \(excluding the Asset Stewardship Programme\) and the Second Runway Project; and](#)
- 1.3.2 [individual projects or programmes of projects with a budget of less than £5m which in the reasonable opinion of Gatwick Airport Limited \(GAL\) and/or the ACC have a particular impact on customer service, operations or are of strategic importance](#)
- 1.24 [‘Minor Development Projects’ means those individual projects or individual programmes of projects with a budget of less than £105m \(excluding both the Asset Stewardship Programme and Second Runway Project\); and other than those referred to in paragraph 1.3.2 above](#)
- 1.35 [‘Asset Stewardship Programme’ means all asset maintenance and replacement projects in the following asset groups: Airfield, Commercial, IT, Facilities and Compliance/Risk.](#)
- 1.46 [‘Commercial Return Project’ is any project with associated commercial revenues that has a positive Net Present Value not taking into account incremental Airport Charges.](#)

1.57 'A-Dedicated Airline Project' is a project undertaken for the benefit of one or more specified airlines and which is remunerated by a separate commercial arrangement or specific airport charge payable by users of the project

~~1.6 'ACC' means the Gatwick Airport Consultative Committee~~

2. Airline consultative groups

2.1 Consultation with the airlines will need to be undertaken at a number of different levels, with groups formed appropriately:

2.1.1 ACC: to consider strategic matters involving the medium- to long-term development of the airport;

~~2.1.2 Capital sub-committee of ACC; and~~ to consider tactical matters involving the delivery by GAL of the capital development programme; and

2.1.32 Working groups ~~(informal and formal)~~: to input into the design and development of specific projects or programmes and consider operational impacts of projects on the day-to-day activities of the airlines operating at the airport. ~~These working groups (where required) will be project specific, involve affected airlines, and may require a formally constituted working group for significant projects requiring a high degree of airline input into the design and execution planning (e.g. check-in transformation)~~Which projects and programmes require working groups will be agreed between GAL and the ACC, recognising that they require a high degree of airline input.

3. Master Plan

Before publishing a revised Master Plan for the Airport GAL will consult with airline operators and through the ACC, as well as other business partners and the local community.

4. Capital Investment Programme

4.1 GAL will publish annually a rolling five year Capital Investment Programme (CIP). Before publishing the CIP GAL will consult with the ACC and with the Gatwick Passenger Advisory Group PAG, such consultation to address:

4.1.1 the principal business drivers behind the airport's development strategy, including service levels;

4.1.2 forecast traffic demand and associated demand for airport capacities and services;

4.1.3 the capacities that the airport intends to provide, taken in the context of forecasted demand; and

4.1.4 the cost of the capital investment programme, ~~and the resulting effect on the asset base of the airport.~~

4.2 The forecast cost of the capital investment programme will:

4.2.1 summarise expenditure on each of the Major ~~Development~~ Projects;

4.2.2 summarise aggregate expenditure on the Asset Stewardship Programme ~~(across all five elements);~~

4.2.3 summarise aggregate expenditure on Minor ~~Development~~ Projects;

4.2.4 be at a level of detail that reflects the planning horizon and Tollgate status for projects, with those in the short-term being more granular and certain than those in the final years of the forecast; and

4.2.5 provide an explanation as to any material differences between the latest forecast and ~~both the prior year forecast and the forecast incorporated in Appendix C of CAP 1139.~~

5. Individual Major ~~Development~~ Project consultation

5.1 As part of the annual Capital Investment Programme consultation with the ACC, GAL will consult with airlines in relation to Major ~~Development~~ Projects (with the exception of Commercial Return Projects and Dedicated Airline Projects) ~~covering:~~

~~5.1.1 high level options for the development of Major Development Projects and the trade-offs involved between alternatives;~~

~~5.1.2 the outputs that are expected to be delivered in terms of service, capacity, operating cost, and revenue;~~

~~5.1.3 scope, programme and cost of the project required to deliver the business objectives; and~~

~~5.1.4 the business case for the project.~~

~~5.2 GAL will consult with the Capital sub-committee of the ACC in relation to the Major Development Projects at Tollgate 2, Tollgate 3, and Tollgate 4. This will require meetings on a more frequent basis than annually. The process for consultation will be as follows:~~

5.1.1 Initiation of a project will be through the creation of a project datasheet by either GAL, the ACC or the PAG. This will provide the problem/opportunity statement to be addressed and the proposed scope, if known. This will usually reflect a Tollgate 0 in GAL's project development process.

5.1.2 Tollgate 0 project datasheets will be consulted upon to determine the level of engagement required by the airlines and/or the PAG on the project (eg through a dedicated working group or through normal operational forums oversight (eg Joint Operations Group (JOG))).

5.1.3 Major Project working groups will consult on the following:

5.1.3.1 scope, programme and cost of the project required to deliver the business objectives

5.1.3.2 the outputs that are expected to be delivered in terms of service and capacity

5.1.3.3 high-level options for the development of Major Projects and the trade-offs involved between alternatives.

with the frequency of meetings agreed by the working group members, but anticipated to be more often than annually.

5.2 All projects will continue through GAL's internal project development governance process with updates given at AAG meetings, where required, following achievement of Tollgates 2 and 4 (and Tollgate 3 by exception if the project has materially changed).

5.3 Following Tollgate 4, progress withof the delivery of Major Development Projects will be reviewed by ~~the Capital sub-committee of~~ the ACC and the PAG as part of ~~its~~GAL's annual Capital Investment Performance Review (see below).

5.4 ~~GAL will consult with the Gatwick Passenger Advisory Group in relation to Major development Projects at appropriate times in the life cycle of such projects.~~

~~5.5~~ In this paragraph 5 of Schedule 4:

~~5.54.1~~ Master Plan refers to the plan prepared by GAL detailing how it intends to take forward its strategic framework in the form of airport specific proposals, designed to help inform the regional and local planning processes and facilitate engagement with a wide range of stakeholders and

~~5.54.2~~ Tollgates 2, 3 and 4 respectively refer to the launch, design and deliver tollgate stages of GAL's current project development process or the similar stages of any revised process that GAL may adopt.

6. Annual Capital Investment Performance Review

6.1 GAL will meet annually with ~~the Capital sub-committee of~~ the ACC and members of the ~~Gatwick Passenger Advisory Group~~PAG to review GAL's delivery of the Capital Investment Programme, specifically:

6.1.1 in relation to the following 12 months:

- 6.1.1.1 the schedule and expenditure for each Major ~~Development~~ Project;
 - 6.1.1.2 the ~~priorities and~~ aggregate expenditure of the Asset Stewardship Programme ~~across each of the five broad elements~~ (separately identifying individual projects in excess of £1m).
 - 6.1.1.3 the expenditure on Minor ~~Development~~ Projects (separately identifying individual projects in excess of £1m).
- 6.1.2 in relation to the preceding 12 months, works undertaken and progress with:
- 6.1.2.1 each Major ~~Development~~ Project;
 - 6.1.2.2 Minor ~~Development~~ Projects (separately identifying individual projects in excess of £1m); and
 - 6.1.2.3 Asset Stewardship Programme ~~across each of the five broad elements~~ (separately identifying individual projects in excess of £1m).

Appendix C

Reasons for and effects of the proposed modifications

Proposed changes to GAL's licence

Original Licence condition	New Licence condition	Summary of modification	Reasons for the proposed modification	Effect of the proposed modification
C1.4 C1.6	C1.4 C1.5	Wording changes to clarify that there are two circumstances in which the Commitments can be changed, and a consequential change so that C1.6 (now C1.5) continues to apply to only one of these.	There was previously an ambiguity between conditions C1.4 and C1.7 (now C1.6) on whether C1.4 was an absolute prohibition or was qualified by C1.7. The modification removes this ambiguity.	Clarifies the different ways in which the Commitments can be changed.
C1.5	C1.7(c)	Condition moved to the list of definitions in C1.11 (now C1.7).	This modification is necessary to avoid ambiguity following the change to C1.4 described above.	Facilitates the change described above.
C1.5(b) C1.8-C1.10 C1.11(c) C1.11(d)		Deleted to remove all references to the recovery of second runway costs.	These conditions were related to a Government decision on expansion that is not relevant to the forthcoming control period and are therefore now redundant.	GAL will no longer be allowed to automatically recover costs up to £10m per annum for the development of a second runway.
C1.7	C1.6	Minor typographical change.	For consistency with other parts of the licence.	Increases clarity.
	C1.7(c)i	New sub-paragraph to include reference to Condition 8.2 of GAL's Conditions of Use ('the CoU').	The CoU contains a new modification provision that allows changes to the investment and consultation commitment to be agreed between GAL and a minimum number of airlines. This modification is necessary so that such agreed changes are allowed under the licence.	Allows for modifications made under condition 8.2 of the CoU to be treated as licence modifications in accordance with section 21(3) of CAA12.
C1.5(a)	C1.7(c)ii	Updated cross reference.	This modification updates a cross-reference following the changes to Schedule 2 of the CoU set out in Appendix B.	Continues to allow for modifications made under Schedule 2 of the CoU to be treated as licence modifications in accordance with section 21(3) of CAA12.
C1.11	C1.7	Updated cross reference.	Paragraph numbers have changed.	Identifies the correct paragraphs.
D1.5	D1.5	Formatting update to move "the Licensee must	To correct a formatting error in the licence. The	This modification clarifies that GAL will

Original Licence condition	New Licence condition	Summary of modification	Reasons for the proposed modification	Effect of the proposed modification
		inform the CAA within 3 working days” from sub-paragraph (b) into the main body of D1.5.	requirement to inform the CAA should refer to both sub-paragraphs.	be required to inform the CAA of relevant advice in relation to both its own financial position and a linked company’s financial position.
	D1.10(d)	Definition of the shadow Regulatory Asset Base inserted.	Condition D1.10(c)iii refers to the shadow Regulatory Asset Base but this was previously not defined in the licence.	This modification clarifies the scope of the Permitted Business and therefore the restriction on activities in condition D1.6.

Proposed changes to the Commitments in GAL’s Conditions of Use

Condition	Summary of modification	Reasons for the proposed modification	Effect of the proposed modification
2.1.3	Clarifies that the Commitments in the CoU can be amended by GAL in response to either a change in law or following a modification by the CAA under section 22 of CAA12.	There was previously a possible inconsistency between condition C1.7 of the licence and paragraph 2.1.3 of the CoU.	GAL will be able to change the Commitments in the CoU if required to following a CAA licence modification or a change of law.
2.1.3	Amends the date before which the Commitments in the CoU cannot be changed except in certain circumstances.	This reflects the period of the new Commitments	Continues the prohibition on GAL changing the Commitments except in certain circumstances.
2.1.3	Reference inserted to condition 8.2.	The CoU contains a new modification provision that allows changes to the investment and consultation commitment to be agreed between GAL and a minimum number of airlines. This modification is necessary so that such agreed changes are not prohibited by condition 2.1.3.	Allows for agreed changes made under condition 8.2 to be reflected in the CoU.
2.1.3	Updated cross-reference.	Paragraph numbers in Schedule 2 have changed.	Identifies the correct modification provision.
7.1 7.3	Deletes requirements to provide first plans or other documents by 1 October 2014.	These plans have been provided and these requirements are now redundant.	No effect, only removes a redundant clause.
8.1	Changes the minimum investment requirement to £720 million over the period from 2019/20 to 2024/25.	Implements the new investment and consultation commitment (see Chapter 1, especially paragraphs 1.18 to 1.38).	GAL will be required to invest a minimum of £720m between 2019/20 and 2024/25.
8.2	Inserts a new modification provision for the investment and consultation commitment.	While there are already modification provisions that allow changes to the price and service commitments, there was no corresponding provision to allow for changes to the investment commitment if agreed by a minimum number of airlines.	GAL will be able to reduce the minimum investment required under condition 8.1 if this is agreed by a minimum number of airlines.

Condition	Summary of modification	Reasons for the proposed modification	Effect of the proposed modification
9.1	Amended date for the year for equivalent statutory accounts.	This updates the required level of disclosure so that it will be equivalent to the information in GAL's most recent statutory accounts (rather than those for 2011/12).	The required level of disclosure will be equivalent to the information in GAL's most recent statutory accounts.
9.2	Deleted clause 9.2.	The requirement to publish GAL's assessment of its asset base is already satisfied by the requirement in condition 9.1 for GAL to provide its statutory accounts or an equivalent level of disclosure.	Removes a duplicate provision and therefore improves clarity.

Proposed changes to Schedule 2 (Price Commitment) of GAL's Conditions of Use

Original paragraph	New paragraph	Summary of modification	Reasons for the proposed modification	Effect of the proposed modification
1.1	1.1 1.8	Definitions of Actual Gross Yield and Planned Gross Yield added.	Collectively, these changes implement the new price commitment. See Chapter 1, especially paragraphs 1.18 to 1.38.	These changes define new terms that are required for the revised specification of the cap on published charges.
1.1 1.7 1.9 1.10 1.18 3		Removal of provisions related to the cap on net charges.		There will no longer be a separate cap on net charges.
1.2 1.6 1.11	1.5 1.6 1.7	Change of terminology for the specification of the cap on published charges. The previous terms Aggregate Core Revenue, Core Yield and Indicative Gross Yield Profile now become (respectively) Gross Revenue, Gross Yield and Maximum Gross Yield.		The new terminology is more consistent and clearer than before.
1.2 1.13	1.5	Removal of Selected Ancillary Charges from the definition of Gross Revenue.		Selected Ancillary Charges will no longer be included in the scope of the cap on published charges.
1.4	1.3	Updated dates in the definition of Core Services.		This brings the definition of Core Services up to date.
1.8 1.12 2 4 5		Removal of provisions related to the carry forward of under or over-recoveries.		There will no longer be provision for under or over-recoveries to be carried forward.
1.17	1.12	Expanded definition of the security cost pass-through (S_i).		The definition of S_i is updated to reflect how it has been applied in practice during the current period and costs expected during the next period.

Original paragraph	New paragraph	Summary of modification	Reasons for the proposed modification	Effect of the proposed modification
1.19	1.13	Revised definition of the Underlying Gross Yield, including a revised formula (RPI rather than RPI+1%) and the new starting point.		These changes implement the new cap on GAL's published charges.
	2	Specification of the cap on published charges, including that GAL will set charges that it expects to comply with the cap for each year, that there will be no carry forward of any under-recovery, and it will issue rebates following any over-recovery (except for the first year of the period).		These changes implement the way the new cap will be applied, with no carry forward of any over or under-recoveries and rebates for over-recoveries (except for the first year).
6	3	Changes to insert revised terminology and to remove references to the second runway, plus minor typographical changes.		The modification provision is updated for new terminology (see above), and the redundant second runway provision is removed.
7	4	Changes to the list of items that GAL will publish with its annual consultation on airport charges.		The publication requirement is updated for new terminology (see above), and references to terms that will no longer be calculated (i.e. those related to the carry forward of under or over-recoveries) are removed.
10	7	Revised cross-reference.		The cross-reference in this provision is updated.

Proposed changes to Schedule 3 (Service Commitments) of GAL's Conditions of Use

Paragraph	Summary of modification	Reasons for the proposed modification	Effect of the proposed modification
1 2	Removal of "financial" in description of year ending 31 March.	Collectively, these changes implement the new service standards commitment. See Chapter 1, especially paragraphs 1.18 to 1.38.	This removes possible ambiguity following GAL's switch to calendar years for its financial reporting.
2	Removal of additional provisions applying to Selected Passenger Facing Measures.		These additional provisions will no longer apply (as they do not form part of the new service standards commitment).
6	Removal of requirement to publish service standards in the terminals and to publish the ACI Airport Service Quality ranking.		These requirements will no longer apply (as they do not form part of the new service standards commitment).
8	New provisions relating to on time performance.		There will be new (reputational) targets for on time performance and GAL will be required to develop an improvement plan if it misses these targets.

Paragraph	Summary of modification	Reasons for the proposed modification	Effect of the proposed modification
9	New provisions relating to a review of service standards.		There will be provision for a review of the structure and content of service quality targets and rebates.
Appendix I	Detailed changes to specific service quality targets and rebates.		These changes implement the metrics and targets included in the new service standards commitment, following detailed discussions between GAL and airlines.

Proposed changes to Schedule 4 (Capital Investment Consultation) of GAL's Conditions of Use

Paragraph	Summary of modification	Reasons for the proposed modification	Effect of the proposed modification
1	Changes to definitions.	Collectively, these changes implement the new investment and consultation commitment. See Chapter 1, especially paragraphs 1.18 to 1.38.	These changes clarify the definitions of ACC and PAG, and implement a new division between Major Projects, Minor Projects and the Asset Stewardship Programme as agreed between GAL and the ACC.
2	Removal of references to a Capital sub-committee of the ACC, and changes to the description of working groups.		This clarifies that engagement will be with the ACC rather than a capital sub-committee of the ACC, and provides for a flexible approach to the formation of specific working groups.
3	Minor wording changes.		This clarifies that GAL can consult airlines through the ACC on any Master Plan.
4	Minor wording changes.		These changes reflect revised definitions (see above) and the fact that GAL no longer has a formal regulatory asset base, and removes a redundant reference to CAA's forecasts for 2014/15 to 2020/21.
5	Miscellaneous wording changes.		These changes reflect revised definitions (see above) and implement the new consultation process agreed between GAL and the ACC.
6	Minor wording changes.		These changes reflect revised definitions (see above).