Gatwick Commitments

PROPOSAL TO EXTEND GATWICK'S COMMITMENTS

31 MARCH 2023

Executive Summary

31 March 2023

Summary

Gatwick Airport Limited (GAL) operates under a set of 'Commitments', a legally binding contractual undertaking between GAL and its airline customers, which was last put in place from 1 April 2021 and runs until 31 March 2025. This is underpinned by an economic licence granted by the UK Civil Aviation Authority (CAA) under the Civil Aviation Act 2012. This document sets out GAL's proposals to extend the Commitments for the four-year period from April 2025 to March 2029. It has benefited from the responses from airlines and passenger representatives to a consultation held in Summer 2022. Following the consultation, GAL has materially changed its proposed Maximum Gross Yield, increased the planned capital expenditure across the period, introduced a draft airport vision, and proposed a number of areas that it would like to engage with airlines on during the current review of service standards.

What are we proposing?

Aspect	GAL's extended Commitments
Term	**GAL proposes an extended Term for the Commitments for four years to 31 March 2029.**
Price	**Gross yield**: the maximum average annual rate of increase in gross yield will be no more than CPI-1% for the first two years of the extension (1st April 2025-31st March 2027) and no more than CPI for the second two years of the extension (1st April 2027 – 31st March 2029), subject to the Maximum Gross Yield not reducing in nominal terms in the first two years of the extension period. The gross yield ceiling remains a year-by-year limit rather than an average measured over the Commitments Term. **Capacity Growth:** GAL commits to seek to increase the capacity and resilience of its airfield infrastructure. GAL further commits to continue to bear the cost and risks incurred during the extended Commitments period (up to 31 March 2029) in developing these plans, securing necessary Government approvals, and implementing the necessary projects. These include the potential projects to maximise the use of the existing main runway and to bring into routine use the existing standby runway ('Northern Runway').
Service	GAL commits to continue maintaining good service delivery for its passengers and airlines for the term and will remain financially incentivised to do so through the continuation of the Core Service Standards regime. GAL remains committed to a review of these standards this year in collaboration with Gatwick's airline partners. Through that review, Gatwick is minded to reintroduce a CSS metric around avoidable Air Traffic Control performance as well as add financial consequences to failing Passenger with Reduced Mobility service metrics. Through GAL's CSS regime, we will remain incentivised to deliver on service as the airport continues to seek to grow.
Investment	GAL commits to invest at least £120 million in 2018/19 prices (approximately £148 million in 2022/23 prices) per year on average over the extended Commitments term. This means that over the full period measured by the commitment (i.e. 2019-

Aspect	GAL's extended Commitments
	2029), Gatwick is committing to invest a minimum of approximately £1.5 billion (2022/23 price estimate). This will be indexed by CPI from 31st March 2025. GAL will continue to consult annually with airlines and passenger representatives on the rolling five-year Capital Investment Programme.

Rationale

Throughout the period of its operation, the Commitments framework has enabled GAL to work closely with its airline partners to deliver benefits to passengers. These benefits were reflected in increasing passenger numbers before the Covid-19 pandemic struck, (the airport served 46.6m passengers in 2019 up from 38.1m passengers in 2014) and rapidly increasing passenger numbers in the recovery period (2022 saw 11.5m passengers travelling through Gatwick in June, July and August – more than double the 6m passengers in the whole of 2021); the highest number of routes available from any UK airport (including new long-haul services to a wide range of destinations in North and South America, the Middle East and Africa); high service quality and passenger satisfaction; delivered through resilient operations, continuous investment (GAL invested £1.36 billion between 2014 and 2021) and competitive pricing. Throughout this period, GAL's profitability has been within the range of unregulated UK airports.

The Commitments framework has shown itself to be a flexible and evolving regulatory structure in which GAL continuously works with its airline partners to improve the passenger journey, updating the service targets to reflect the latest passenger research. For example, in 2021, GAL introduced new service standards including those relating to Wi-Fi availability, Special Assistance and flight information system availability and changed the way airfield asset availability was measured to hold GAL accountable when infrastructure failures affect our airline partners' operations.

This flexibility was demonstrated particularly clearly through the Covid-19 pandemic. During 2020 and 2021, GAL lost over £1.3 billion of revenue and, despite extensive restructuring and careful management, made over £830 million of losses. GAL's shareholders provided an additional £370 million of equity to ensure the survival of the airport. Despite these losses, throughout the Covid-19 pandemic GAL continued to support its airline partners by not pricing to the Maximum Gross Yield, reprofiling other charges to reduce the burden on airlines; and varied contractual terms with airlines to support those airlines, including by suspending and/or capping aircraft parking charges, implementing simplified pricing structures to share traffic volume risk and provide increased price certainty, and offering additional incentives and marketing support to stimulate the recovery. This was all done with a view to maintaining critical long-term partnerships with GAL's airline partners, despite the additional costs associated with these measures.

In addition to supporting its airline partners with a package of measures, GAL continued to invest throughout the Covid-19 pandemic where it was appropriate to do so, for example in resurfacing the main runway and enhancing the airfield data network.

As the aviation industry began to recover from the Covid-19 pandemic in 2022, there were operational challenges across the UK and European aviation sector. GAL delivered an unprecedented increase in passenger demand, with passenger satisfaction returning to its high, pre-pandemic levels, and most passengers experiencing a high service quality while at the airport. The Commitments framework was crucial to enabling this increase in passenger numbers while delivering (overall) high service quality as GAL and its airline partners collaborated to ensure the smooth reopening of the South Terminal, introducing incentives for airline ground handlers, and working constructively together to minimise security disruption. As the world reopens, GAL continues to price competitively against other UK and comparable European airports.

These experiences demonstrate how the Commitments framework has provided benefits to passengers, airlines, and GAL throughout the good, and bad, years since its inception. It is therefore a strong basis on which to build.

The current environment can be characterised as unprecedently uncertain: the economic situation; the aviation industry in general; and at Gatwick in particular. With high and volatile inflation, accompanied by rising interest rates and low economic growth, the economic situation in the UK is more uncertain than it has been for many decades. This means that demand and cost risk at Gatwick is also higher than it has been for many years. In addition to this broad economic uncertainty, the aviation industry continues to grapple with the uncertainty caused by the Covid-19 pandemic, including later passenger booking profiles, more uncertain demand patterns, a materially reduced level of business travel, and the impact of the cost of living crisis on underlying demand. It is very unclear how demand will continue to evolve, and different parties take very different views on these factors: forecasting future demand is therefore harder than ever before, and airports and airlines will need to be flexible in responding to how demand volume and composition changes.

Finally, the outlook for Gatwick is particularly uncertain given the outcome of Gatwick's application to bring the Northern Runway into regular use is currently unknown. The Northern Runway project is a major expansion opportunity that will shape the future of Gatwick's capacity offering and resilience. It is expected to take until at least Q1 2025 for a decision to be made by the Secretary of State for Transport on whether to approve GAL's planning application for this major infrastructure project. In addition to this uncertainty on the airport infrastructure, Gatwick has to compete with other airports in the London system for passengers; and with airports across Europe for airline services: the outcome of this competition is unknown and so GAL is committed to remaining agile, delivering high quality service to passengers and airlines; and pricing competitively.

This uncertainty reflects the risks in the aviation business: under the Commitments framework, GAL and its airline partners manage those risks flexibly using commercial agreements. These agreements provide a clear framework which is well understood by stakeholders, enables positive commercial engagement between GAL and its airline partners to shape price and service levels to each airline and to share commercial risk and rewards, and to provide flexibility to respond to market conditions. Under these agreements, GAL takes a substantial level of cost and traffic risk, which is higher than under many other forms of regulation and, in some respects, greater than in an unregulated market.

In this context of unparalleled uncertainty, GAL's proposals for a short extension will provide for stability and certainty over the coming years as the economy and aviation industry stabilise and the outcome of the Norther Runway planning application becomes known. It will enable GAL and its airlines to focus on delivering resilient operations, high service quality, a large capital programme and the anticipated growth, rather than engaging in time consuming zero-sum games which characterise other regulatory regimes.

GAL believes that these proposals are in the best interests of passengers, airlines and GAL, and looks forward to engaging further with the CAA and airlines.

Foreword

Nearly ten years ago, Gatwick Airport, then recently separated from BAA and operating in competition with Heathrow, Stansted and Luton, offered an alternative to the regulatory arrangements in place at the time. We sought to create a system that put commercial agreements between airport and airlines at the very centre of our business, thereby delivering improved outcomes for passengers.

This new system became known as "Contracts and Commitments" when the Civil Aviation Authority (CAA) endorsed it in 2014 by embedding these commitments into their proposal for the future regulation of Gatwick. This changed approach to working with our airline customers enabled us to deliver our strategy - 'to compete and grow to become London's airport of choice'.

Over the first seven years (2014-2021), the experience of the Commitments was overwhelmingly positive. The relationship with our airlines was revolutionised, our service performance transformed compared to the period under RAB regulation, and we welcomed more passengers than ever before, with more than 46 million passengers using the airport in 2019. Both GAL and our airlines thrived by replacing regulation with contracts and, as a result, passenger satisfaction remained high at 4.18 in 2014, 4.28 in 2019 and 4.21 in 2022. In 2018 we began to consult on an extension to the arrangement, alongside a refreshed set of service commitments, and in January 2020, we proposed to implement the improved Commitments. These were accepted by the CAA and started on 1 April 2021.

The pandemic was not only unforeseen, but it was also devastating for our entire industry. Over the period, we saw empty terminals, aircraft sitting idle at our stands, and friends and colleagues leaving the industry. It has also exposed new risks to the business as national governments swiftly implemented travel restrictions and slot rules proved to provide less certainty rather than more. And even during the recovery, we have seen some long-established carriers either temporarily reduce their networks or leave Gatwick altogether. There is also significant ongoing uncertainty, with economic and geopolitical risks in Europe looming large and continued uncertainty relating to how and when travel patterns, so badly disrupted by Covid-19, stabilise. These challenges are faced by all parties in Gatwick's aviation ecosystem and could disrupt the recovery we all desperately need. I am overwhelmingly hearing from our customers that what they need now is a period of certainty and stability. We, therefore, believe this is the right time to consider how GAL can help provide additional certainty.

I am grateful to the airlines and passenger representatives who have taken the time to engage with us on the terms of this extension. We have listened to your feedback and changed a number of important aspects of our proposal: by changing the price ceiling, introducing a new airline vision that I am eager to hear your views on, and identifying new areas of service standards that we would like to consider together. We propose to extend the existing Commitments arrangement for four years until 31 March 2029. Through this, we can provide certainty and predictability. Over this period, we will provide much-needed confidence to our airlines and passengers by striving for outstanding service, continuing to invest in our facilities and providing a price which is expected to decline (on average) in real terms. This assurance will help our airlines manage their costs.

We will also continue to act in the passengers' interest by making a long-term commitment to service. We will continue to invest in our facilities to deliver strong passenger outcomes and regularly review service standards with our airline and Passenger Advisory Group (PAG). This Commitment will ensure the service standards remain appropriate and relevant over the extended period. We have also heard the requests from airlines to be clearer about our vision for the airport and we have included this in our proposal. Underpinned by the tagline "**To be the airport for everyone, whatever their journey**", our vision is built on three core foundations – ease, efficiency and experience. This vision will flow through our investment plans and operations to act as our guide in developing the airport over time.

This short extension will benefit passengers. It will generate a more stable, predictable environment to assist our airlines in continuing to recover from the pandemic and provide the right background to enable the effectiveness of our airline contracts. The contracts will, in turn, enable our airlines to continue investing in the depth and breadth of services they offer to passengers. The additional certainty will also help us make the right investments at the right time, thereby underpinning our service offer - a direct benefit to airline operations and to our passengers. These benefits will extend to all categories of passengers, including those who need assistance to travel. Our proposal includes a reaffirmation that Gatwick will meet the original minimum investment commitment, despite not recovering the lost revenue from this period or the recovery. This will involve a significant programme of work, across the whole airport campus, which will bring passenger benefits, in terms of service, capacity and resilience. During this period, we will actively strive to obtain consent to start the work needed to bring our Northern Runway into routine use to add capacity and additional resilience to the airfield. The certainty offered by an extended Commitment period will enable GAL to bear the costs and risks of this work during this extended period.

Our proposal recognises that the pandemic-induced hiatus of the last few years has meant that neither our airline customers nor passengers have been able to benefit fully from the previous Commitments extension proposed in 2020, while the current economic and financial uncertainty place an emphasis on ensuring a stable background against which all parties can invest and develop their services. Against that challenging background, I look forward to delivering these extended Commitments for the benefit of our airline customers and passengers.

Stewart Wingate
Chief Executive Officer
Gatwick Airport Limited

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1. Introduction

Gatwick Airport Limited (GAL) operates under a set of 'Commitments', a legally binding contractual undertaking between GAL and its airline customers, which is underpinned by an economic licence granted by the UK Civil Aviation Authority (CAA) under the Civil Aviation Act 2012. This document sets out GAL's proposals for consultation with its airline customers to extend the Commitments beyond the current term, which ends on 31 March 2025.

The paper is structured as follows:

- Section 2: Benefits of Contracts and Commitments
- Section 3: Market Environment
- Section 4: Focus on the Future
- Section 5: GAL's Proposals
- Section 6: GAL's Economic Licence
- Section 7: Summary of Summer 2022 Consultation Responses
- Annex: Proposed Amendments to Conditions of Use

1.1 Consultation process

In July 2022, GAL consulted with its airline customers and passenger representatives on a proposal to extend the Commitments framework. Following this consultation, GAL has reviewed and amended its package of proposed Commitments, which are set out in this document.

GAL is proposing a short extension to the duration of the Commitments as a consequence of the impact from Covid-19. The Covid-19 pandemic created enormous disruption and uncertainty for all parties and has meant that the previously agreed framework has had limited time to deliver the benefits as intended.

This document sets out GAL's proposal for an extension of the Commitments framework and GAL requests that the CAA uses its powers under Section 22 of the Civil Aviation Act 2012 to introduce modifications to the terms set out in the Gatwick licence.

2. Benefits of Contracts and Commitments

On 13 February 2014, the CAA published its final decision on the economic regulation of GAL for the period April 2014 to March 2021. The CAA concluded that Gatwick Airport satisfied the Market Power Test[1] and that GAL required a licence under the Civil Aviation Act 2012. The CAA granted GAL a licence which underpins GAL's 'Commitments' framework.

The Commitments are a framework of legally binding contractual undertakings between GAL and its airline customers with the objective of encouraging the airport and airlines to behave commercially. Under this framework, default tariff and service standards continue to be set out in GAL's Conditions of Use, with scope for GAL to enter into bilateral contracts with individual airlines, including modifications to elements of the published tariff (both price and service levels).

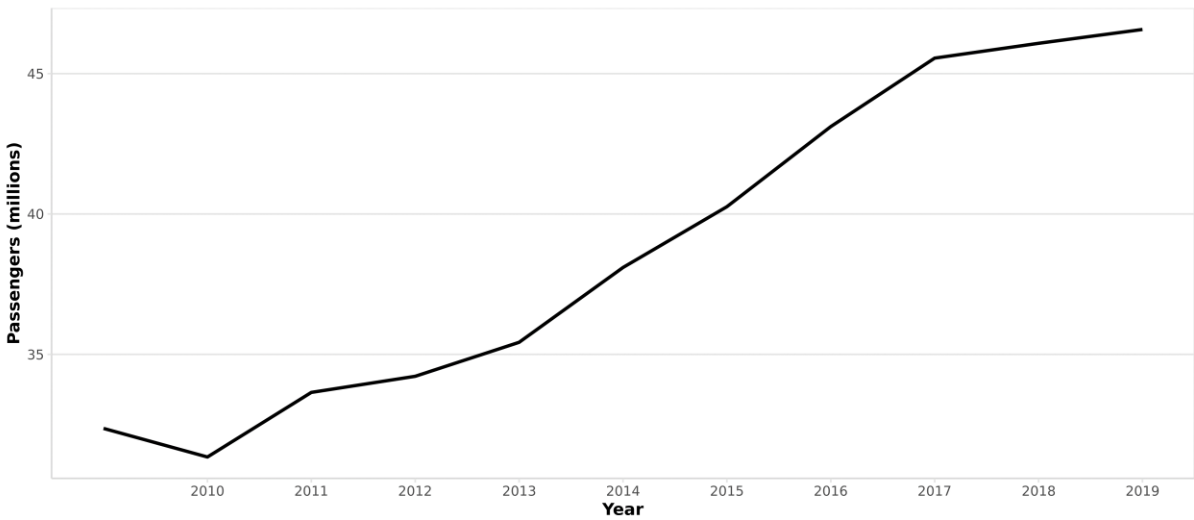
2.1 Outcomes at Gatwick in 2014-21

The Commitments framework has served the interests of passengers and airline customers well, enabling and encouraging GAL to deliver fair and reasonable outcomes for all airport users in terms of price, service, and investment to sustain future growth. We believe the Commitments have been able to deliver consistently for passengers and airlines since the framework was established in early 2014, with service levels and overall investment significantly exceeding what was committed.

Passenger numbers, routes and route spread

As shown in the figure below, passenger numbers increased from 38.1 million passengers in 2014 to 46.6 million passengers in 2019 (the last full year before the Covid-19 pandemic struck), or an increase of 22% over the period; an average growth rate of 4.1%. This improved upon the 3.3% growth in the previous five years and was achieved even though Gatwick was constrained by runway capacity at peak times.

Figure 1: Total number of passengers per year

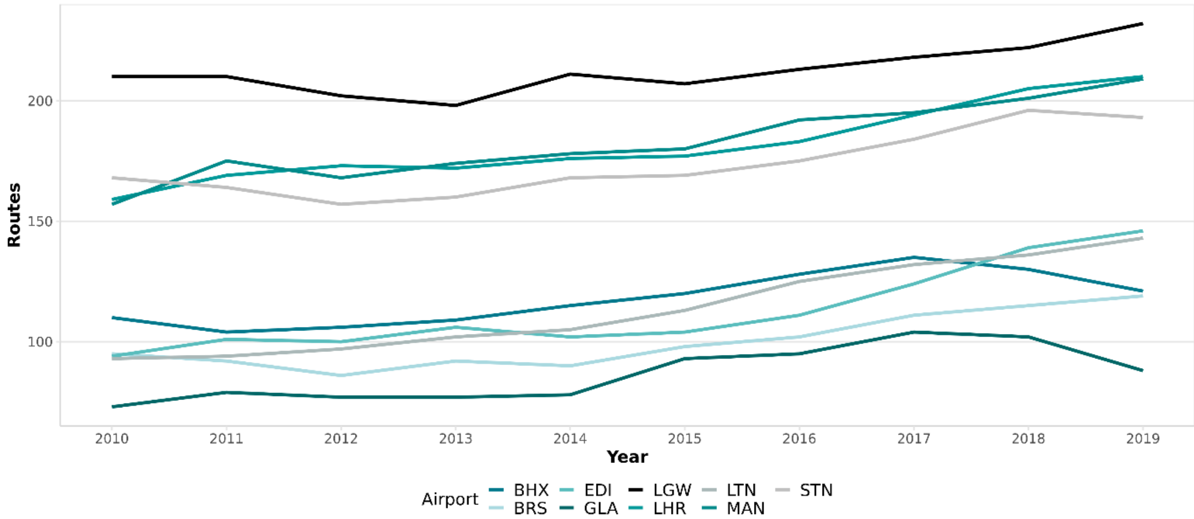


Source: Gatwick traffic data.

[1] As set out in Civil Aviation Act 2012

Over this period, Gatwick continued to offer the largest number of routes of any UK airport, and the number of routes available to passengers flying from Gatwick increased from 211 in 2014 to 232 in 2019, a 10.0% increase (CAGR of 1.9%).

Figure 2: Total number of routes per year



Source: Frontier Economics analysis of OAG data.

This included services to new countries including Argentina, Costa Rica, Hong Kong, Kuwait, Peru, Qatar, South Africa, Singapore, and Taipei. In addition to these new countries, there were new connections to important business and tourist markets such as the number of routes to the USA increasing from 7 to 15, with new connections to Boston, Seattle, and Denver.

In addition to new routes, serving new passengers and airlines, the route mix at Gatwick was constantly refreshing. On average, between 2014 and 2019, 7.7% of the routes flown from Gatwick in that year were new routes that had not been flown in the previous year.

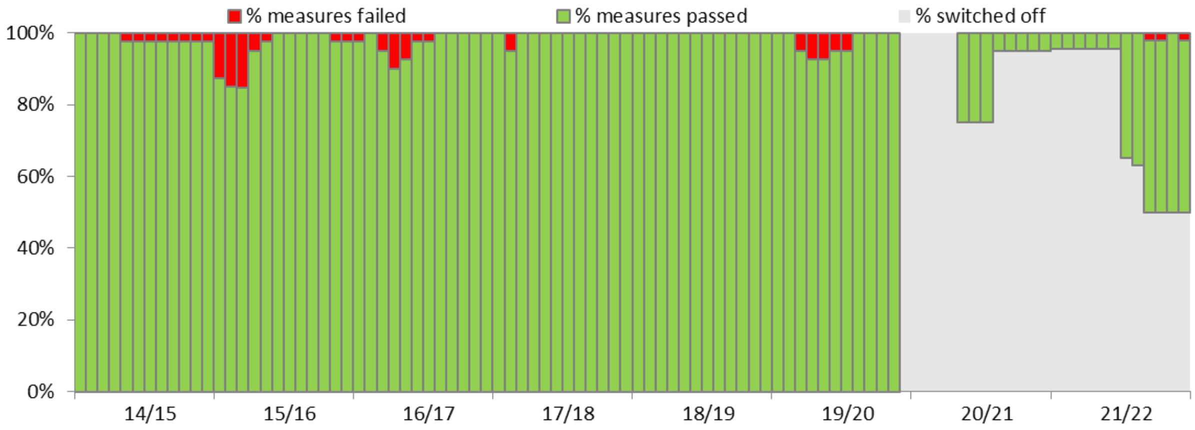
Service outcomes

This increase in passenger numbers and routes was delivered with continued high levels of service to passengers and airlines. Under the Commitments framework, the airport faces strong financial and reputational incentives to deliver each month against Core Service Standards, covering a wide range of passenger and airline-facing services and facilities.

Figure 3 summarises GAL's service performance. There are 40 individual metrics for which GAL has met or exceeded 98% of targets in the period April 2014 to March 2020[2], with extensive periods without any service failures.

[2] Core Service Standards regime was suspended for most of the year 2020/21 due to the impact of Covid-19

Figure 3: Performance against service standards 2014 - 2022



Passenger satisfaction

As a result of success in achieving individual service targets, combined with the broader approach which we take to understanding passengers' needs and responding to them effectively, we have seen a rising trend in passengers' overall satisfaction at Gatwick. Since 2014, the overall Quality of Service Monitor (QSM) measure of passenger satisfaction increased from an average of 4.18 in 2014 to 4.28 in 2019. This increase was achieved alongside significant growth in passenger numbers prior to the onset of the pandemic, from 38.1 million passengers in 2014 to 46.6 million passengers in 2019, or an increase of 22% over the period.

Resilience

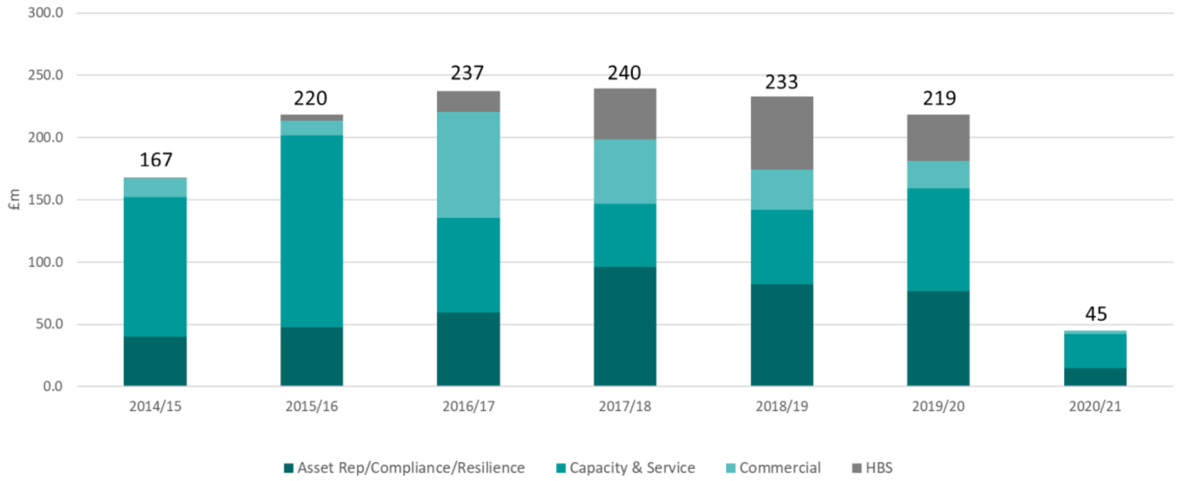
GAL also recognised that the passengers' impressions of the airport are often based on a small number of visits and that individual impressions will last for a long time. Therefore, it is important that we deliver a stable, predictable experience to our passengers each time and, therefore, we invested in the resilience of the airport. This included a wide range of initiatives, such as the adoption of Airport Collaborative Decision Making (A-CDM), improved flood defences such as the Gatwick Stream attenuation project, investment in additional de-icing material storage and stocks, improved physical protection and alternative feeds for electrical power systems, as well as passenger facing projects such as enhancements of the North Terminal out-of-gauge baggage reclaim facility. As well as IT and infrastructure projects, we also invested in the processes and people on hand to assist when the airport operations are disrupted by external factors, such as adverse weather. This included the creation of our Stable Operations function to oversee resilience and incident response at Gatwick Airport.

When needed, we have also worked with our carriers to help them optimise their operations. This has included targeted incentives for baggage delivery and aircraft turn service levels, seasonal readiness monitoring for the ground handlers and joint recruitment fairs.

Investment outcomes

GAL has invested consistently in maintaining and enhancing its airport infrastructure. GAL's Capital Investment Programme delivered £1.36 billion, or £195 million per annum over the 2014-21 period. This investment was well beyond the minimum commitment at the time of £100m per annum on average.

Figure 4: Capital Investment during Contracts and Commitments (£m outturn prices)



In addition, investment was much more responsive to changing customer needs than capital expenditure under the previous regime, which linked airport charges to the regulatory asset base (RAB). Examples of projects added to the investment programme over the period include the airline moves programme to consolidate easyJet in North Terminal, the refurbishment of Pier 2 gaterooms, the relocation and expansion of the North Terminal PRM (Passengers with Restricted Mobility) waiting area, the creation of a limousine drop-off product for Emirates, electric vehicle charging infrastructure and trials of auto-boarding gates. The timing of projects was also adjusted from the original plan; for example, the roll-out of self-serve bag drops throughout both terminals was re-phased several times to match airline readiness.

The box below provides examples of two recent projects demonstrating how GAL worked in close partnership with different airlines to meet their needs through the capital investment programme.

Check-in automation

As work to transform Level 10 of the North Terminal into the world's largest self-service bag drop gathered pace, the 2014 CIP included additional investment in future years to continue the roll-out of the bag drops to other check-in zones. The initial 5-year budget was £17.5m over 3 years starting in 2016/17. Responding to airline requests, investment was brought forward with £1.4m invested in 2015/16 and £10m in 2016/17 across 6 different check-in zones. Each year, the investment plan was fine-tuned to reflect airlines' readiness to adopt self-service technology from a systems integration, business process and passenger proposition perspective. In total, by 2019 GAL had invested £26.4m[3] to improve the passenger experience and increase operational efficiency for easyJet, British Airways, Virgin, TUI, Norwegian, Westjet, Aer Lingus and Vueling.

The most recent check-in automation project, completed during the pandemic in 2021 was to support Air Transat's move to North Terminal Zone E. The project team worked closely with the Air

[3] Excluding £51.4m invested in North Terminal Level 10 check-in expansion and transformation.

Transat team to develop a detailed understanding of their operation, their Departure Control System (DCS) and their passengers. It became clear that Air Transat operate with a complex set of business rules that generate a high proportion of exceptions i.e. passengers who cannot complete a self-serve bag drop. To address this, the project team proposed an innovative ‘hybrid’ self- serve solution which gave the flexibility for the airline to offer a self-serve product but resolve any passenger problems at the transaction point rather than creating confusion for the passenger and re-work for staff at a separate customer service desk.

Many of Gatwick’s airline have already adopted self-service bag-drop but the 2023 CIP continues to anticipate further investment in this product as the technology develops and the next generation of bag drop, which is likely to be closely linked to biometrics, emerges.

Automated Boarding Gates

In 2016, in partnership with British Airways, Virgin and easyJet, Gatwick started to explore the opportunities that biometric technology might offer to both enhance the passenger journey through the airport and increase operational efficiency. In the 2017 CIP, following airline feedback, GAL introduced a new investment line for automated boarding gates totalling £3.3m over two years. This was intended to fund several different trial projects; Authorisation and Accountability (AAA) processing and home enrolment with Virgin, automation of Pier 1 domestic boarding gates with BA and end-to-end biometrics with easyJet in North Terminal.

The largest of the trials was the end-to-end biometric process in North Terminal in 2018, which began at check-in on Level 10 and ended at new automated boarding gates on Pier 6. The trial highlighted valuable lessons about the integration of technology, passenger behaviour and passenger data ownership.

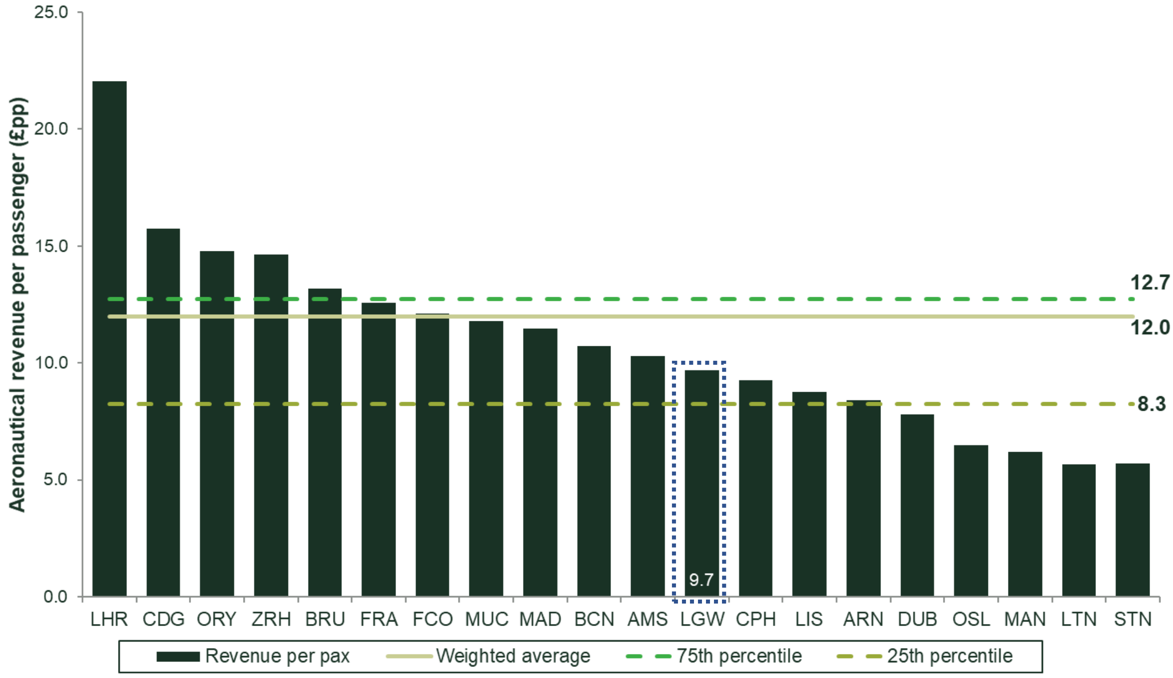
The 2018 and 2019 CIPs adjusted the amount and the timing of funding to match the progress of the trials and to date GAL has invested £4.7m in the biometric passenger journey. The 2020 CIP looked beyond the trials and increased planned investment by a further £12m to fund roll-out of biometrics more widely across the campus. Work on all the trials ceased during the pandemic as both airport and airline resources were conserved. Several airlines, including BA and easyJet want to recommence work to improve efficiency through the passenger journey and the 2023 CIP reflects this with the continuation of £12m of investment in auto-boarding over the next six years.

Airport charges and yield

Over the seven years of the Commitments term, charges have remained below both GAL’s pricing commitment and the CAA’s fair price; our Blended Yield profile was equivalent to a profile of RPI-2.3%, well below the CAA’s Fair Price Benchmark of RPI-1.6%.

Charges have also been demonstrably competitive relative to our European competitors and comparators. Figure 5 summarises some of the work we have undertaken to benchmark[4] our airport charges against other comparable European and UK airports over the pre-pandemic period. This shows that GAL's aeronautical charges were between the mean and the 25th percentile of charges. Furthermore, it is worth noting that all airports with lower charges than Gatwick served at least 10 million passengers fewer per annum than Gatwick over the same period.

Figure 5: 2019 Net Aeronautical Revenue per Passenger



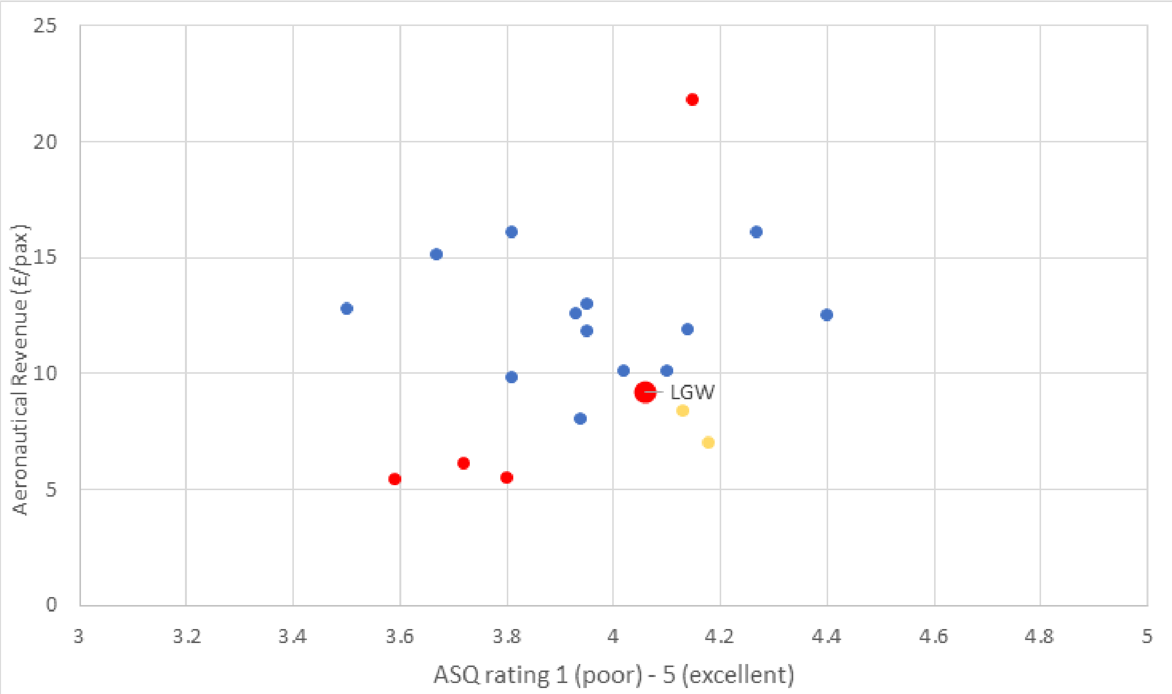
Source: Oxera analysis of public accounts.

Competitiveness

The Commitments have successfully created an environment where GAL works with its airlines to help them grow and succeed. As outlined above, this environment has benefited passengers, both directly through the improved service received at the airport and indirectly through the increased range and scope of services on offer at Gatwick. Figure 6 illustrates the excellent value Gatwick delivers to its airline partners and passengers, with only two comparable airports, both wholly state-owned (highlighted in yellow on the chart) that delivered a service score above 4.00 ("good") and offered a lower charge than GAL.

[4] The panel includes the main airports in EU/EFTA and in the London market (excluding LCY and Southend). It excludes airports that have 20 million passengers fewer than Gatwick and those that are heavily balanced towards inbound leisure traffic. Such airports have traditionally adopted strategies to maximise tourism revenue in local regions and/or operate simpler facilities. Source: data from public accounts

Figure 6: Airport Service Quality (ASQ) vs Aeronautical net revenue per passenger for GAL and competitors



Based on 2018 data, Red = UK airports, Blue = European airports of comparable size, Yellow = European airports of comparable size with "good" service and lower charges than GAL. Sources: ACI-ASQ, Oxera Analysis.

2.2 Improvements made in 2021

On 6 May 2021, the CAA published its final decision on the economic regulation of GAL for the period 1 April 2021 to 31 March 2025. The decision adopted a new set of Commitments, which had evolved from the original 7-year Commitments from 1 April 2014 to 31 March 2021. The new Commitments are a four year, legally binding contractual undertaking between GAL and its airline customers. These updated and extended Commitments contained a number of improvements.

Service improvements

GAL committed to maintaining good service delivery for its passengers and airlines and to remain financially incentivised to do so. Recognising the need to meet the specific requirements of all passengers and informed by in-depth consultations with airlines, passenger representatives and by the latest passenger research, GAL, in consultation and collaboration with the Airport Operators Committee (AOC), the Airport Consultative Committee (ACC) and PAG, implemented an updated set of Core Service Standards. These added new targets for Wi-Fi availability, Special Assistance and flight information system availability and made many detailed improvements to how existing standards operated. These included a more innovative way to measure airfield asset availability, which holds GAL accountable when infrastructure failures affect our airline partners' operations and provides additional flexibility to maintain assets more effectively. We also invested in measurement technology to reflect security queuing times more accurately by measuring the security experience of a much greater proportion of passengers.

GAL also expanded its Commitments to service beyond the updated Core Service Standards. To increase the focus of GAL, its airlines, ground handlers and air traffic control provider on delivering resilient and punctual services, GAL committed to setting itself formal targets for average on-time departure punctuality to be at least 70% in the summer season and 75% in the winter season. We will report to airlines and their ground handlers on the punctuality performance of each season shortly after its conclusion. If seasonal punctuality drops below the relevant target, then GAL will consult with airlines, their ground handlers and PAG on a root cause analysis of the airport's and airlines' collective performance over the season and then develop a punctuality improvement plan[5] with airlines.

GAL also recognises that passenger views and preferences, as well as the infrastructure needs of our airlines, may change over time. To ensure that the service standards remain up to date and relevant, GAL undertook to review service standards every five years with the next review having recently started[6].

Improved investment commitment

GAL worked with the ACC to improve how consultation is undertaken on our Capital Investment Programme. Following this constructive dialogue, GAL implemented a number of refinements to the consultation arrangements[7]. These are designed to provide earlier insight and greater clarity for airlines and passenger representatives on emerging projects and a clearer focus for discussions on the future strategic direction of GAL's Capital Investment Programme.

From 1 April 2021, GAL increased the minimum investment commitment from £100 million per year to at least £120 million per year on average over the six years from 1 April 2019 to 31 March 2025 (at 2018/19 prices). This is equivalent to approximately £148 million in 2022/23 prices. GAL will continue to consult annually with airlines and passenger representatives on the rolling five-year Capital Investment Programme due to start in April 2023.

Greater certainty on charges

Finally, we simplified and improved our price commitment. GAL replaced the previous complex combination of limits on both tariff (gross) and achieved (net) aeronautical revenue with a single, simple ceiling on tariff linked to inflation. The new price commitment provides greater certainty over future charges than the first Commitments. GAL increased its pricing exposure by taking away the ability to charge over the cap in future years if it had under-recovered in earlier years, thereby offering greater certainty to its airlines over future charges.

2.3 How contracts and Commitments allowed us to respond to the pandemic

The impact of the pandemic was far greater at Gatwick than many airports of comparable size. This was partly due to several of our larger carriers suspending operations entirely whilst they re-structured their businesses for the future. In addition, the suspension of the slot system's use-it-or-lose-it arrangements impaired Gatwick's commercial flexibility to deal with the heightened level of uncertainty and risk and made planning for recovery much more difficult. The use-it-or-lose-it arrangements (the "80/20 rule") were suspended at the start of the Summer 2020 season, meaning that carriers could retain existing slot holdings without operating them. While this was intended – in part - to ensure that an orderly restart would be possible and – in part – to prevent ghost flights and unnecessary emissions, Gatwick faced the loss of several of its major carriers without the ability to fill the slots for a considerable amount of time. Despite its competitive offering and an eager list of airlines wishing to fly, Gatwick remained technically "full" and unable to accept new or alternative services.

[5] For avoidance of doubt, as set out in our conditions of use (Schedule 3, Paragraph 8.3) 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.

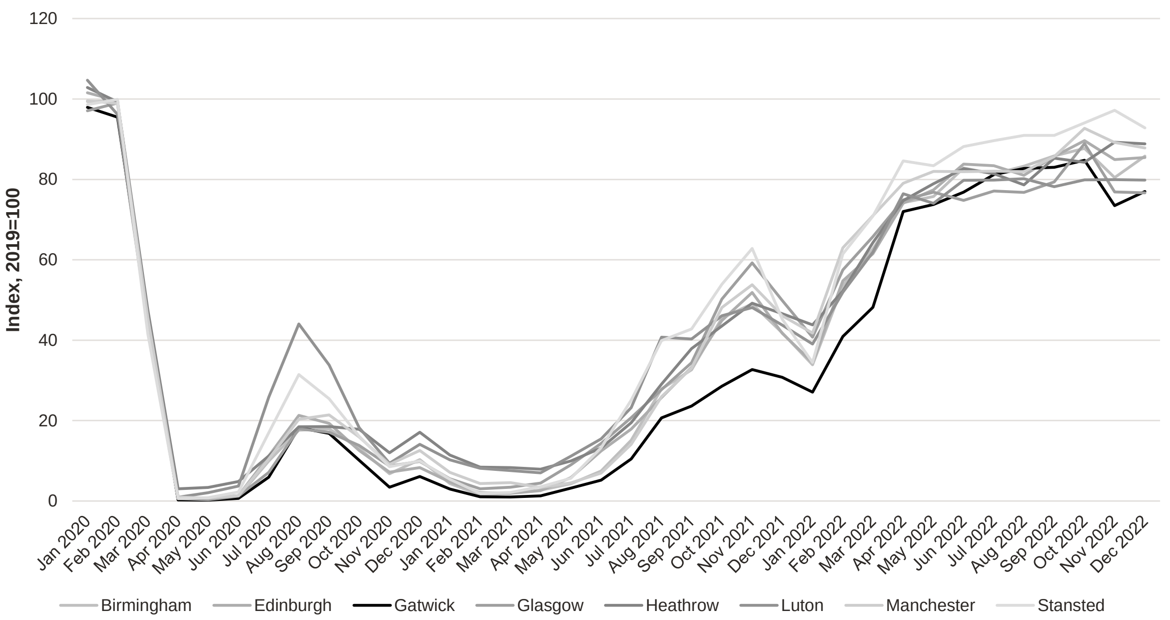
[6] See section 5.1 for more detail

[7] The consultation arrangements are set out in Schedule 4 of GAL's Conditions of Use available (https://www.gatwickairport.com/business-community/about-gatwick/company-information/airport-conditions-of-use/)

This was illustrated by the willingness of Wizz Air, announced in August 2020, to deploy as many as 20 aircraft to Gatwick[8] but being unable to access capacity despite only a handful of flights then operating from the airport.

The impact of this is illustrated in Figure 7, showing the much more substantial impact on Gatwick compared to other UK airports. While the actions taken by Government were understandable, this new way of operating the slot system also affects the perceived risk and market power of airports.

Figure 7: Traffic impacts at UK airports: Monthly traffic as a percentage of 2019



Source: GAL analysis of CAA data.

The suspension of the slot system sets a precedent for how future unexpected impacts on aviation traffic may be managed, with its purpose of promoting airline competition within an airport diluted. The protection of the slot system and the certainty provided by the use-it-or-lose-it rules was a major reason why GAL was comfortable assuming the risk that we do. The undermining of this protection significantly increases the risk exposure of Gatwick, as a mechanism that was seemingly a protection in fact became a mechanism for traffic suppression. We note the decision made by the DfT on 21 June 2022 to allow for an in-season series handback for the summer 2022 season. This further illustrates the continuing exposure to changes to the slot regime.

A further effect of the pandemic is that, as the rules come back into force, we have seen a material increase in slot mobility in the form of short-term leases and transactions. While these transactions demonstrate that the system incentivises use, they influence traffic mix, thus further increasing forecasting uncertainty and distorting contractual agreements based on relatively stable slot holdings.

Pandemic implications for the Commitments

Due to the drop in traffic volumes, some of the capacity investments envisaged in 2019 were no longer needed as early as previously expected to deliver the good service outcomes we plan for. Capacity investments were therefore put on hold. Furthermore, the uncertainty brought about by the pandemic, particularly the difficulty in predicting the end of both restrictions within countries and on

[8] August 2020: [Wizz Air Plots 20-Jet Gatwick Incursion With Rivals in Retreat - Bloomberg]

international travel, has meant that GAL had to prioritise the preservation of liquidity to safeguard its ability to rapidly scale up operations at the point of recovery, as well as comply with specific liquidity covenants set out in its waiver agreements with Bondholders. Preserving liquidity meant stopping many other capital projects at the airport. GAL has, however, continued to invest in crucial asset replacement and resilience projects such as the airfield data network and the resurfacing of the main runway.

Additionally, due to the uncertainty faced by the entire aviation industry during the last few years, only recently have airlines felt able to engage in discussions on updates to the longer-term contracts upon which much of the success in the first Commitments period (2014-21) was built. This was driven by a temporary focus on the short term as it was difficult to create forecasts to underpin volume commitments and there was a lack of visibility on how and at what pace recovery and re-growth would occur.

Support to our customers during the pandemic

Throughout the pandemic, GAL sought to work with our airline customers to mitigate the financial impact of the pandemic on airlines and passengers despite losing over £800 million over two years. This included the following pricing decisions:

- Pricing **5%** below the Maximum Gross Yield in the 2021/22 charging year and **3%** below the Maximum Gross Yield in the 2022/23 charging year[9].

- Re-profiling recovery of the permitted security cost associated with the mandated upgrade of the hold baggage screening system over a period of 4 years and basing the calculation of the charge per passenger during the first two years on a passenger volume at the upper end of GAL's expectations to support lower charges.

- Deferring recovery of the deficit associated with Ancillary Service Charges over a period of **4 years** and carrying the working capital burden during this period; **£48 million** as of 31 March 2022 and forecast to be **£38 million** as of 31 March 2023[10].

Where appropriate, we have supplemented these mitigations with new or amended short term bilateral agreements to deliver additional price protection in a targeted manner. Facilitated by the Commitments framework, these include:

- Suspending and/or capping aircraft parking charges in recognition of the lower levels of aircraft utilisation for operators.

- Implementing simplified per passenger pricing structures de-linked from the complex tariff structure to share traffic volume risk and provide enhanced price certainty.

- Offering additional incentives and marketing support to stimulate the recovery and share the financial burden of the pandemic with airline customers.

These discounts were worth approximately £40m to airlines.

The Commitments have also enabled us to work closely with the airline community during the recovery. This has included collaborating to ensure the smooth and successful re-opening of South

[9] This includes the re-profiling effect associated with the permitted security cost
[10] Estimates as at January 2022

Terminal, introducing incentives for airline ground handlers operating at Gatwick and working constructively with the airlines to minimise security disruption by utilising security manpower as efficiently as possible.

Operational response

In response to greatly reduced traffic volumes, GAL acted decisively to reduce operating expenditure, saving respectively over £140 million in 2020 and £170 million in 2021 versus 2019 while never compromising health and safety. We achieved this through a combination of measures. We reduced headcount from 3,261 to 1,857. We utilised the Government's furlough scheme to avoid further redundancies and maintain a core capability at the point of recovery. Following the closure of the Government Furlough scheme, we also worked with our trade unions to guarantee no further redundancies. This further prepared GAL to provide a competitive and resilient service in the recovery despite putting GAL financially at risk. We reduced the operational footprint of the airport by closing South Terminal and limiting the number of piers used in North Terminal. We also reduced the operational hours of the airport, and halted all discretionary spend. The financial rating agency Standard and Poor's commented in a note that:

"Gatwick has responded to the pandemic faster than other European airports, implementing significant cost-mitigating actions…."[11]

In addition, we also sought swift and significant cost reductions from our suppliers, and a portion of these savings were directly passed through to our airlines where they relate to certain passenger airport services. However, we implemented solutions to protect special assistance resource such as optimising furlough levels, adopting a reduced working hour basis of up to 25% and allowing temporary redeployment of staff to other locations. In doing so we significantly minimised price increases (either in year or in future years due to under-recoveries from 2020 and 2021), while protecting our ability to swiftly scale up the operation during the recovery.

2.4 Outcomes during recovery period

Passenger volumes

In 2022, Gatwick recovered strongly. Both the number of flights and the number of passengers increased significantly and are now above Manchester and Stansted. This increase in volume has been delivered alongside continuing high levels of passenger satisfaction. The QSM measure of passenger satisfaction has returned to close to pre-pandemic levels of satisfaction, being 4.21 in 2022 (compared with 4.18 in 2014 to 4.28 in 2019).

The return of demand in 2022 led to a number of operational challenges across the UK (and European) aviation sector, particularly during the summer. In this period, passenger demand rebounded strongly – 11.5m passengers travelled through Gatwick in July, August, and September: nearly double the 6 million passengers in the whole of 2021, or over 80% of the equivalent months in 2019. This compares with traffic in January 2022 which was 27% of the level in January 2019. This was a bigger recovery than that experienced at comparable airports.

Service quality

Given the positive outlook in early 2022, GAL took decisive action to rapidly reopen the South Terminal well in advance of the peak summer season. This decision was driven by strong passenger demand and the airlines confirming their summer plans early following the reinstatement of the airport slot

[11] Gatwick Funding Ltd. Class A Debt 'BBB Rating Removed from CreditWatch Negative and Affirmed; Outlook Negative. March 10, 2021.

usage rules with the adjusted ratio of 70:30. Most significant was the return of British Airways' short-haul operations, in addition to substantial growth from Vueling and Wizz Air.

That decisive action saw us welcome a 40% increase in passengers overnight between 26 and 27 March, when we reopened the South Terminal. The reopening of the South Terminal was a major undertaking, as it had been closed for nearly two years. Thousands of hours of preparation was completed in a short space of time to provide a safe and efficient service for passengers from moving 27 airlines back to the South Terminal, replacing 4,500 floor tiles and 3,000 light fittings and painting 49 miles of new lines on the airfield, to ensuring 3.3 kilometres of conveyer belts were working, and processing 10,000 trays to test our security system.

There was a transitionary period in 2022 while we reintroduced our Core Service Standards (CSS). This was carried out in agreement with the airlines and accounted for the uncertainties experienced with the recovery in traffic. We took a number of actions to ensure we met our CSS commitments during the unexpected rapid recovery. This included

- A post furlough mitigation plan that ensured no further redundancies since October 2020, and retained a core base of experienced personnel;
- An early recruitment drive to fill thousands of jobs across the airport, including over 500 security staff;
- Extensive investment in staff through a summer staff retention bonus of £1800 per person and the re-instatement of the wider bonus scheme for 2022;
- Security recruits were onboarded ahead of security clearance to work landside; and
- Consolidation of security entry points was introduced to ensure maximum throughput efficiency.

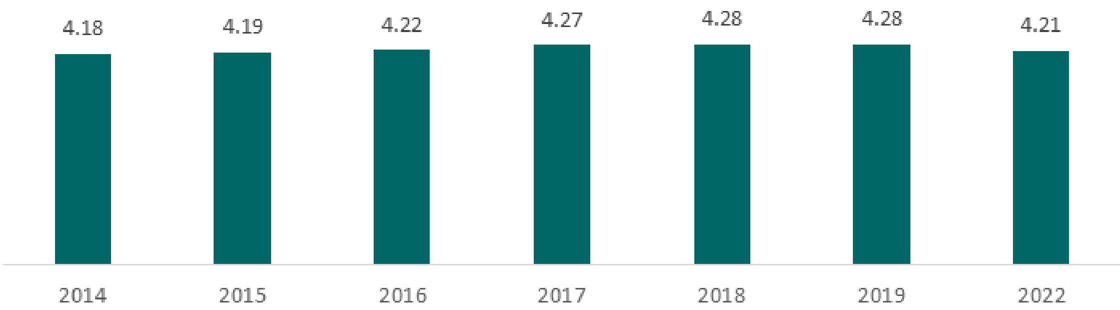
At the beginning of the summer the travel industry saw the first significant signs of recovery. While higher demand and an accelerated recovery led to operational challenges across the whole aviation industry, continuous efforts were made to work with airlines and ground handlers to put in place operational improvements and ensure flight programmes and service levels were maintained. We supported the wider airport community with the following actions:

- Regular airline operational discussions, including daily engagement with senior teams at the airline's ground handlers;
- A focus on zonal operations for the airline's ground handlers to drive efficiency;
- A GAL funded inbound baggage incentive scheme for the airline's ground handlers
- External contingent resources provided by GAL while also mobilising its own employees to provide additional airfield support to the airline's ground handlers and other airside partners.

One of our big challenges in 2022 was late flight cancellations, which were primarily due to airline crew and ground handling availability. Other factors included European airspace restrictions as a result of the war in Ukraine and a small number of cases of staff sickness in air traffic control at Gatwick. To significantly reduce these late cancelations, GAL introduced a temporary growth cap for July and August, which allowed measured growth through the peak summer period, and permitted airlines to develop more stable schedules, giving greater certainty to passengers. The Commitments framework enabled GAL to work together with its airlines to implement this cap collaboratively in the interests of passengers.

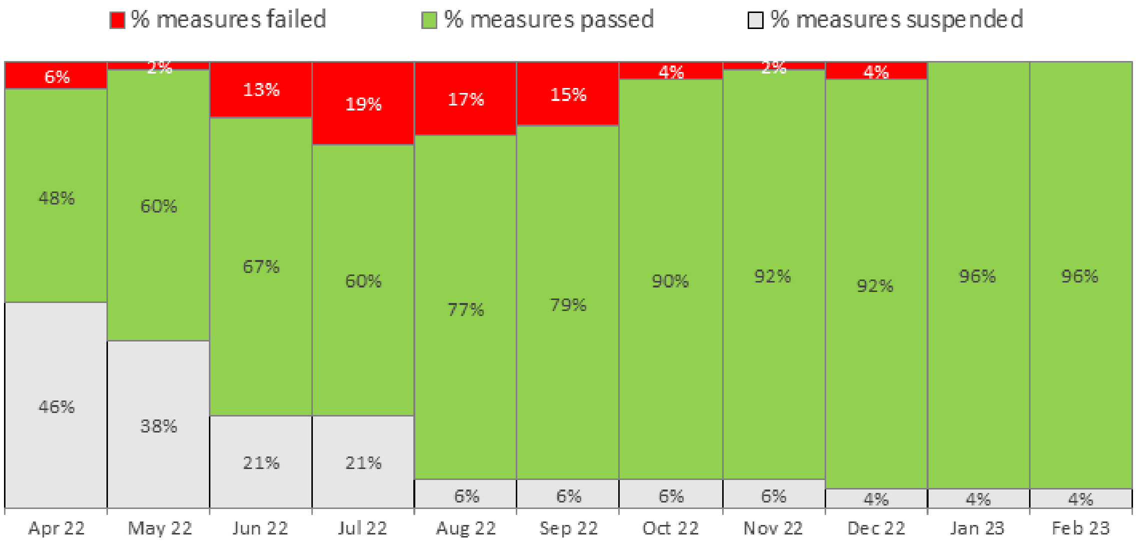
Despite the particularly challenging environment, we delivered good levels of service, in terms of queuing time and passenger satisfaction. Overall passenger satisfaction remained at comparable levels to pre-pandemic as measured by data on overall airport experience from our QSM survey.

Figure 8: Overall airport experience at Gatwick over time (grade out of 5)



As mentioned previously, Gatwick undertook a phased approach to the reintroduction of the Core Service Standards following the re-opening of South Terminal. Timelines were agreed in conjunction with the AAG and AOC, enabling a brief period to monitor the functionality of certain metrics before formal reinstatement. As part of this phased approach and acknowledging the challenges posed by the security recruitment process and the rapidity of recovery, the AOC voted to support the removal of penalties associated with the 5-minute and 15-minute security queuing metrics in the period April to September 2022.

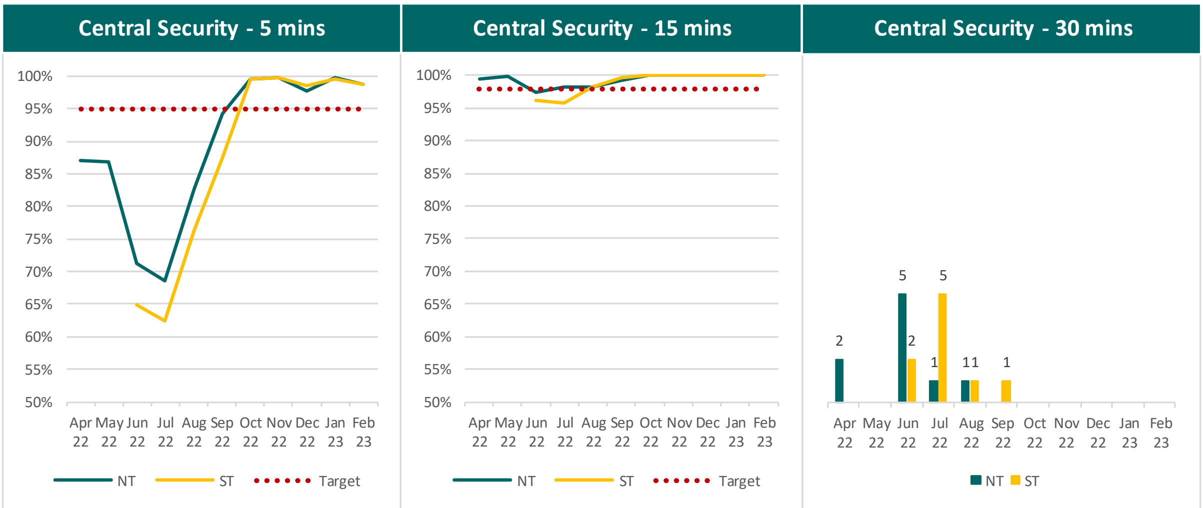
Figure 9: 2022 CSS performance



Despite the challenging circumstances, overall CSS performance remained very strong with a 91% pass rate for the period April 2022 to February 2023 relating to all reported metrics (including those where financial penalties were suspended).

Whilst penalties associated with two out of three of the security queue metrics were suspended, the security operation still provided an excellent level of service over the peak summer. The charts below show our performance under the three CSS metrics:

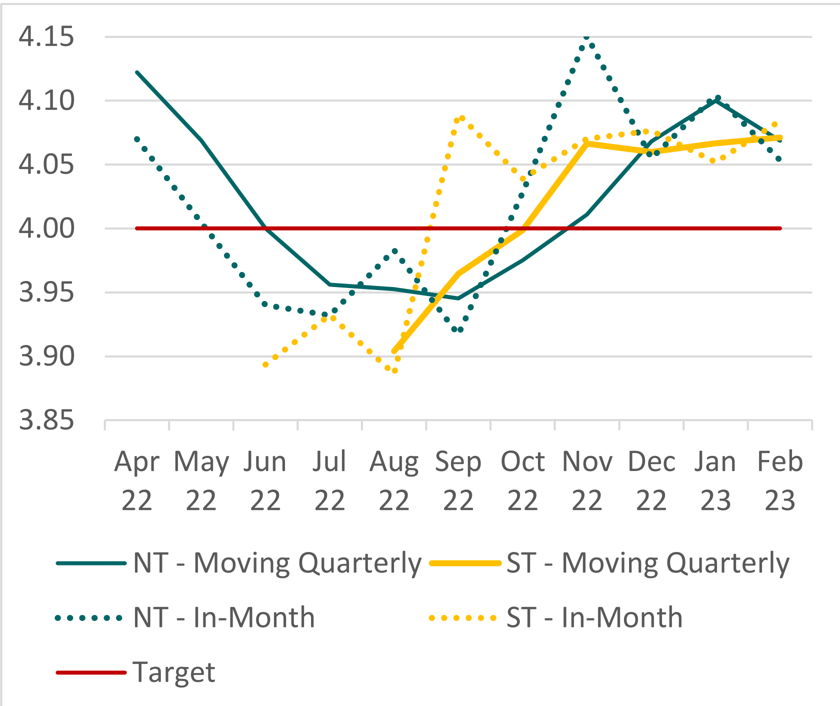
Figure 10: 2022 Security performance



This indicates that most passengers were passing through security in under 15 minutes even during the peak periods. Despite the poor press coverage at other airports of very long queues, GAL had very few incidents where queues extended beyond 30minutes. It highlights the successful nature of both GAL's preparatory actions and interventions during the season. By October GAL was achieving even the most stringent of measures of getting 95% of passengers through security in under 5 minutes. GAL would note that the speed of improvement in bringing this metric above the threshold compares very favourably against other UK airports.

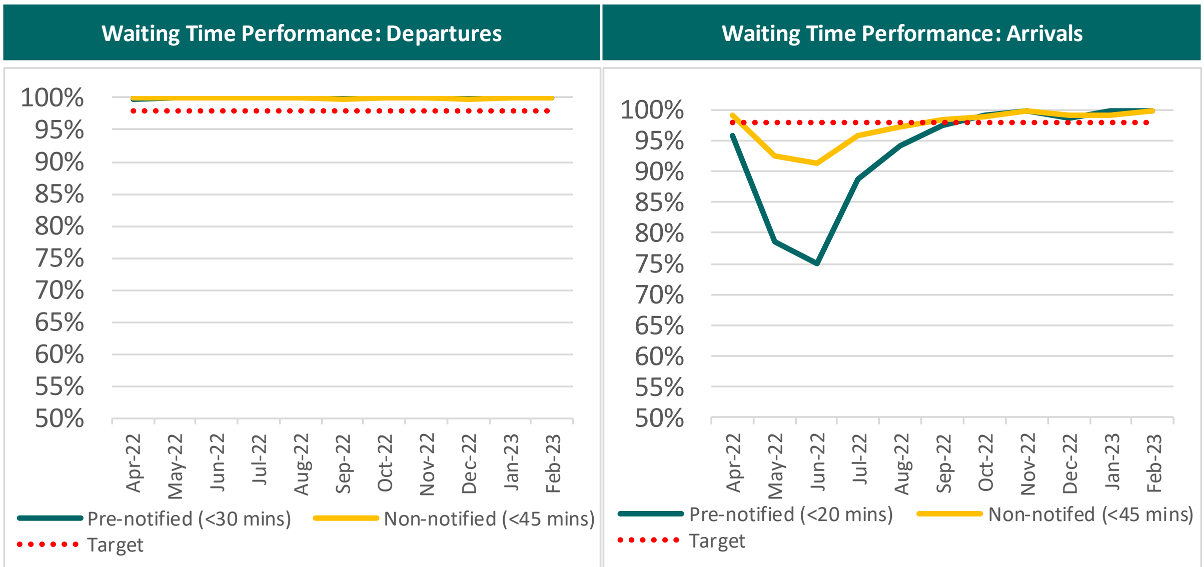
Cleaning performance was difficult over the peak summer due to resource availability. GAL addressed this issue quickly and the reported Moving Quarterly Averages rose above target from November, with minimum thresholds actually being achieved in-month from September and October onwards for South Terminal and North Terminal respectively.

Figure 11: 2022 Cleaning performance QSM scores



In Special Assistance, waiting time performance for Departures was strong all summer season. Arrivals waiting time performance in the period May to August was impacted by challenges in resources and increased unpredictability in passenger flows but have remained strong since September.

Figure 12: 2022 Special Assistance waiting times



GAL recognises the importance of arrival wait time performance for special assistance and would welcome the opportunity to put forward a CSS penalty relating to this measure in the formal CSS review that is already underway.

GAL also acknowledges that on a few days over the summer, Air Traffic Controller (ATCO) staff shortages meant that reduced flow rates were applied. While the number of occurrences when this has been the cause of cancellations have been small, we know that each cancellation negatively impacts on passengers, and we are working hard to address this and improve resilience. NATS have already certified new ATCOs and are currently focused on a number of key initiatives which they believe will improve resilience:

- Re-org design looking at how to best distribute workload;
- Identification of experienced Gatwick ATCOs in the wider NATS network;
- ATCO incentives such as overtime; and
- Increased pipeline of future trainees

There is no priority more important to GAL after safety than ensuring a resilient air traffic control provision. GAL recognises that on some of the days where reduced flow rates were applied this did not trigger a CSS failure. GAL therefore intends to propose a CSS metric focussed on air traffic control performance is introduced and considered in the formal CSS review underway under the existing Commitments.

Overall, our operations both on the airfield and in the terminals were operating as usual by the end of 2022, and all our CSS measures were reinstated. Strike-related contingencies (Rail, Road, Ambulance & UKBF) have also operated very well during a period of frequent workforce actions.

Commercial agreements with airlines

Throughout 2022, GAL has worked extensively with its airline partners on a range of new commercial agreements:

- Almost all airlines which had a relationship with GAL before the Covid-19 pandemic have either signed new commercial agreements or are negotiating new commercial agreements with GAL. New contracts have been adapted and simplified to better respond to the individual airline's needs and recovery timelines;
- There are a substantial number of new airlines who have signed commercial agreements with GAL in 2022 and 2023, and those agreements are shaped to the needs of each airline and cover a duration of between three and seven years. Through these agreements, GAL shares the risk with airlines through discounts on different charges (such as parking, passenger or landing charges) and marketing support (both through a marketing fund and a team member at Gatwick dedicated to marketing airlines). In addition, GAL created a new role in the company and hired a marketing and sales expert to fill the new Tourism and Trade Business Development Manager role. This role's primary objective is to maintain and develop relationships with the sales and marketing teams of our airline partners, tour operators, travel agents, the regional corporate community, international tourist boards (DMOs), local tourism organizations and stakeholders to grow passenger numbers at Gatwick and ensure successful load factors for airlines operating out of Gatwick.

This evidence shows how GAL works closely with its airline partners, shapes agreements to meet their needs, and shares risk with them through commercial agreements. This pattern of actions is further evidence that the Commitments framework is working to deliver benefits to passengers, airlines and GAL through the recovery from the Covid-19 pandemic.

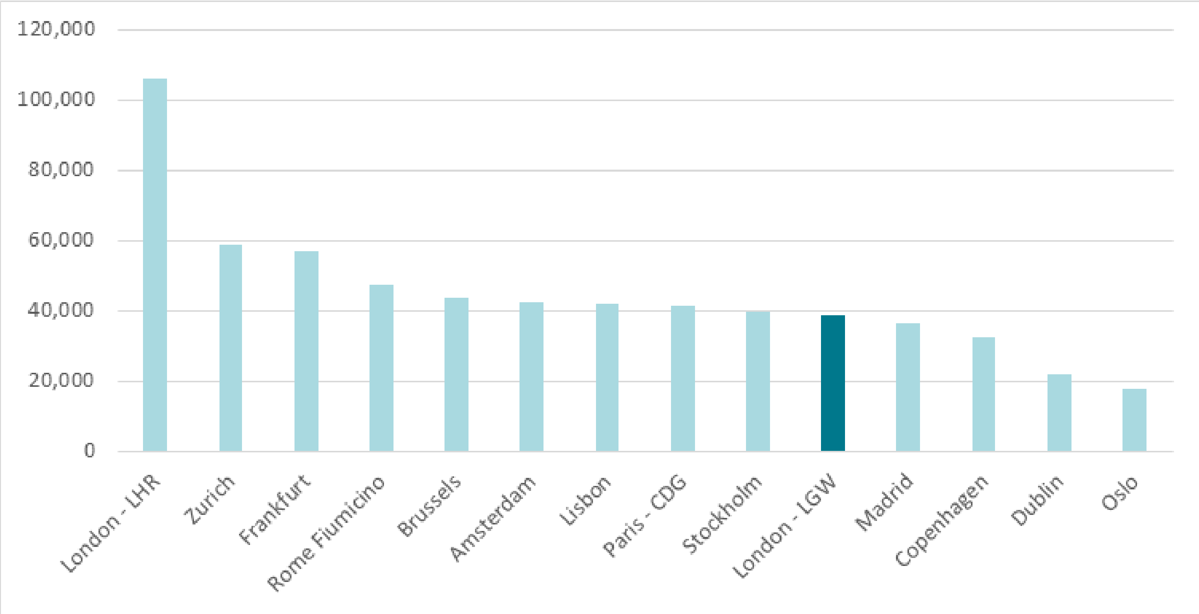
Pricing

In this recovery period, GAL's pricing has continued to be competitive. While it is too early to undertake the sort of benchmarking shown in the previous section (as accounts for 2022 are not available for many airports yet), there are other sources of information. One of these is the well-known Jacobs review of airport charges. The figure below shows how GAL compares in a global assessment of airport charges. In contrast to the benchmarking above (see Figure 5) which examines the implied charges by gathering data from the published accounts of particular airports (and which will therefore reflect both the discounts offered to airlines and the traffic mix at different airports), Jacobs produce an annual study which compares what the charges would be for the same six aircraft at airports around the world.[12]

This analysis shows that Gatwick continues to provide competitive pricing when measured against international competitors.

[12] This study does not include all of the comparators above, and but does provide a "like-for-like" comparison of the listed charges at these airports by normalising for traffic mix. The Jacobs analysis does not adjust for the level of discounts provided by airports, using the published list prices as the basis for a comparison.

Figure 13: 2022 airport charges for six aircraft type (A319-100, A321-200, B737-700, B767-300, B737-800, A330-300, A320-200, B777-300ER) (£)



Note: Jacobs calculate the cost of an aircraft arriving at, and departing from, each airport. This analysis is conducted for six aircraft type, using the same aircraft specification and load factor for each airport. These costs are then summed for the six aircraft types to obtain a total.

Source: Jacobs (2022), Review of airport charges, Tables 1 and 19.

Cost risk

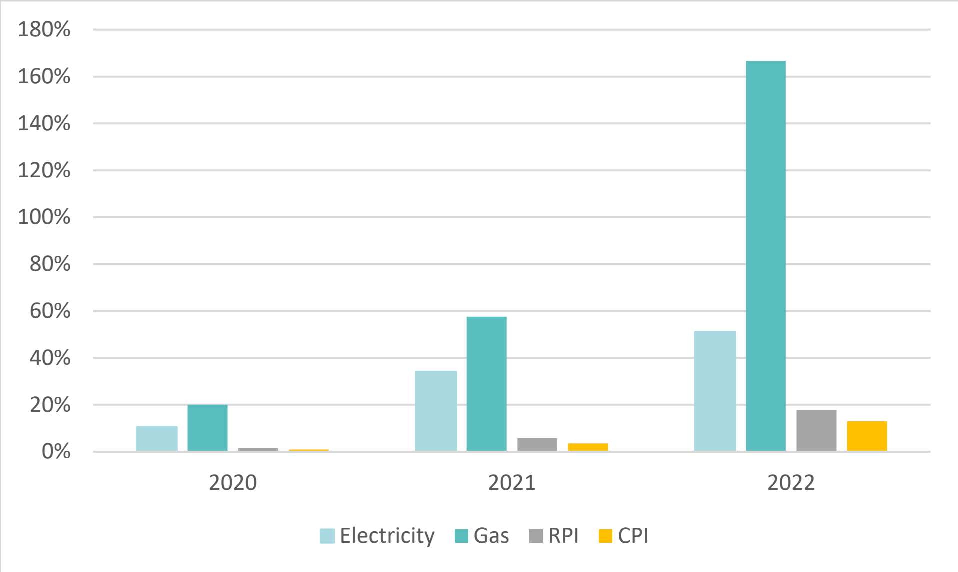
GAL has maintained this competitive pricing position while experiencing significant increases in the cost and risk of operation and construction. This experience clearly demonstrates the risk that GAL takes on its cost base under the Commitments framework.

One key driver of inflation has been sharply rising energy costs. This is due to a combination of European gas market constraints (due to the conflict in Ukraine) and the consequential impact on the UK electricity market[13]. Higher gas prices affect Gatwick directly through the cost of heating our terminals and buildings. While some of our exposure to this risk is hedged, this exposure will continue to increase in time. In addition to the direct effect through heating, GAL is further exposed indirectly, and much more substantially to gas price volatility through the electricity market[14]. The figure below provides an illustration of the energy cost increases absorbed by GAL over the last few years.

[13] See National Grid Summer Outlook 2022 ([PowerPoint Presentation (nationalgrideso.com)]())

[14] Over the past decade most of the remaining UK coal fired power stations have closed and the first of the second generation of nuclear stations have closed. This has increased the exposure of the electricity market to gas prices as the marginal (price setting) plant is now more likely to be a gas fired station than before.

Figure 14: Percentage increase in unit (£/kWh) energy costs compared to 2019



Source: GAL actuals.

Another example of GAL absorbing substantial cost risk is the current review of Gatwick's rateable value. In the draft list issued by the VOA, Gatwick's Rateable Value is increasing by 24.8% versus the previous period, equivalent to an impact of approximately £7m on a yearly basis. It has to be noted that this significant increase includes a "Covid discount" which is likely to be lifted for the next valuation period (starting 1st April 2026) which would trigger a further significant increase the magnitude of which is difficult to assess.

In addition to the increases in operating expenditure, the current environment is increasing the costs of capital projects. For example, the cost of MSCP7 (new 3,000 space multi-storey car park) has increased by £14m (35%), while a new Rapid Exit Taxiway (RET) has increased in cost by nearly £10m (45%). These cost increases have been driven particularly by increases in the costs of raw materials.

In addition, the changing construction market represents another example of a risk which GAL has taken. Historically, GAL went out to tender on a fixed-price basis with a single stage tender to manage construction cost and risk. Post-pandemic, this is increasingly difficult, with

- Contractors being reluctant to offer a lump-sum bid on a single stage tender and preferring to either have a negotiated process or a two stage competitive tender, where the price is fixed after the contractor has worked up the design in more detail. Both of these approaches transfer more cost risk to GAL;
- A reduction in the number of bidders per active project;
- A greater degree of negotiation on contractual terms and conditions to put more risk on GAL.

This market disruption is not limited to GAL, with Arcadis noting that inflation risk-sharing is becoming "more widespread".[15] This disruption of the construction market means that GAL is taking on materially more risk on construction projects.

These examples show that GAL takes material cost risk under the Commitments regime: cost risk which is largely passed on to airlines under other forms of regulation; and can be shared with airlines

[15] Arcadis (2022), "Market view Winter 2022", p.4.

in an unregulated market. GAL has not sought to pass this risk onto its airline customers through this extension proposal.

2.5 Losses during the Covid-19 pandemic and profitability

Losses during Covid-19 pandemic

As travel restrictions came into force in March 2020, Gatwick saw a sharp fall in passenger levels and associated revenue. The majority of GAL's revenue is heavily linked to passenger numbers ranging from aeronautical passenger charges to car parking revenue, associated income from tenanted property and office space also fell as airport operators sought temporary rent breaks to reduce their operating costs. Figure 15 below details GAL's revenue over the pandemic period which was impacted by GAL being disproportionately affected with flight and traffic reductions. For the year ended 31 December 2019 GAL's total revenue amounted to £853.5 million generated from 46.6 million passengers, compared to £217.0 million and £192.7 million in 2020 and 2021 respectively. **As a result of the pandemic GAL has lost revenue of approximately £1.3 billion** with over £700 million on airport and other traffic charges in 2020 and 2021 alone. While profitability increased in 2022, operating profit remains below 2019 levels.

Figure 15: GAL revenue (2019-2021).

Revenue (£m)	**Year ended 31 December**			
	2019	**2020**	**2021**	**2022**
Airport and other traffic charges	457.2	89.7	85.6	405.7
Retail	199.5	49.8	38.6	158.6
Car parking	87.2	17.7	18.0	101.7
Property	33.3	30.6	25.9	30.8
Operational facilities and utilities	34.5	12.7	10.5	34.6
Other income	41.8	16.5	14.1	45.2
	853.5	**217.0**	**192.7**	**776.6**

While GAL altered many aspects of its operating and capital expenditure to reduce the costs of the business, **the combination of the factors noted above resulted in total losses of over £830 million in 2020 and 2021.** This is summarised in Figure 16 below.

Figure 16: GAL Profit/(Loss) (2019-2022).

Income statement (£m)	**Year ended 31 December**			
	2019	**2020**	**2021**	**2022**
Revenue	853.5	217.0	192.7	776.6
Operating profit/(loss)	275.0	(248.1)	(201.1)	251.6
Investment property revaluation	47.4	(159.7)	54.7	61.1
Loss on disposal of assets	(1.7)	(0.9)	(0.8)	(1.1)
Net financing costs	(101.0)	(117.2)	(221.5)	(47.7)
Profit/(loss) before taxation	219.7	(525.9)	(368.7)	263.9
Profit/(loss) after taxation	**152.5**	**(465.5)**	**(370.6)**	**196.5**

In the face of this loss of profitability, GAL took steps to increase the availability of cash and committed funding available. To maximise available cash, GAL fully drew on the existing Revolving Credit Facility (RCF) of £300 million. On 3 April 2020, GAL entered into a new £300 million Term Loan. The Term Loan was repaid in 2021 following the issuance of £300 million Class A bonds.

At the same time, GAL was approved to draw up to £300 million under the Bank of England COVID Corporate Financing Facility (CCFF). £175 million was drawn on 10 November 2020, was repaid in January 2021 and a further £250 million was drawn on 14 January 2021. To extend the maturity of the facility, prior to the closure of the CCFF scheme, the £250 million loan was repaid in March 2021 with a further £275 million drawn on 19 March 2021.

In July 2021, GAL's shareholders provided a capital injection of £370 million to further bolster liquidity, reduce net debt, further stabilise other key credit ratios, and support the maintenance of its existing ratings.

In addition to preserving liquidity, GAL also had to ensure compliance with financial covenants, and investor and lenders showed their support by granting two covenant waivers. The waivers ensured any default relating to Senior ICR and Senior RAR levels were waived in respect of the calculation dates falling on December 2020, June 2021, December 2021 and June 2022; and a temporary amendment was made (until June 2024) to the calculation of the Senior RAR.

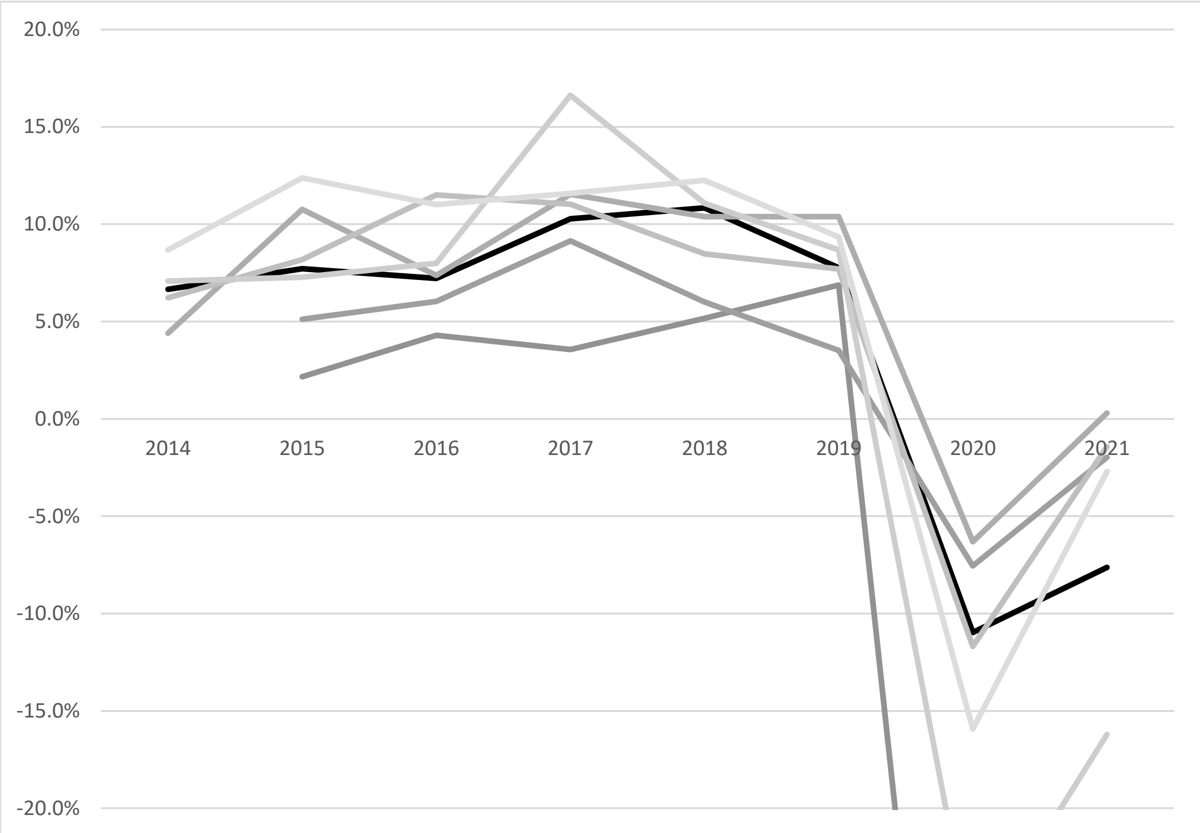
Comparison of GAL's profitability with unregulated UK airports

GAL has undertaken a comparison of its accounting profitability against unregulated UK airports.[16] While such a comparison can be affected by many different factors, this comparison is valuable in the light of the successful outcomes set out above.

Figure 17 below provides a comparison of the return on capital employed (ROCE) of GAL against six unregulated UK airports.

[16] GAL uses a sample of UK airports to reflect the CAA's analysis in the previous Commitments extension. CAA (2020), "Economic regulation of Gatwick Airport Limited: Consultation on new commitments", 23 December.

Figure 17: Return on Capital Employed at Gatwick and unregulated UK airports (2014-2021).



Based on public accounts data. Based on EBIT. GAL is the black line. The ROCE for two airports in 2020 and airport in 2021, are less than -20% and so are not shown on the chart.

As can be seen above, GAL's profitability was within the range of profitability for unregulated UK airports throughout the period of analysis. In 2021, GAL's profitability was the third lowest of these airports at 8.4% against an average excluding Gatwick of 8.6%. This analysis shows that GAL has delivered the outcomes explained above at a level of profitability which is within the range of unregulated UK comparators.

Lessons from the current Commitments

- The Commitments have worked in "good times". During the period 2014 to 2021 we:
    - improved service delivery and passenger satisfaction;
    - strengthened resilience at the airport;
    - invested £1.36 billion in capital projects;
    - increased passenger numbers from 38.1 million to 46.6 million in 2019; and
    - maintained competitive charges compared to comparable and competing airports in Europe and the UK.
- In 2021, we extended and updated the Commitments by:
    - strengthening the service commitments informed by passenger research;
    - updating the capital consultation process; and
    - simplifying and improving the price commitment.
- 2020 and 2021 have also shown that the Commitments work in unprecedented times. We have worked with the airlines to respond effectively to the pandemic, continuing to price

below the Commitment parameters and maintaining strong relationships through one of the worst shocks in aviation history, despite sustaining losses of over £830m.

- In 2022, the Commitments enabled Gatwick to bounce back and respond to strong passenger demand for flights from the airport, maintaining high service quality and competitive pricing
- Throughout the period of the Commitments framework, GAL's profitability has been within the range of profitability for the larger unregulated UK airports

These lessons show that the Commitments are a strong foundation to build on for the future.

3. Market Environment

The current environment has a greater level of uncertainty than has historically been the case[17]. This is not solely a legacy of the Covid-19 pandemic, although there remains substantial uncertainty about how the effects of that will resolve themselves over the coming years, but about the direction of the economy in general, the aviation industry more specifically and the development of Gatwick Airport in particular.

This section explores the future market conditions facing Gatwick in the months and years ahead on three levels: the economy as a whole; the aviation market in general; and at Gatwick specifically.

3.1 Economic uncertainty

Inflation and the UK economy

Over the past decade, the UK has experienced a period of low inflation, low nominal interest rates and negative real interest rates. However, the UK is now seeing a rapid increase in inflation, up to over 10% in February 2023 on the CPI definition. These are levels not seen in the UK since the early 1980s, i.e. before the independence of the Bank of England, and also among the highest since the privatisation of UK airports.

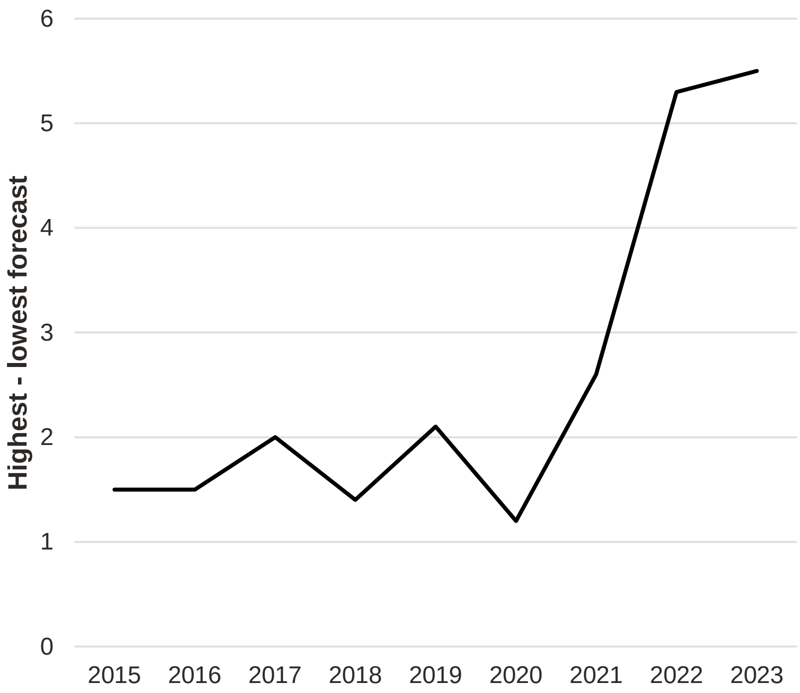
This rapid increase in inflation is partly due to increasing energy costs driven by geopolitical factors, partly to supply-side constraints due to Covid-19 and partly to labour market constraints following Brexit. In response to this increase in inflation, the Bank of England has increased interest rates from 0.1% (the level in much of 2021) to 4.25% in March 2023: the highest level since November 2008. This all results in pressure on real incomes through utility bills, fuel costs, food bills, and mortgage rates.

While inflation is expected to reduce, and economic growth to increase, the level of uncertainty associated with these forecasts is much higher than has historically been the case. As an illustration of this, figure 18 below shows the range of CPI forecasts in the independent economic forecasts produced by banks and economic forecasters.[18] As can be clearly seen from the figure, the range of uncertainty has increased very substantially over the last two years.

[17] See research by Frontier Economics measuring economic uncertainty, available at https://www.frontier-economics.com/uk/en/news-and-articles/articles/article-i10036-making-policy-choices-in-an-uncertain-world/#

[18] More specifically, the range of forecasts for CPI in that year was taken from the February edition of HM Treasury's comparison of independent forecasts in each year.

Figure 18: Range of independent forecasts, made in February of each year, for CPI inflation in that year.



Source: HM Treasury comparison of independent forecasts.

Inflation impacts on GAL in two ways:

- Through pressure on GAL's cost base; and
- Through consumer demand.

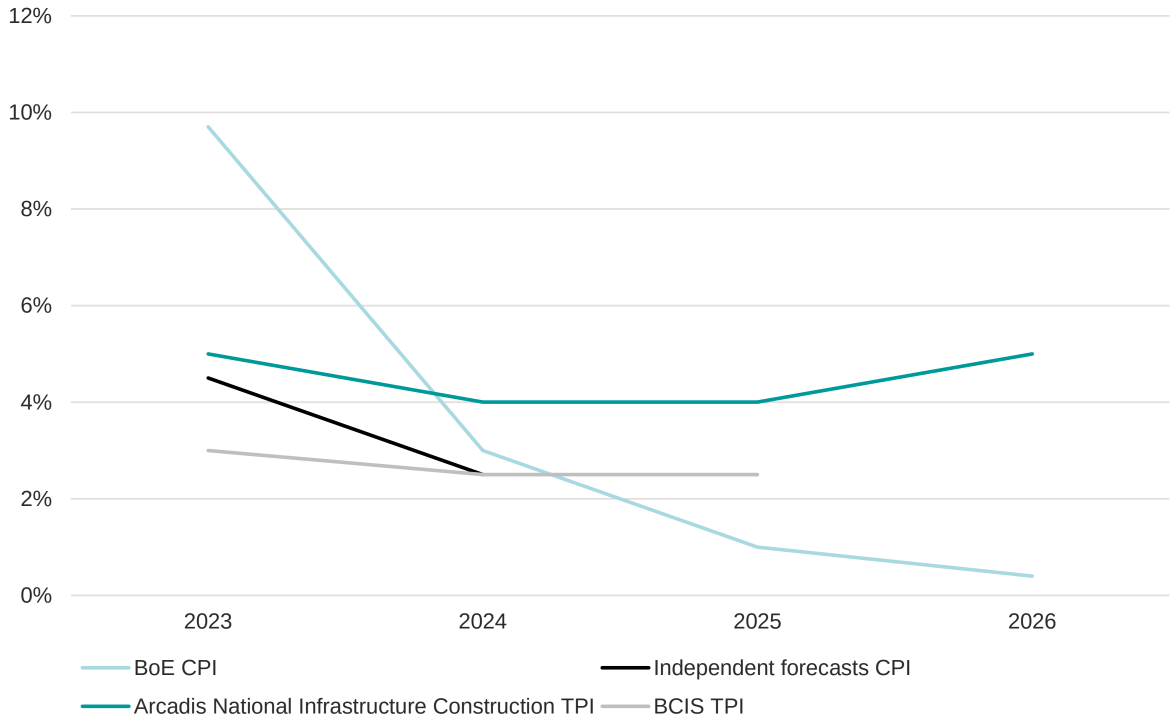
Inflation and GAL's cost base

Inflation increases both capital and operating costs at Gatwick.

Much of GAL's cost base is at risk of increasing at a higher rate than CPI, as CPI measures the increases in prices experienced by the average consumer rather than an infrastructure asset owner like GAL. When inflation is high and volatile, the uncertainty on how GAL's cost base will evolve, and how risk will be allocated between GAL and its suppliers, is more uncertain than when inflation is lower.

As figure 19 below shows, construction price inflation is forecast to increase above CPI in the proposed extension period as CPI declines. Under the Commitments framework, where GAL's price ceiling is linked to an overall price index rather than the costs actually incurred by GAL (unlike in other regulatory regimes where efficiently incurred costs are typically passed through to customers; or unregulated environments where cost increases can be passed through to customers if the market can bear it), GAL takes this risk.

Figure 19: Inflation forecasts.



Source: HM Treasury comparison of independent forecasts, Arcadis, BCIS, Bank of England.

In addition to costs risks on construction, and others such as the widely publicised increases in energy and labour, cost risks also exist in relation to the ongoing review of business rates, the future costs of environmental compliance and the cost of adapting the airport infrastructure to climate change. We expect that reform to business rates could increase GAL's business rate bill significantly, although uncertainty exists around the potential magnitude of increase.

We expect that the costs related to environmental compliance will rise. This is both through the need to comply with energy efficiency requirements across our buildings but also potential future requirements for wider sustainability investments in areas such as water use, recycling, vehicle standards and the infrastructure and network costs associated with decarbonisation. There is still quite a lot of uncertainty over the magnitude and timing of these costs.

Inflation and consumer demand

The combination of high inflation and increased interest rates will result in pressure on real incomes through utility bills, fuel costs, food bills, and mortgage rates. The outlook is highly uncertain but inflation and higher interest rates will both directly impact consumers' spending power and potentially expose UK households' relatively high levels of debt, thereby further impacting consumer confidence and spending.

Gatwick's traffic has historically tended to be around 85% leisure / VFR (visiting friends and relatives) and 15% business traffic.[19] This reduced to approximately 11% business traffic in 2022.[20] This traffic mix enables Gatwick to benefit from the current recovery in leisure traffic but exposes it to higher demand volatility caused by changing economic conditions as well as higher seasonality (in October 2022, Gatwick's traffic was at 85% of 2019 levels, but this reduced to 74% in November 2022,

[19] CAA passenger survey 2019.
[20] CAA passenger survey 2022.

demonstrating the leisure-led nature of the present recovery). Past economic downturns, such as the Global Financial Crisis (2008-2009)[21] suggest that the impact on air travel of a reduction in consumer demand will disproportionately affect the leisure sector – the part that is currently recovering the strongest following Covid-19. GAL hears from some of its larger carriers that, in their view, this might not be the case this time: this serves as a good illustration of the uncertainty prevalent in the market at the present time – when reasonable parties can hold significantly differing views on the level and mix of traffic going forward.

Geopolitical risk

Past geopolitical events have also impacted aviation demand. This was observed after the Middle East conflicts of the 1960s and 1970s, the 1990 war in the Persian Gulf and the 9/11 terrorist attacks in the US. The impacts flow from effects on fuel prices, markets becoming unavailable and consumers being less confident in flying.

The war in Ukraine is the most serious conflict Europe has seen since the end of the second world war. It adds to the pre-existing geopolitical risk associated with the ongoing conflicts in the Middle East and tensions over Taiwan. The impact of the war in Ukraine is still feeding its way through the world markets for food and energy and consequently disrupting economic recovery. In addition, it directly impacts the aviation markets through the aircraft leasing market and Russian and Ukrainian airspace closures. Further escalation of the crisis remains a very real possibility with the prospect of additional effects on inflation and wider economic uncertainty.

3.2 Aviation market specific economic uncertainty

Pandemic driven uncertainty

While GAL and its airline customers remain optimistic about a long-term recovery, it is clear that the level of commercial risk facing both parties has increased in the short to medium term. The legacy impacts of the pandemic remain uncertain in terms of consumer confidence and behaviours, including:

(i) later booking profiles;
(ii) more flexible work from home arrangements;
(iii) use of technology to reduce the need for travel;
(iv) the scale of present demand driven by either savings accumulated during Covid-19 or vouchers/compensation received for cancelled flights; and
(v) the impact of the cost of living crisis on underlying demand

It is difficult to tell how these factors will affect traffic levels, and the composition of that traffic, in the medium to longer-term, and different parties have very different views on how traffic levels and mix will evolve going forward. For example, ACI EUROPE has recently forecast that it will take until 2025 for European traffic levels to return to 2019 levels,[22] which aligns with GAL's forecasts.

Decarbonisation

Reducing its carbon emissions is one of the key issues facing the aviation industry. In July 2022, the UK Government published its Jet Zero Strategy, which sets out a framework for how the aviation sector

[21] The lowest level of annual passengers during the financial crisis occurred in 2010 and was 31.4m at Gatwick, which was an 11% reduction compared with 2007. In contrast, Heathrow traffic was 65.9m in 2010, which was a much smaller reduction of 3%. Data sourced from the CAA.
[22] ACI EUROPE, 2022, "2023 Scenarios and 2023-2027 Outlook", available: https://www.aci-europe.org/downloads/content/ACI%20EUROPE%20Airport%20Traffic%20Forecast%202023.pdf

in the UK will decarbonise and meet net zero aviation emissions by 2050. This included an ambition for all airport operations in England to be zero emission by 2040.

The Jet Zero Strategy suggests that meeting net zero emissions by 2050 in the aviation sector will require extensive investments and changes in aviation operations, including increased efficiency, the widespread use of Sustainable Aviation Fuels, new technology providing zero emission flights, carbon pricing, and removals of CO2 from the atmosphere; and changes in consumer behaviour.[23]

Much of the technology on which this transformation will be based is still in fairly early development, and the implications of this journey are currently very unclear. While it may take many years for the technology for net zero aviation to become reality, the next few years will see consumers, governments, airlines and airports continuing to adjust to the development of technology. This will require agility to adapt as the technology, consumer preferences, and government policy evolve.

3.3 Gatwick-specific uncertainty

Northern Runway project

Gatwick is seeking planning consent for a transformational investment in the airport: bringing the Northern Runway into regular use for departing aircraft. The process to determine whether this application for permission to expand is successful is expected to take until at least Q1 2025. Until the outcome of this process is known, the future of Gatwick is very unclear.

The Northern Runway project is a major expansion opportunity that will shape the future of Gatwick's capacity offering and resilience. GAL is progressing plans to apply to bring the Northern Runway into routine use for departures which would add significant capacity and resilience to the constrained London system and allow Gatwick to serve as many as 75 million passengers by 2038. The additional capacity will bring material benefits to passengers, with a broader choice of routes, competitive prices and greater resilience in the London system, while benefiting the local and national economy by generating 18,400 extra jobs and £1.5 billion of Economic Benefit[24] for the local area and region by 2038[25]. The Project is also consistent with Government policy to make best use of existing runway capacity, set out in the DfT's May 2022 Flightpath to the Future.

We anticipate a decision on our plans from the Secretary of State in Q1 2025. A judicial review of any decision would potentially add a further 6-18 months thereby bringing the final determination of the future of Gatwick into alignment with the start of a new Commitments period.

The Northern Runway Programme requires significant up-front investment from 2025 into the next decade, while the growth flowing from the investment is not anticipated to arrive until the late 2020s/early 2030s. The timing of the investment is dependent and conditional on the DCO approval and any planning requirements that arise from it. In addition, the project's delivery phase will bring about a material shift in the risk profile of Gatwick as it involves construction work on runways and taxiways in a "live" operational environment on a previously unseen scale. In the event of an unsuccessful application for the Northern Runway, GAL anticipates a substantial capital programme to make best use of the airfield and continue to support our airlines partners' growth aspirations.

[23] Department for Transport (2022), "Jet Zero Strategy: delivering net zero aviation by 2050".
[24] Measured as Gross Value Added (GVA)
[25] Please see "Economic Impact of the northern runway project", Oxera August 2021. (https://www.gatwickairport.com/globalassets/company/future-plans/northern-runway/2021/eia.pdf)

While we would consult on the details of this investment profile at the appropriate time, it would clearly be of a different nature to the capital programme involved in delivering the Northern Runway.

Market exposure

In the dynamic world after the pandemic, Gatwick needs to compete fiercely for the recently uncertain traffic and growth. We compete for traffic and passengers with the other London airports and for routes and based aircraft with other European airports. Additionally, we have seen some carriers shifting flights to Heathrow as capacity has become available there due to the pandemic, as well as the recent re-deployment of the slots held by Aeroflot. That said, it has also been encouraging to see some airlines shift flight to Gatwick due to available capacity and the significantly more competitive charges.

While GAL competes hard for this traffic, working with its airline partners to support their growth ambitions and to provide an attractive package of high service quality, efficient operations and competitive pricing, outcomes in a competitive market are hard to predict. This means that not only is the “size of the pie” unclear but that Gatwick’s “share of that pie” is also very unclear because of the competitive pressures faced by Gatwick.

The outcome of this competition is unknown and so GAL is committed to remaining agile, delivering high quality service to passengers and airlines; and pricing competitively.

Sustainability

GAL will continue to focus on reducing its own emissions to reach its Decade of Change target of net zero for our own emissions (Scope 1 and 2), now accelerated to 2030, or 10 years earlier than the prior target. Achieving this, and supporting other parties to reduce their emissions, will become a key driver of investment (and is reflected in the 2023 CIP), with investment targeted at sustainability increasing from approximately 3% of investment in 2022/23 to 7-16% over the proposed extension period. This will include investments in yet to be developed technology, resulting in a different risk profile to the historic capital investment profile. More detail on potential projects is provided below.

Airport Emissions and resource use: We will continue to seek ways of reducing energy use and increasing energy efficiency. We have completed a detailed engineering-led roadmap to identify initiatives to reduce carbon and potable water consumption. The roadmap includes renewables, decarbonising heat, decarbonising Gatwick’s vehicle fleet, and reducing emissions associated with refrigerants. We have also developed a Carbon Action Plan, which sets out the steps required to meet the Decade of Change target of net zero before 2030. We are exploring how we can treat and re-use rainwater to flush toilets, for example, and to reduce our wholesome water consumption by 50%.

Aircraft and Surface Access Emissions: We are committed to playing our part in the UK aviation and ground transport transition to net zero carbon. We will continue to engage with Sustainable Aviation’s work on decarbonisation and the Jet Zero Council’s work on Sustainable Aviation Fuel, and to identify ways of influencing others to reduce carbon. To give airline operators an added incentive to operate the most efficient aircraft in their fleets at Gatwick we introduced a new carbon incentive into the published tariff, effective from 1 April 2022. To increase public transport use by passengers and staff, we will continue with the redevelopment of the Gatwick Airport Rail Station and the realisation of our Airport Surface Access Strategy (ASAS) 2022-2030. The ASAS sets out how we will increase our passenger public transport mode share, reduce staff single occupancy car journeys, and continue to reduce air passenger drop off and pick up car journeys to meet our Decade of Change targets. We will facilitate the transition from diesel ground support equipment with a supply of electric vehicle charging points across the airfield, and will continue exploring the provision of pre-conditioned air to reduce the use of aircrafts' auxiliary power units work with airlines to reduce emissions from taxiing, and, in the longer term, provide infrastructure to support the transition of aircraft to hydrogen and/or electric power.

This extensive programme of investment and operational change, relying on technology which is not yet mature, further heightens the risk and uncertainty faced by Gatwick.

What does the market uncertainty mean for Gatwick?

- The current environment is characterised by unprecedented uncertainty: for the UK economy, the aviation industry and Gatwick in particular
- The pandemic has constrained our ability to forward plan and has markedly changed consumer behaviours.
- GAL has seen strong signs of recovery and is optimistic about the future. However, GAL also sees significant risks and uncertainties post-pandemic arising from the slot system, inflation and the economy, geopolitical risk and increased market exposure
- Cost risks are high, with uncertainty around prices in general, energy costs, labour costs, construction costs and costs related to adapting the airport infrastructure to climate change.

The increase in uncertainty raises the importance of the airport being able to respond quickly and effectively to changing circumstances and the developing demands of its customers. Under the Commitments framework GAL absorbs the risks above, thereby giving a more stable environment which benefits passengers.

4. Focus on the Future

The existing Commitments require GAL to publish proposals for the future of Commitments at the latest on 31 March 2023, allowing at least two years for a regulatory review.

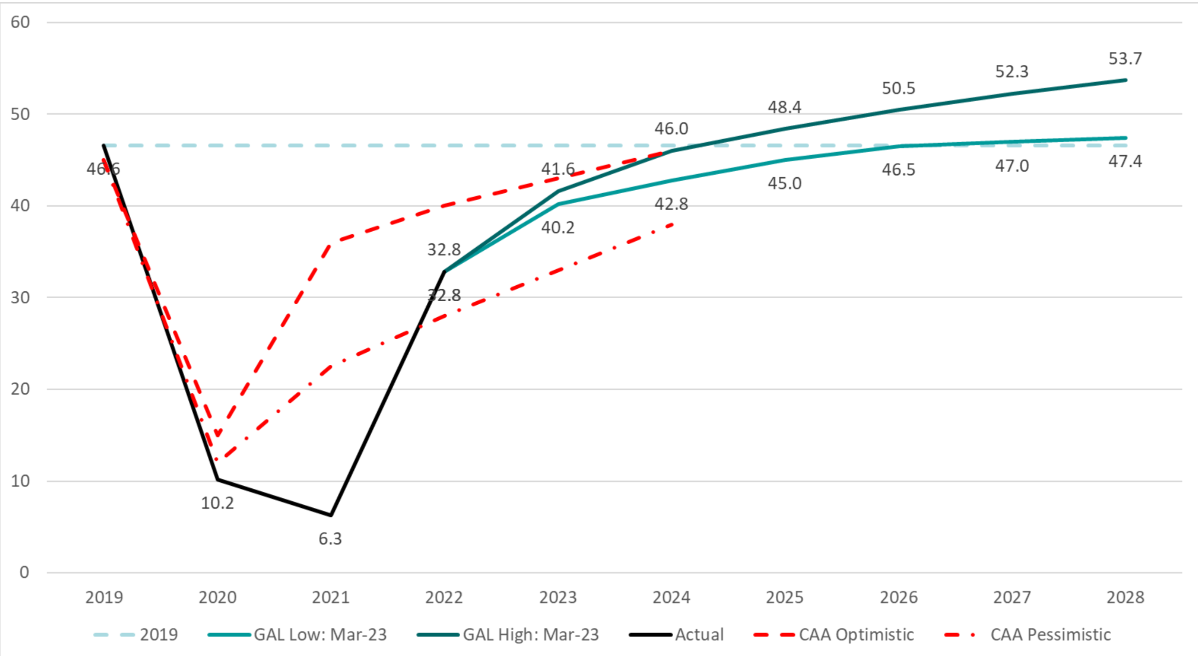
Recent regulatory reviews in the UK have been significant exercises, with economic regulation in both water and energy involving substantial complexity and costly specialist consultancy support. The review of regulation of Heathrow, affected by uncertainty around capacity expansion, has also been difficult to undertake. GAL started work on the current set of Commitments in 2018, i.e. around three years before the first Commitments expired on 31 March 2021. In the current, highly uncertain environment, we believe a process of this scale at this time is challenging.

This section begins by providing GAL's traffic forecasts, reflecting the uncertainty outlined in the previous section; explains why GAL believes that the Commitments framework continues to be the right regulatory framework for Gatwick; and why a short extension to the Commitments framework would deliver benefits for passengers, airlines and GAL.

4.1 Traffic scenarios

GAL undertook a high-level traffic assessment to help inform a long-term capital investment forecast for its Capital Investment Programme consultation. A range of annual traffic numbers are set out in Figure 20. In doing so, this range reflects the significant uncertainty outlined in Section 3.

Figure 20: GAL passenger traffic (million passenger per annum) – actual and forecast



Source: GAL traffic forecasts and CAA letter to ACC, Dec 2020.

The forecast has been informed by a range of information, including discussions with key airlines operating from Gatwick. GAL's traffic range does not reflect a material downside due to some of the economic factors mentioned in section 3. Nor do we attempt to quantify the likelihood and potential impact of such risks: the range of possible outcomes, particularly at the lower end of the range is therefore greater than illustrated on the chart.

GAL's Commitments need to be robust to a wide range of economic scenarios, including downside cases. GAL considers its traffic range in Figure 20 to reflect a broadly positive assessment over the medium-term period. However, the top-end of the range would only materialise if travel demand were more resilient to the current economic headwinds than in the past and if more efficient use were to be made of GAL's infrastructure than has been achieved historically, particularly during off-peak times of the year and day. Additionally, the overlaid CAA estimated forecasts from December 2020 are a good example of the extreme volatility in demand forecasting in this environment.

As with GAL's July 2022 consultation paper, the forecast range acknowledges the impact which a number of factors may have on passenger volumes. Factors which may support an outcome at the lower end of the range include:[26]

- Economy: Economic activity remains a key driver of traffic demand and with the majority of Gatwick's passengers UK originating, traffic growth at Gatwick will be strongly influenced by UK economic activity. The lower forecast represents a more cautious outlook on economic growth, acknowledging the uncertainty which remains over the medium-term period.

- Seasonality: GAL continues to experience a slower recovery in passenger demand during off-peak seasons – for example, GAL is expecting a passenger recovery of less than 80% during the current winter season but a recovery of more than 90% during the peak summer. The lower forecast presented by GAL assumes that passenger volumes continue to recover more slowly during off-peak periods with airlines adopting a more cautious approach to capacity deployment during these less profitable periods of the year. This effect can be expected to be particularly pronounced under scenarios with lower economic growth, especially in the context of Gatwick's passenger airline and passenger profile.

- Long Haul Recovery: During 2022, the recovery in the long haul segment (43%) was notably lower than the short haul segment (77%). This was driven by a combination of structural changes – with some long haul operators exiting Gatwick during the pandemic – and market dynamics, with some long haul markets still subject to travel restrictions (e.g. China). The lower forecast recognises the potential for a slower recovery in the long haul market segment which would be expected to drive greater seasonality and a lower average gauge, with long haul routes typically operated by larger aircraft.

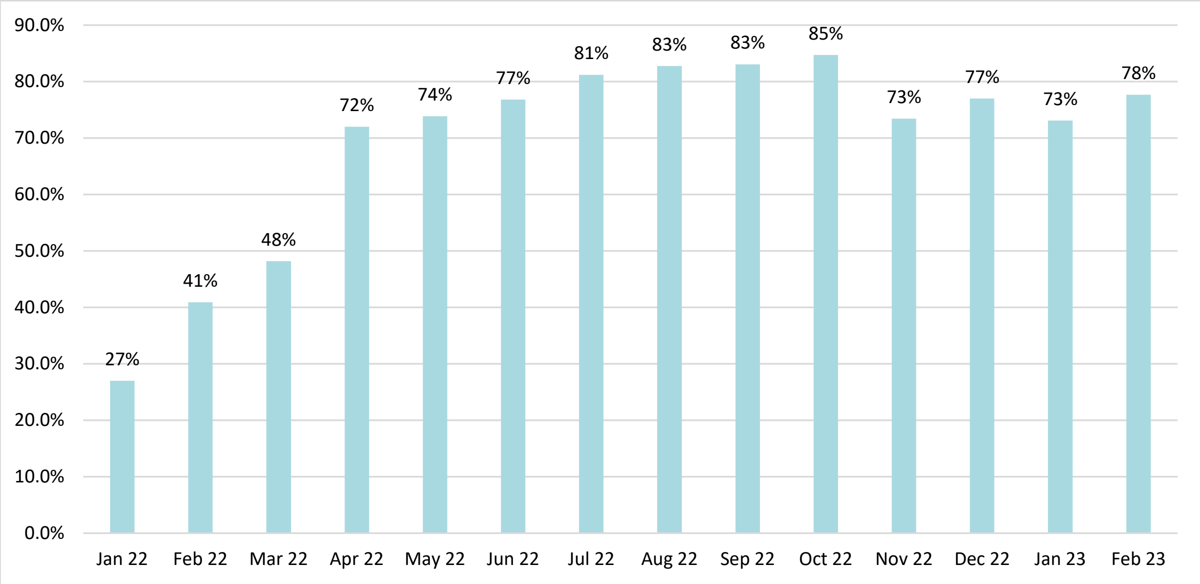
- Short Haul Gauge: The largest short haul airlines at Gatwick operate a range of aircraft types, with seat capacity typically ranging from circa 150 seats up to circa 240 seats. While aircraft order books indicate that the gauge can be expected to increase over time, the lower forecast recognises the potential for a more gradual increase in gauge within the short haul segment which may be driven by specific airline strategies and / or airline responses to prevailing market conditions.

Compared to GAL's forecasts presented in the July 2022 consultation document, the top end of the range has been revised down with a lower level of growth assumed during off-peak periods of the year. This reflects GAL's experience that while demand is recovering fairly strongly during peak periods (with July – October 2022 all over 80% of the equivalent months in 2019), demand has been recovering

[26] Note that the Northern Runway (if the DCO application is approved) will not become operational until 2029 and so falls outside the range of this forecast.

more slowly during off-peak periods (with November 2022 – February 2023 being less than 80% of the equivalent months in 2019), as illustrated in the figure below.

Figure 21: Passenger numbers at Gatwick as a percentage of equivalent month in 2019



Source: GAL passenger numbers.

4.2 The role of the Commitments framework in enabling GAL and airlines to manage risk through commercial agreements

Section 4.1 outlined GAL's traffic forecasts which are based, in part, on information provided to GAL by its airline partners and, in part, on GAL's assessments of future conditions. As can be clearly seen in Figure 20, there are a wide range of outcomes forecast; and different parties will have different views on the likely outcomes. However, it is impossible to know in advance what traffic will be. What is needed is a framework in which to manage this uncertainty/risk. GAL believes that the Commitments framework remains the most effective framework for managing commercial risk:

- The Commitments framework has a proven track record of success and has delivered positive outcomes for passengers, airlines and GAL under the full range of trading environments. The framework is well understood by stakeholders and provides a clear set of expectations that underpin the relationship between GAL and its airline customers.

- The Commitments framework fosters positive commercial engagement between GAL and its airline customers, allowing price and service arrangements to be tailored and commercial risk and rewards to be shared at a bilateral level through commercial agreements, where appropriate. These bilateral agreements incentivise growth as with more passengers come greater discounts for airlines, and lower average costs for GAL. This sharing of risk, and the benefits of growth, are particularly important in the context of Gatwick's diverse airline and passenger mix and the potential for further changes in traffic mix, with a fluid slot environment and evolving airline business models.

- The Commitments framework provides GAL and its airline customers flexibility to respond to market conditions through collective agreement to modify the Commitments and/or bilateral agreement to modify contractual terms.

Bilateral agreements have shown that there is a better way of managing airport/airline relations in a regulated environment. They are central to the success of the Commitments framework and have worked well for airlines, passengers and GAL by providing trading certainty over an extended period which has helped to bring forward traffic growth, investment and service improvements.

As noted previously, during the pandemic, GAL and airlines agreed a series of short-term contracts and amendments to manage risk while significant barriers to travel existed. However, as we have explained in section 3, the level of uncertainty in the aviation market remains very high. GAL believes that those airlines and airports which manage this commercial risk most effectively will have a competitive advantage and emerge successful by delivering the best outcomes for passengers. GAL believes that the Commitments framework is the best way of achieving the benefits for passengers through commercial agreements between airport and airline. In this context, it is important to note that, GAL and many of its airline partners have agreed new long-term contracts, extending beyond the current Commitments term which will deliver benefits to passengers over the coming years.

4.3 The difficulty in developing a long-term capital plan in such an uncertain environment

As the scale of the pandemic became clear in 2020, GAL took rapid and decisive action to significantly scale back the level of its capital investment, continuing with just a handful of capital projects. Investment levels dropped to £45 million in 2020/21 and £31 million in 2021/22 (outturn prices). As aviation started to recover in 2022, GAL began to ramp up its capital investment programme, starting with a project to re-surface the main runway, but spending in the year was still below historic levels. This investment flexibility was a vital strength over the pandemic and is a key credit feature that underpins rating agency analysis. Achieving an efficient cost of debt to finance the capital programme is dependent on maintaining a strong investment grade rating.

As travel recovers, GAL has considered how best to approach investment. It is important to weigh the level of near-term investment with the maintenance of investment-grade financial credentials and a stable financing platform. To meet the existing investment commitment, spend in 2023/24 and 2024/25 would need to reach £457 million in total, more than £228 million per year in 2022/23 prices. Whilst this is consistent with pre-pandemic annual investment levels, GAL’s recent experience suggests that the construction supply chain is only slowly recovering and such a rapid ramp would be challenging. The pool of suppliers is smaller, tenders are taking longer, high inflation is changing the form of contracts that suppliers are willing to enter into and skilled resources are a significant issue across all construction disciplines.

In addition, as GAL has accelerated its timescales to become net zero (Scope 1 and 2) by 2030 and launched its second Decade of Change, GAL will need to invest materially in sustainability over the coming years to achieve these vitally important objectives. However, the required technology to achieve these objectives is maturing and so the required investment will necessarily evolve as that technology matures. It is therefore currently very challenging to firmly define an investment plan over an extended period.

GAL is unwavering in its commitment to invest to deliver a good service to passengers and airlines, and believes a steady rate of investment is important to safeguard service levels over a longer-term. GAL has listened carefully to the consultation feedback on the CIP process and is committed to working with airlines to reach agreed views on the capital programme and ensuring that airlines’ views are properly reflected in that process. Given the uncertainties outlined in section 3 and above, any long-term capital plan will continue to evolve. This flexibility, which is a key part of the Commitments framework, is vital for delivering value to passengers, airlines and GAL as the investment needs of passengers, airlines and the airport continue to evolve.

4.3 Difficulty in applying economic regulation in an uncertain environment

Traffic at Gatwick has started to rebuild. This will take time, and as illustrated in section 4.1, GAL expects it will take between one and four years for traffic to return to 2019 levels. However, as outlined in Section 3, both the airport and airlines face considerable uncertainty.

This uncertainty is compounded because, pending the outcome of the Northern Runway DCO application, the future shape of the airport is also uncertain. The materially different capacity and investment plans with and without the Northern Runway present challenges to undertaking a regulatory review for the period beyond 2025.

The uncertainty outlined above affects Gatwick's regulatory environment in several ways. It makes forecasting key business parameters such as traffic and costs much more complicated than in the past. Forecasts even for the next season are subject to considerable uncertainty, and further out become even more so. This makes it very difficult to forecast our business's expected level of future profitability. Forecasting uncertainty increases the risks of outcomes that diverge from regulatory intentions and either disadvantage consumers or adversely affect the airport in ways that make it impossible for it to meet its service obligations and invest.

The Commitments framework enables airlines and GAL to avoid zero sum game discussions of issues like the extent of risk implied by the after-effects of the Covid-19 pandemic and how it should be shared; and focus on collaborating on how best jointly to build business at Gatwick through commercial agreements.

The traffic uncertainty and, particularly, the outcome of the Northern Runway DCO application argues for a relatively short extension to the current Commitments framework, so that these aspects of uncertainty can be clearly resolved ahead of another regulatory determination: a four-year extension would likely provide sufficient time for a DCO decision to be made, any appeals to be heard, for the lasting impact of the Covid-19 pandemic on traffic to become clearer, and for GAL to consult with its airline partners ahead of the next regulatory submissions.

4.5 Benefits of an extension

As mentioned above, Gatwick believes that the difficulties identified above can best be managed to the benefit of all parties through a short extension of the Commitments framework. These Commitments were effectively paused by Covid and therefore did not have the time to deliver the full benefit intended. Such an extension will help to accelerate the following benefits to passengers and airlines:

- Certainty on price, service and investment commitments over an extended period will provide GAL and those airlines with whom we have not completed a new bi-lateral agreement a clear framework to conclude negotiations, thus providing all parties with confidence to invest in the recovery and future growth opportunities at Gatwick.

- Certainty on long term service and investment commitments coupled with an accelerated recovery and growth profile will:

(i) provide GAL and its airline customers with a clear framework to support a revised CIP, recognising any changes in airline priorities and preferences, and

(ii) allow Gatwick to invest with confidence in those projects which will deliver improved service levels in a timely and cost-effective manner. This is particularly important in the context of (i) the scale of investment and lead times required to support certain projects and (ii) the potential for traffic volumes to grow at an accelerated pace.

- Visibility and certainty on a competitive price level, together with a strong service offering, which will allow airlines to invest in services at Gatwick with confidence and to compete more effectively for passengers.

Summary on the future outlook and rationale for the extension

GAL proposes to extend the current Commitments by four years because.

- The uncertain environment presents challenges for Gatwick and airlines to consult on our service commitments and investment plans, and to plan and undertake investment efficiently.
- By extending the Commitments, GAL and airlines would avoid extensive regulatory uncertainty that would be costly and time consuming for all parties at a time when very substantial commercial uncertainty already exists and the focus for all parties must be on continued recovery and growth.
- A Commitments extension will mean that before the next regulatory review starts, we will have certainty about the Northern Runway project, the current uncertainty surrounding forecasts of traffic volume and mix will have been reduced, the UK economy should have stabilised and the industry will be back to a greater level of stability and clarity about the future.
- The regulatory stability will also enable commercial agreements to be negotiated in the near term and will provide the right platform to consult on, prioritise and efficiently deliver a large investment program through the coming years.

GAL's proposal will allow GAL and its airline partners to focus on continued recovery and growth in the near term and await less uncertain conditions to review economic regulation towards the end of the period.

5. GAL's Proposals

This section sets out the key aspects of GAL's proposal to extend the Commitments framework by four years from 1 April 2025 to 31 March 2029, adopting a revised Maximum Gross Yield which increases by no more than CPI-1% for the first two years of the extension (1st April 2025-31st March 2027) and by no more than CPI for the second two years of the extension (1st April 2027 – 31st March 2029), a minimum investment commitment of £120m per annum (adjusted at CPI inflation in line with the inflation metric used for the Maximum Gross Yield) over the entire Commitments period (i.e. making up for investment not made during the Covid-19 pandemic, without recovering the lost revenue/profits), reviewing the CSS but otherwise on the same terms that exist today as set out in the 2022/23 Conditions of Use.

GAL has listened carefully to the consultation feedback and has adjusted the key parameters of the proposal in response to that consultation feedback:

- GAL remains committed to reviewing the CSS framework with airlines and passenger representatives, but has listened to feedback from airlines and would like to explore introducing new a service metric on air traffic control performance at Gatwick and introducing a financial incentive on PRM assistance where airlines have told GAL that these are important issues to them and to passengers;
- GAL's proposed investment commitment remains at £120m per year (indexed at CPI, rather than RPI from 1st April 2025) but GAL's expected investment levels have increased;
- GAL's proposed price commitment is to introduce a Maximum Gross Yield which increases by no more than CPI-1% for the first two years of the extension (1st April 2025-31st March 2027) and by no more than CPI for the second two years of the extension (1st April 2027 – 31st March 2029), adjusted from RPI+0%;
- GAL has introduced a draft vision statement which links service standards, investment and pricing in response to consultation feedback that the link across the key elements of the proposed package of Commitments was unclear.

By retaining the Commitments framework with adjusted parameters, maintaining the licence, and the CAA monitoring framework[27], we will provide six years of stable airport charges and service while ensuring protection for passengers and safeguarding against any potential abuse of market power.

A short extension of the Commitments framework would continue to build on the existing successes at Gatwick and achieve further benefits for passengers. The following sections outline GAL's proposed Commitments package for the extension.

5.1 Service

GAL's proposal

GAL will continue to operate the Core Service Standards[28] and rebates for the extension period. GAL's approach to service focuses on ensuring that the service Commitments made to airlines and passengers are fulfilled every day and that the overall user experience evolves over time, in line with passenger needs and desires. This approach to service means considering CSS in the broader context by looking at each element of the passenger journey through the airport, understanding the

[27] We also expect the CAA to undertake the focused reviews they Committed to in CAP2144 *Economic Regulation of Gatwick Airport Limited: notice of licence modifications* in May 2021.

[28] As set out in Schedule 3 of Gatwick's Condition of Use

connections between them and seeing where improvements can be made that would make journeys easier and more efficient, and enhance the overall passenger experience. We are supported in this by the continuous passenger research we undertake such as our Quality of Service Measure, direct passenger feedback, Net Promotor scores and social media input, as well as the active engagement of the PAG and IGAP. We also hear from our airline customers, both individually in regular bilateral meetings and multi-laterally in regular forums such as the Joint Operations Group, the Flight Operations Performance and Safety Committee (FLOPSC), the Service Quality Meeting and the Airport and Airline Group. The feedback from all these sources is translated into deliverable actions, including investment activities.

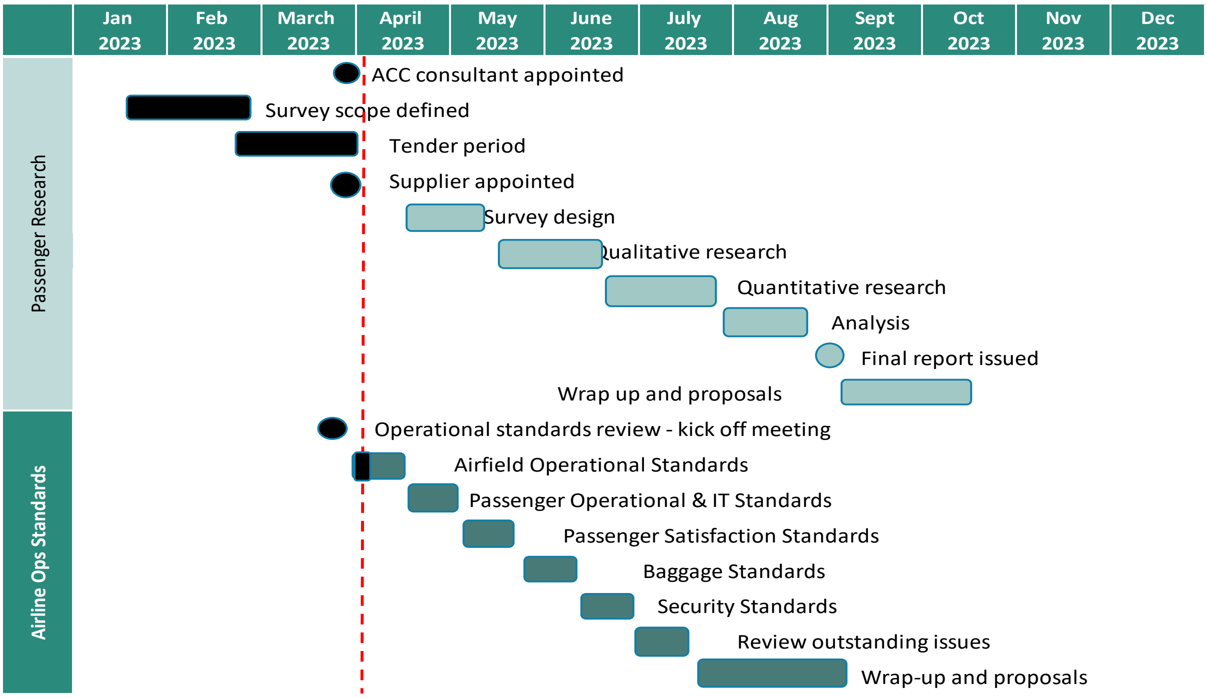
While this is a continuous process, it is prudent periodically to ensure that the measurable service standards themselves continue to meet passengers' needs. With this in mind, GAL undertook extensive consultations with the PAG and our airline customers from October 2018 through to October 2019, the last pre-pandemic year, to ensure that the CSS and the Airline Service Standards continued to be relevant and focused in support of GAL delivering the services and facilities which airlines and passengers value. This work resulted in an updated service schedule which was introduced following the pandemic.

To ensure that the scope and definition of Core Service Standards continue to reflect the evolving requirements of passengers and airlines, GAL remains committed to undertaking periodic reviews with the airlines and passenger representatives. In its 2021 Commitments, GAL undertook to initiate its next comprehensive review and consultation regarding the structure and content of the service commitments by 2023.[29] The review process has been agreed with the airline community and is set out below. An independent research agency, Quadrangle, has been appointed to gather passenger views of the end-to-end experience and operational metrics have been grouped for review with the ACC. The review is expected to be complete by October 2023.

As part of this process, GAL proposes to review with the airline community the introduction of two further service standard metrics which feedback shows are important to airlines and passengers: a metric on air traffic control performance at Gatwick, and a financial penalty on PRM service provision. The current runway availability metric was introduced in 2019 in response to airline dissatisfaction with the previous Aerodrome Congestion metric, however, GAL recognise that it does not adequately capture local air traffic control performance. A PRM metric was added in 2019 but was only a monitored measure. GAL believes it appropriate to consider the inclusion of a penalty.

[29] Additionally, we will maintain our commitment to evaluating alternative representations of the security target.

Figure 22: CSS review timelines



Changes to core standards are subject to the change process set out in the existing Commitments and may be made at any time by collective agreement. To assure the quality of the Core service Standards, GAL will commission regular internal audits of the robustness of the service measurement process and rebate calculations. New airfield metrics, agreed in 2019 but only brought into service in 2021, have recently been audited, and security measures will be reviewed in the coming months. Results will be shared as part of the review process and with the Service Quality Group.

GAL's proposal in July 2022, consultation feedback and response

In GAL's July 2022 consultation, GAL proposed to undertake the CSS review. GAL has carefully considered feedback on service standards received not just through the response to that consultation (which was positive on the CSS review and enthusiasm to engage with it) but also from a wide range of other discussions and engagement with airlines and passengers. This wide range of feedback is reflected in GAL's suggestion that two additional metrics be included in the CSS review.

5.2 Investment

GAL's proposal

GAL remains committed to providing a good service to all our users and helping our airlines grow. Key to this is continued capital investment in our airport. GAL will invest in customer service to enable an effortless journey through the airport from start to finish, in efficiency to streamline and simplify the operation to the benefit of our airline customers and passengers, and in improving the airport experience to enhance choice and offer passengers to start their journey their way. **We will continue to invest a minimum of £120 million per annum on average (in 2018/19 prices), measured over the extended period of 2019 to 2029.** The commitment will include the Covid-19 impacted years despite the £1.3bn loss of revenue in 2020 and 2021 which will never be recovered. To meet this commitment, GAL will have to invest a minimum of £1.48 billion by the end of the period (in 2022 prices). To date, (March 2023) GAL has invested £430m, meaning at least a further £1 billion will be invested in the next 6 years. In keeping with the proposed change in inflation metric outlined in the price section below, this Commitment would increase with CPI rather than RPI from 31st March 2025.

Capital Investment Programme

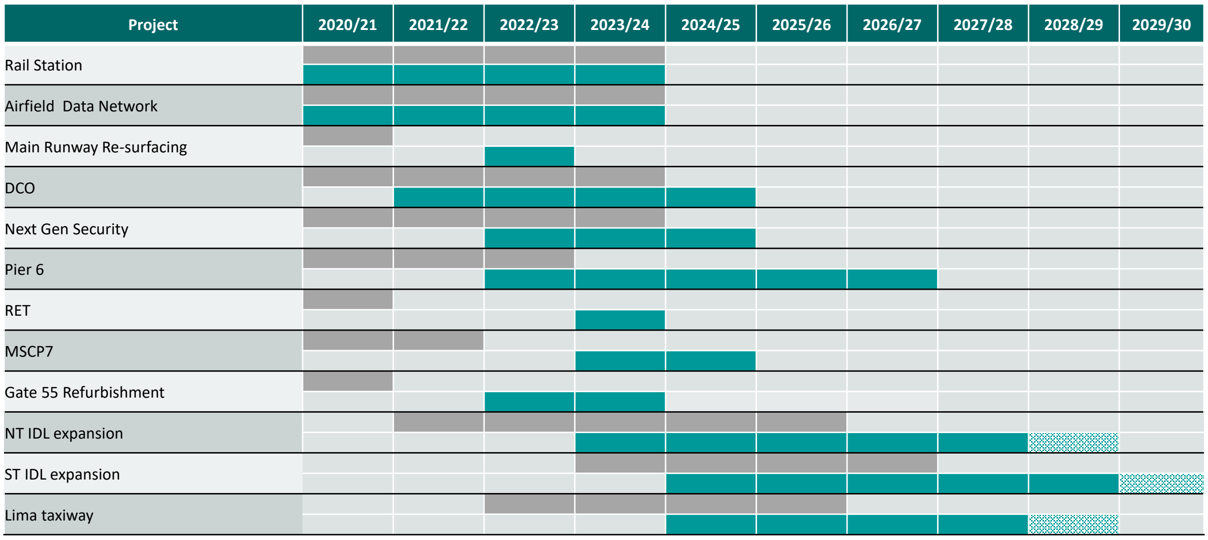
Consultation on the 2020 CIP had almost been completed when the pandemic hit, and the investment programme was scaled back. Given the uncertain conditions, GAL agreed with the airline community that it would not consult on a 2021 CIP but wait until recovery was clearer. Consultation on the 2023 CIP with airlines and PAG is well underway and draft proposals will be issued in early April for consultation.

As GAL started to rebuild its business, it has been working to define a new vision for the future, which is outlined in Section 5.4. The three foundations (ease, efficiency and experience) are reflected in the investment programme, 40% of which is focussed on capacity and service. In March this year, GAL announced the acceleration of its Net Zero goal, bringing forward the target date by 10 years from 2040 to 2030. This ambition is matched by an acceleration of sustainability investment to over £200m in the period.

GAL continues to progress its plans to bring the Northern Runway into routine use. This offers an affordable, sustainable opportunity to add significant capacity and resilience to the constrained London system and allow Gatwick to serve as many as 75 million passengers by 2038. Additional capacity offers material benefits to passengers with a broader choice of routes, competitive prices and greater resilience in the London system. We expect to submit our DCO application before the summer and the Northern Runway Programme (NRP) is now an integral part of our base investment plan.

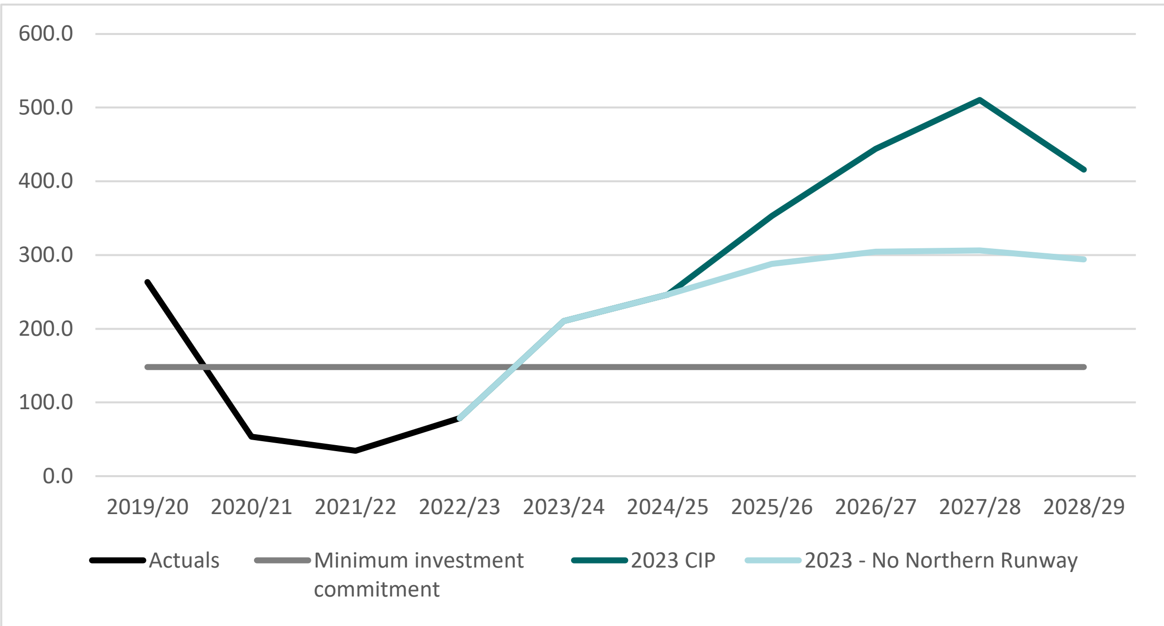
The 2023 CIP, which covers 6 years, from April 2023 to March 2029 totals circa £2.18 billion. All the key projects contained in the 2020 CIP are included in the 2023 CIP and many have now re-started and are on-site. The timeline below shows their status. Whilst we are confident the Northern Runway offers a sensible, affordable and sustainable solution to London airport capacity constraints, we have considered a scenario under which the Secretary of State does not approve the development. This would potentially delay planning permission for projects such as the international departure lounge (IDL) expansions and Lima taxiway which would be progressed even if the Northern Runway were not to get the go ahead. The planned investment in both these scenarios is provided in Figure 24, and it can be clearly seen that in both scenarios the planned level of investment is materially greater than the minimum commitment.

Figure 23: 2023 CIP timelines for key projects



Note: grey shading indicates pre-pandemic timeline, solid teal indicates 2023 CIP timeline, hatched green indicates 2023 CIP with no Northern Runway timeline.

Figure 24: 2023 CIP Profiles (2022/23 prices)[30]

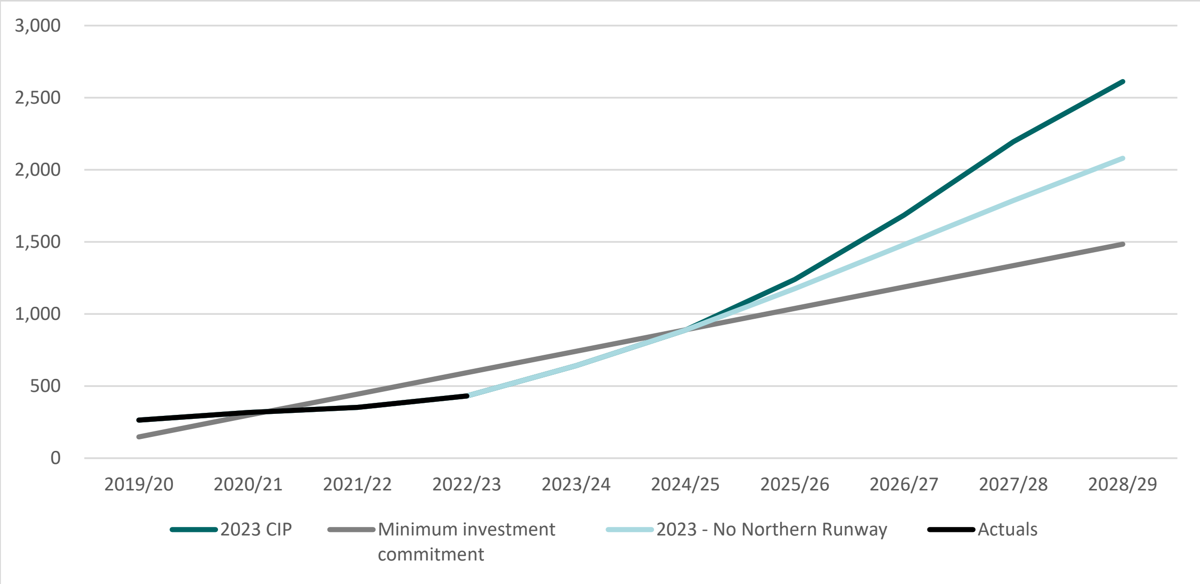


The 2023 CIP is expected to outturn a total investment of £887 million in the period 2019/20-2024/25. This is marginally below the current investment commitment of £890 million in total (in 2022/23 prices). An extension of the capital commitment by four years through an extension of the Commitments framework, would allow some flexibility for the delivery risks highlighted in Section 4 while also ensuring continued investment in service quality and offering certainty out to 2029. A 10-year minimum commitment of approximately £148 million per annum (£120m per annum in 2023 prices) equates to approximately £1.5 billion in total in 2022/23 prices. The 2023 CIP would invest around £2.6 billion over the 10-year period, and the longer timeframe gives certainty that, even without the Northern Runway Programme and with supply chain and emerging technology challenges, investment would reach £2.0 billion over the period, substantially above the commitment. Average

[30] The costs associated with obtaining the DCO are included in the reference case.

investment over the period would range from £208 million per annum in the no-NRP case to £261 million in the 2023 CIP, between 40% and 76% above the commitment.

Figure 25: Cumulative investment profiles over 10-year period (2022/23 prices)



GAL's proposal in July 2022, consultation feedback and response

GAL's investment Commitment in the July 2022 consultation was £120 million per annum over the extended period (i.e. 2019-2029).

The consultation feedback on the capital plan questioned whether the minimum investment of £120m, (or £148m is 2022/23 prices) was sufficiently ambitious and would enable GAL to continue to invest in passenger experience, automation and efficiency which the airlines felt were priorities.

GAL's investment proposals in the July 2022 consultation ranged between £164m and £179m per year, some 15% - 25% above the minimum investment level. In the intervening period GAL commenced consultation on the 2023 CIP and has carefully considered the airlines' feedback on their priorities alongside and alongside assessing the level of capital investment required to deliver the vision set out in section 5.4. As a consequence, the 2023 CIP reflects a substantially enhanced capital programme with over £80m added to deliver GAL's sustainability goals and support the airport community in theirs, almost £100m additional investment into the IDLs as well as over £0.5 billion to start the Northern runway Programme.

5.3 Price

GAL's proposal

GAL proposes that the Maximum Gross Yield per passenger from airport charges under the published tariff will be no higher than a price ceiling which:

- **Increases by no more than CPI-1% for the first two years of the extension (1st April 2025-31st March 2027) and by no more than CPI for the second two years of the extension (1st April 2027 – 31st March 2029);**
- **This is subject to the Maximum Gross Yield not reducing in nominal terms in the first two years of the extension period; and**
- **Is based on a trajectory from the Maximum Gross Yield for the year ending 31 March 2025.**

The price commitment will, as now, allow for any permitted security cost adjustments which satisfy the definition in the published price commitment to be applied over and above the price ceiling.

GAL commits to seek to increase the capacity and resilience of its airfield infrastructure. GAL further commits to continue to bear the cost and risks incurred during the extended Commitments period (up to 31 March 2029) in developing these plans, securing necessary Government approvals, and implementing the necessary projects

GAL's proposal to commit to a price ceiling which is expected to decline, on average, in real terms stands in contrast to the approach which has been taken at a number of airports in the UK and Europe and should help to further improve GAL's competitive price position.

- **Manchester Airport Group** ('MAG') introduced a **Recovery Tariff Supplement** ('RTS') at Manchester Airport and Stansted Airport on 1 November 2021, which applied until 30 June 2022. The RTS was structured as a supplementary charge to the standard schedule of charges. A charge of **£12** per departing passenger was levied at Manchester Airport,[31] and a charge of **£7** per departing passenger was levied at Stansted Airport[32].

- At **Amsterdam Schiphol**, charges increased by **9%** in 2022, by **12%** in 2023 and are planned to increase by **12%** in 2024, resulting in a cumulative increase of **37%** between 2021 and 2024[33].

- At **Heathrow**, the maximum allowable charge per passenger was permitted to increase by **50%** in a single year, with the holding price cap for 2022 increasing to circa **£27** per passenger (2020 prices)[34]. The CAA's Final Decision reduces this to £21 (2020 prices) across the period from 2024 to2026.[35]

GAL's enhanced price proposal should also be considered in the context of the benefits set out in section 4.5 and risk that GAL is proposing to bear[36] over the extended Commitments term and, in particular:

- <u>Northern Runway Project:</u> GAL would bear all the planning, development and delivery costs associated with the Northern Runway Project through this period, with no impact on the price protection for airlines and passengers.
- <u>Traffic</u>: As noted previously, the macro-economic and geo-political environment is such that there remains a significant range of plausible traffic outcomes. GAL's simplified price ceiling provides an annual cap on the charge per passenger, which may be recovered from the airline community, with no traffic risk sharing mechanism if passenger volumes are lower than anticipated. GAL's enhanced proposal extends this price protection and certainty to airlines and passengers over an extended period.
- <u>Inflation</u>: Construction price inflation is highly uncertain in upcoming years and is expected to increase above general inflation. This would increase the cost to deliver the same projects compared to previous estimates, and to do so, GAL will likely be required to allocate a higher proportion of revenue earned from airport charges to cover its capital investment

[31] Manchester Airport Plc Schedule of Charges and Terms & Conditions of Use, 1 June 2022 to 31 March 2023
[32] Stansted Airport Limited Conditions of Use Including Airport Charges, 1 June 2022 to 31 March 2023
[33] Setting airport charges and conditions Schiphol 2022 – 2024, 29 October 2021
[34] Economic regulation of Heathrow Airport Limited: Notice of licence modifications, CAP 2305, December 2021
[35] Economic Regulation of Heathrow Airport Limited: H7 Final Decision, CAP2425A, March 2023.
[36] By making this price Commitment over a significant time period GAL is prepared take on significant risk. We do however note that in the event of a very material change of circumstances, such as a significant change in taxation or business rates, GAL may approach the CAA with a request to modify the licence to take such changes into account.

commitment. A significant proportion of GAL's operating cost base is also expected to outpace inflation in upcoming years.

GAL will continue to provide airline customers with comprehensive information and consultation on the evolution of airport charges on an annual basis. This will enable airlines to continue to monitor GAL's adherence to its pricing commitments and to monitor the evolution of GAL's net yield, which, as now, will not be subject to a specific price commitment.

GAL's proposal in July 2022, consultation feedback and response

GAL's July 2022 consultation proposed a Maximum Gross Yield that increased no faster than RPI+0%, as a simple extension to the current Commitments framework.

There were several responses to the consultation which stated that RPI was no longer an appropriate metric to use and proposed that RPI should be replaced by an alternative price index.

In response to this consultation, GAL proposes to change the price index to CPI. The long-term gap between RPI and CPI is forecast to be approximately 1% per year.[37]

GAL considers that a price ceiling trajectory of CPI+0% would represent a very competitive Maximum Gross Yield trajectory throughout the extension period given the level of investment, risk of above inflation cost increases and the other risks that GAL takes under the Commitments framework as laid out throughout this document.

However, GAL proposes a temporary Maximum Gross Yield trajectory of CPI-1% for the first two years of the extension period, with a trajectory of CPI+0% thereafter. The temporary trajectory of CPI-1% recognises the particularly high levels of cost pressure and economic uncertainty currently being experienced by all stakeholders.

Acknowledging the additional risk which GAL will bear under this significantly enhanced price proposal and the extent to which GAL's cost base can be reduced if there were to be a low inflation or deflation environment, GAL also proposes that during the first two years of the extension period, the annual nominal change in the price ceiling will not be less than 0%.

This trajectory for the Maximum Gross Yield is a very large transfer of value to airlines to further support and enhance the industry-leading network of routes available to passengers flying from Gatwick.

5.4 GAL's draft vision

In response to several consultation responses which requested a clearer vision of the airport, GAL has developed a draft vision for the airport to guide the airport's development. This will be presented as part of the current CIP in April for discussion and consideration.

This vision is

"To be the airport for everyone, whatever their journey"

This vision is built on the three core foundations of **ease, efficiency and experience**.

Ease, through investing in customer experience, to enable an effortless journey through Gatwick from start to finish. Meticulous research and understanding of the customer need, will help shape and

[37] https://obr.uk/box/revised-assumption-for-the-long-run-wedge-between-rpi-and-cpi-inflation/

define the airport process. Continued investment in biometrics will simplify the way people pass through. Wayfinding will be modernised, to provide the right information, in the right way, at the right stage of the journey. New scanning technology will be deployed, enabling passengers to 'just walk through'. Getting to and from the airport will become even easier, following the opening of the new railway station, delivering much needed additional capacity, as well as modernising what represents the arrival gateway for over 40% of passengers flying from Gatwick. The approach will remain consistent; identify barriers and areas of friction, then invest in solutions to help simplify and improve the process. Gatwick will become renowned and celebrated by passengers as easy to pass through.

Efficiency, through refined process engineering to help streamline and simplify the Gatwick operation. Gatwick will continue to be a world leader in passenger security, though this is only the beginning. Strong investment in automation and AI will deliver cutting edge improvements across the check-in and boarding processes, providing tri-partite benefit for the airport, the airline community, and the passengers. Investment in airfield technology will help enable more runway movements, whilst supporting improvements in resilience alongside. Critically, the airport will significantly increase its focus, action and investment in the sustainability agenda – helping to lead the industry in decarbonising the business, whilst accelerating progress towards its net zero commitment of 2030. These credentials will prove to be a critical underpinning for bringing the Northern Runway into routine use, enabling a significant reduction in proportionate environmental impact, alongside the overall growth in volume.

Experience, through investing in the expansion and modernisation of the international departure lounges, providing a distinctly broader range of F&B and retail offer, with innovation and product 'firsts' at the forefront of the new developments – ensuring an experience unparalleled to the high street or other London airports. Designated 'mood zones' will be created within the terminal, allowing passengers to find the place that best reflects how they're feeling that day. High resolution digital orientation ribbons will be installed, delivering the 'wow' impact on entry to the IDL, serving to remind passengers they are travelling through a major international airport. Individually tailored experiences will become more pronounced, be that travelling on business, for a family holiday, or for a long weekend break with friends.

A better experience through Gatwick translates to more people travelling, be that on existing services, or helping to support new.

The journey through Gatwick will become synonymous with fun, entertainment and individuality – allowing passengers to start the journey, *their* way.

Summary of proposals

GAL proposes to extend the Commitments by four years on the following terms:

- continue to consult with airlines and passengers on CSS and to discuss the introduction of a new service metric relating to air traffic control performance at Gatwick and to add a financial incentive to PRM support.
- commit to investing at an average annual rate of £120m in 2018/19 prices (approximately £148 million in 2022/23 prices) inclusive of the COVID impacted years for which there is no recovery of lost revenue but with a materially increased planned level of investment to support the delivery of the vision. Additionally, GAL will continue to commit to funding all future capacity related investment through the extended period.
- The maximum gross yield per passenger is proposed to increase by no more than CPI-1% for the first two years of the extension (1st April 2025-31st March 2027) and by no more than

CPI for the second two years of the extension (1st April 2027 – 31st March 2029), subject to the annual nominal change in the Maximum Gross Yield not being less than 0% in nominal terms in the first two years of the extended Commitments period. This will deliver a pricing structure that will continue to place Gatwick's charges in a highly favourable competitive position.

By retaining the Commitments Framework, maintaining the licence, and the CAA monitoring framework, we will provide six years of stable airport charges and service while ensuring protection for passengers and safeguarding against any potential abuse of market power.

6. GAL's Economic Licence

6.1 Commitments and GAL's economic licence

The Commitments currently exist as contractual undertakings within GAL's Conditions of Use and are underpinned by being conditions to the economic licence granted by the CAA to GAL under the Civil Aviation Act 2012. The Term of the current Commitments runs to 31 March 2025. The CAA granted this licence having found that GAL met the market power tests in the Civil Aviation Act 2012. The CAA indicated in its January 2014 Notice of its market power determination[38] that:

> "The Government has also put on hold the expansion of the main London airports … The CAA considers that any change in Government policy after the release of the Airport Commission's final report may take some time to be implemented and that any significant capacity expansion would not be expected until after 2025. Over the Q6 period, due to improving economic conditions and the lack of significant capacity expansion, the CAA considers that GAL's SMP will endure."

While GAL continues to believe, as illustrated by our conduct during the existence of the Commitments, that we do not have significant market power and that an economic licence is redundant at Gatwick, these Commitments assume that the CAA would be likely to maintain an economic licence for the airport for the period from 1 April 2025, modified as need be to implement this extended Commitments period.

GAL will participate fully in any consultation conducted by the CAA regarding the content of a modified and extended licence. For clarity we have set out the anticipated changes necessitated by these proposals in Appendix 1.

6.2 Transparency on charges and net yield

GAL will continue to provide airline customers, as now, with comprehensive information and consultation on the evolution of airport charges on an annual basis. This will enable airlines to continue to monitor GAL's adherence to its pricing commitments. GAL will also continue to publish information on its net yield.

As we have previously noted, while contracts deliver longer term price predictability for airlines, the year-by-year movement in the overall net yield has the potential to become less predictable as a result of the interaction of a number of overlapping contracts with different airlines. Depending on a range of factors, such as early year discounts, traffic growth incentives, airline fleet mix and incentives to deliver good punctuality, the net yield in any one year could rise or fall sharply. An increase in net yield in any one year should be viewed in the wider context of overall evolution over time of the net yield, set within the envelope of the gross yield trajectory, which itself is constrained by the constant real terms price ceiling.

6.3 Regulatory oversight

Following the submission of these proposals, GAL will continue to engage with airlines and the CAA on these proposals to respond to any further questions which may arise. It invites the CAA to modify GAL's licence to give these proposals effect.

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[38] Market power determination in relation to Gatwick Airport: statement of reasons, CAP1134, CAA, January 2014, paragraph 2.7

7. Summary of consultation responses

GAL consulted on an extension of the Commitments framework with its airline partners and passenger representatives in Summer 2022. GAL received responses from individual airlines, the Airline Consultative Committee (AC) and GATCOM's Passenger Advisory Group (PAG). GAL has carefully considered the responses to its consultation and has materially evolved the terms of the proposed extension in response to those consultation responses. The table below summarises those responses.

Issue raised	**GAL response**
Service	
One respondent asked whether the timelines of the CSS review was fixed?	The review timeline has been agreed with the ACC. A copy may be found in Section 5.1 of the Contracts and Commitments proposal.
Several respondents commented on the importance that CSS targets continue to evolve to reflect evolving passengers needs and add potential new measures and targets to focus on emerging issues, and that measurement is realistic to ensure it delivers actual, positive consumer outcomes particularly where certain standards might not capture the entire picture or are measured at the wrong point.	GAL agrees that it is important that airports should continue to adapt to changing service needs. In 2019, it amended almost all the CSS metrics; tightening targets on many, changing the way it measured/calculated a wide range of them and introducing several new ones. Contracts and Commitments contains provisions to change CSS metrics at any point, in agreement with the airline community. The collective intention of GAL and the ACC, discussed as part of the 2019 service review, was that individual metrics, or groups of metrics, would be reviewed independently on a more rolling basis. We had planned to review new airfield measures in 2021, a year after their introduction, to check they were working as expected security metrics in 2022, one year after the introduction of a new, more sophisticated queue measurement system, and then passenger satisfaction measures in 2023, 5 years after the 2018 YouGov survey. The pandemic disrupted all these plans and has led to a 2023 review of all metrics. GAL will propose as part of the review, strengthening the special assistance metric by introducing a financial penalty and re-introducing a metric focussed on local air traffic control performance. The Core Service Standards do not represent an exhaustive list of services or metrics that GAL monitors and shares with the community, but rather a representation of the key

	service outcomes which, if not achieved, it is appropriate to rebate on the core service charges. GAL also takes a wider perspective on service including participation in the ACI Airport Service Quality Programme to look at how Gatwick compares to other airports, net promotor scores and bespoke research (such as the YouGov surveys in 2014 and 2019 and the survey planned for 2023).
One respondent asked whether any recommendations from the CSS review would be considered as outside the £120m minimum investment commitment?	The £120m per annum average investment threshold (£148m in 2023 prices) is a minimum level. GAL has a strong history of investing significantly above the minimum level and remains committed to investing well above it, not to just achieve CSS targets but to meet our vision of being the airport for everyone, whatever their journey. The 2023 CIP proposes total investment of over £2 billion, 40% of which is focussed on capacity and service. Individual projects already included in the programme such as the IDL expansions will be informed by the 2023 CSS review and the 2024 CIP will flex to reflect any additional investment requirements highlighted by the review.
One respondent suggested that rebate percentages and values should be distributed consistently across both terminals	Rebates balance between terminals fairly. The difference in the rebate exposure percentages between North Terminal and South Terminal is due to the inter-terminal shuttle affecting only passengers using the North Terminal. Furthermore, the rebates are calculated with reference to the aeronautical revenue from Core Service Charges of that terminal. I.e. if South Terminal's rebate exposure is 6.75% x aero revenue of ST and North Terminals is 7.25% x aero revenue of North Terminal. This means that if one terminal serves more passenger than the other the exposures expressed in £/pax remain appropriate.
One respondent stated that to better understand GAL's service standard performance over the historical period, it would be useful to set out long-term information both by terminal and asset to highlight areas that might require improvement	GAL does not wish to unduly burden airlines with detailed engineering work at the asset level. Asset owners routinely attend the monthly Service Quality Meetings and review their near-term (1 year) maintenance plans with the community. This ensures visibility of equipment outages and ensures that for example, work is appropriately timed around peak periods. Their plans are based on detailed asset condition and performance data and GAL are happy to share this if desired. From a longer term investment perspective, the Heads of Engineering, Airfield and Terminals each have detailed asset management plans for their areas and all are actively involved in the capital consultation process with airline and PAG stakeholders. Again, if there are specific areas where airlines feel they would like more detail GAL are happy to review.

One respondent stated that it would like to ensure that GAL's new measurement technology considers security queues from the point at which the last person is in the queue up to the time that person exits the security screening process on the other side.	A new, more sophisticated queue measurement system was installed in both NT and ST central search areas in summer 2022. Based on summer 2022 queue performance, an enhancement project is currently underway to expand the area covered. In the unlikely event that a queue extends beyond the area measured by technology, manual measurement is deployed, either in the moment, or if time/resources do not permit, via CCTV analysis. The safety and security of passengers is our top priority. Queue measurement for security has to strike a delicate balance between incentivising the right amount of security resources, while not inappropriately influencing the decisions of individual security officers in carrying out their duties. By stopping the queue measurement at the point when the passenger exits the queue and enters the security screening process GAL ensures that security officers are not directly influenced by time pressure while carrying out their duties. Indirectly, of course, the speed and efficiency of the security process is captured by the queue measurement; if security processing rates drop then queues will build.
One respondent noted that it would welcome collaboration with GAL in implementing the Department for Transport's ("DfT") security mandate that is likely to offer far greater operational efficiencies through the use of new technology in passenger and staff screening	Whilst GAL very much welcomes the passenger benefits of the mandatory new cabin baggage technology (such as the ability to leave liquids and electronics in bags), it anticipates no efficiency gain as a result – quite the opposite. Trial data shows leaving liquids and laptops in bags reduces the x-ray images per passenger by about 20%. However, the reduction in images is off-set by the doubling of the average time an operator requires to process each image – whilst offering better quality the new 3D images are far more complex to read and resolve. The increase from 25% to 100% of passengers being body scanned requires considerably more resource than the current archway metal detector/scanner combination, with both male and female officers required at each of three scanners per screening lane. Innovations such as AI screening of bags and 'walk-through' body scanners offer potential efficiencies in the future, but these are currently unproven and unapproved by the Department for Transport. GAL welcomes discussions with airlines on topics of potential collaboration and will follow up on this topic directly with the airline concerned.

One respondent asked how GAL benchmarks its service levels against other airports and what can it learn from those airports?	Gatwick have historically been members of the ASI Airport Service Quality programme and reviewed their performance relative to other airports on a quarterly basis. Participation was paused between 2020 and 2022 while the airport operated at low volumes and with limited research staff but is re-starting in 2023. The 2019 ASQ scores very much reflected passenger and indeed airline feedback: Gatwick is a leader in security and check-in but is average across metrics relating to the departure lounge and gate experience. GAL reflected this feedback in the 2020 CIP with significant investment in IDLs and continued investment in both autoboarding and gateroom upgrades and these investments have been carried through and enhanced in the 2023 CIP. At the heart of GAL's vision for passenger experience are IDL's that are un-paralleled by the high street or other London airports.
Investment	
Several respondents questioned whether the CIP/minimum investment commitment was ambitious enough to deliver a "best in class" airport which kept up with other airports in terms of innovation and customer experience (particularly in check-in areas)?	GAL's investment proposals in the July 2022 consultation ranged between £164m and £179m per year, some 15% - 25% above the minimum investment level. In the intervening period GAL commenced consultation on the 2023 CIP and has carefully considered the airlines' feedback on their priorities alongside assessing the level of capital investment required to deliver the vision set out in section 5.4. As a consequence, the 2023 CIP reflects a substantially enhanced capital programme with over £80m added to deliver GAL's sustainability goals and support the airport community in theirs, almost £100m additional investment for IDLs and over £0.5 billion to start the Northern Runway Programme. The CIP includes £15m for innovations trials and pilot programmes over the period. As trials succeed, projects to roll them out more widely across the campus would be added to the future years' CIPs. For example, discussions with airlines about trials of 'smart stands' are underway and would be funded from this budget. As either individual or combinations of technologies are proven to be successful of the trial stands, new projects would be brought forward to roll them out across the campus. £5m is budgeted separately for the continuation of Gatwick's check-in automation programme. £12m is budgeted for campus wide roll-out of auto-boarding.
Several respondents requested more detail on expected and planned capital projects with timescales for delivery	Through the consultation process for the 2023 CIP, GAL has reviewed the detail of over 180 proposed capital projects and programmes. These range from projects that are currently in delivery to some which have only just been initiated. The level of detail available for each project builds as projects develop. In 2019 when GAL reviewed the consultation process, one of the airlines' frustrations was that they had no visibility of projects, beyond a line in

	the CIP, ahead of TG2, by which time they felt GAL had defined the business case and it was too late for them to influence the scope of the project. In response, GAL has shared datasheets with a high-level outline of the problem statement or opportunity Tollgate 0 (initiate), to provide the community the opportunity to get involved from the earliest moment if they wish. The North Terminal IDL Refurbishment, which was developed through 2022 and is just starting on site is a good example of where this worked well. The challenge with very early engagement is that details are sketchy, the point being to enable the community to influence the outcomes. The spend profiles in the CIP give an indication of the assumed timelines but they are adjusted each year if assumptions change.
One respondent stated that the datasheets provided in the CIP do not contain a sufficiently close link between the project and an expected/defined outcomes	See above.
One respondent stated that GAL has not articulated how the airport will develop from the start to the end of the proposed extension period	As the airport has recovered through 2022, GAL has started work to refresh its vision for the post-pandemic airport of the future. The first draft has been recently completed, is contained in Section 5.4 of this Commitments Proposal and will be shared more widely in the coming weeks. It is reflected in the 2023 CIP with a focus on capacity and service investment, accelerated sustainability investment, and significant budgets identified for automation and innovation. GAL shared a more 'bottom-up' perspective during the CIP process, detailing its vision for each element of the customer journey, making clear where, for example, passenger feedback had highlighted a gap in service or functionality, or where it saw specific opportunities for automation across the campus.
One respondent stated that Pier 6 is an example of GAL failing to provide the necessary information to the airlines and how the design is in the best interests of passengers, and that most recent working groups on Pier 6 have been briefing sessions with no request for airline input	GAL challenged itself during the pandemic hiatus to review the design of Pier 6 and look for opportunities to streamline the solution (as it did with most paused projects) to drive savings and improve sustainability. It was unclear whether this would even be possible, and GAL took the decision to evaluate the feasibility and assure itself that a smaller solution could still deliver core outcomes ahead of engaging with the community. GAL acknowledge that this was a poor choice, particularly given the level of engagement that the primary user had had in the development of the previous design. Much of the airline input that drove the previous design, for example, how the boarding processes could best be supported by infrastructure, was maintained in the revised scheme, but some elements, such as space for commercial offers was excluded. The project has recently commenced detailed design and

	GAL will work hard to ensure that the community are fully engaged, and their input fully considered as the design progresses.
One respondent stated that the capital consultation process is unsatisfactory, but has improved, and desires further engagement with GAL on ensuring airline views can genuinely define outputs of capital expenditure plans	GAL was concerned about this feedback, coming, as it did, at the start of the annual CIP consultation process, and sought greater clarity from the ACC. The specific feedback related to the effectiveness of project working groups. NT IDL was cited as a good example, where airlines felt they had been engaged from the start and were able to influence outcomes and the 2022 Pier 6 working group was criticised as being poor, in that airlines felt they were merely being informed, not consulted. GAL will work to ensure that future project working groups follow the NT IDL model with early engagement and clarity on where airlines, and the PAG, input is most valuable.
One respondent commented that it wanted to see airline feedback prioritised during capital programme consultations	GAL always seeks to include airline feedback in both the development of the capital programme and at an individual project level. In the 2023 CIP ACC input drove the inclusion of new projects such as taxiing initiatives and hydrogen/electric aircraft transition, the acceleration of TBF baggage and police station projects and an uplift in the IDL expansion budget provision. At an individual project level GAL is committed to continuing the good example set by the NT IDL working group where airline input on the requirements and location of key features such as the assistance desk was invaluable.
Several respondents commented that they would expect to see a more comprehensive airport vision.	As the airport has started to recover, GAL has started work to refresh its vision for the post-pandemic airport of the future. The first draft has been recently completed, is contained in Section 5 of this Commitments Proposal and will be shared more widely in the coming weeks. It is reflected in the 2023 CIP with a focus on capacity and service investment, accelerated sustainability investment, and significant budgets identified for automation and innovation. GAL shared a more ‘bottom-up’ perspective during the CIP process, detailing its vision for each element of the customer journey, making clear where, for example, they saw specific opportunities for automation across the campus.
One respondent encouraged GAL to consider the frameworks in place at other regulated companies to ensure its consultation arrangement remain appropriate.	GAL is always willing to learn from best practice and has frequently sought feedback from the community on how we engage and consult. We have observed that issues around capital consultation appears to be a uniform feature of most regulatory systems.

	We believe the important thing is that the system continues to evolve and that GAL and the airline community continues the dialogue to ensure the best fit for Gatwick.
One respondent noted that there was a significant value of investments in commercial projects, whose revenue is levied outside of the aeronautical charge and stated that they would like to understand how such expenditure has helped develop GAL's commercial revenues, and whether this has been accounted for within the price path proposal in order to benefit consumers	GAL continues to believe that the commercial offer is an important aspect of the passenger experience and one which improves Gatwick's competitive position relative to other airports. While the level of airport charges is not formally linked to the level of commercial revenues under GAL's commitments framework, an optimised commercial offering provides GAL with greater pricing flexibility which can then be recognised in airline bilateral agreements via lower airport charges. The commitments framework allows GAL to tailor this incentive to those airlines and passenger segments making the greatest commercial income contribution rather than alternative regulatory structures whereby any such pricing benefits may be shared in a less targeted manner.
One respondent noted that while GAL will need to spend more to undertake the same construction projects identified in the CIP because of construction cost inflation being above general inflation, that the converse is that such cost inflation makes it easier for GAL to meet its capital investment commitments when set at an absolute level and deflated at RPI or CPI to constant prices in the base year. The respondent further noted that such inflation was exacerbated by Brexit and the pandemic, and more recent information suggests that construction inflation has declined significantly. Where general inflation is above construction inflation, this could lead to the gross yield price path rising ahead of construction costs.	GAL recognises that insofar that construction price inflation changes faster or slower than general inflation the minimum capital commitment is also affected. The minimum capital commitment is however intended as a backstop rather than a target and the lower end of the 2023 planned investment range is still 15% above the inflation adjusted target. GAL has invested substantially above the minimum threshold every year since Contracts and Commitments started (with the exception of the pandemic years) during a period of low, almost negligible, inflation.
One respondent requested clarity on what happens to any monies for projects which are deferred beyond the extension period?	The Contracts and Commitments investment model does not define a specific set of projects which 'must' be delivered within the C&C period, but rather flexes each year, in consultation, to the dynamic nature of Gatwick's business. Gatwick fully expects to far

	exceed the minimum level of investment, as it has done every year outside the pandemic years.
One respondent asked whether investment levels could be adjusted upwards within the extension period?	The rolling 5-year CIP is reviewed annually and may increase if required, as it has done in the past. The 5-year plan rose from £1.1 bn in 2019 to £1.3 bn in 2020, in response to several key factors, including the DfT security mandate for cabin and passenger screening. The 2023 CIP is significantly higher than either the 2020 CIP or the 2022 reference case, even without Northern Runway investment.
Relationship across aspects of Commitments package	
Several respondents commented that not enough information was provided on the interaction between the price, CSS and investment plan and how those align with an airport vision.	As the airport has started to recover, GAL has started work to refresh its vision for the post-pandemic airport of the future. The first draft has been recently completed, is contained in Section 5 of this Commitments Proposal and will be shared more widely in the coming weeks. It is reflected in the 2023 CIP with a focus on capacity and service investment, accelerated sustainability investment, and significant budgets identified for automation and innovation. GAL shared a more 'bottom-up' perspective during the CIP process, detailing its vision for each element of the customer journey, making clear where, for example, it saw specific opportunities for automation across the campus.
Pricing	
Several respondents noted that RPI was not an appropriate metric to use, and that insufficient information was provided to justify the proposed price ceiling	GAL acknowledges the concerns which have been raised with respect to the continued use of RPI and with a view to addressing these concerns, has amended its price proposal such that CPI will be the reference index. GAL notes that at the time of publishing its proposal in July 2022, (i) there had been a good level of consistency in terms of the historical difference between RPI and CPI and (ii) as the reference index under the current commitments term is RPI, it was consistent to express the price trajectory for the extension in RPI terms rather than CPI terms. The key consideration is the overall level of price increase which is permitted and with an established relationship between RPI and CPI, this could be expressed in either RPI or CPI terms with e.g. a trajectory of RPI+0% comparable with a trajectory of CPI+1% (based on the historical wedge).

One respondent suggested that if GAL replaces RPI with another metric, then GAL should consult on what level is appropriate	GAL does not consider it necessary to have a two-staged consultation and believes that feedback on the price proposal should be considered in a holistic manner, incorporating both the reference inflation index and any fixed adjustments to the reference index (i.e. the value of 'X' in RPI/CPI+X). GAL notes that a majority of responses from the airline community called for a lower price trajectory, with a strong preference for the trajectory to be expressed with respect to a CPI index rather than an RPI index. This feedback is reflected in GAL's revised proposal which adopts a lower price trajectory set with respect to a CPI index.
One respondent asked whether GAL will remain price competitive with other airports with the proposed price ceiling?	GAL continues to believe that its price ceiling will deliver a competitive price level and notes the following: • Continued strong demand for slots at Gatwick across a range of airline business models (incumbent, new entrant, full service and low cost) indicates that GAL is delivering a competitive product to a wide range of airline business models. • The price ceiling is a maximum price level which airlines may pay. GAL has a track record of pricing competitively; this has been delivered via a combination of setting the tariff below the maximum permitted level and pricing outcome from bilateral agreements with individual airlines which incentivise and support passenger choice, efficient use of airport infrastructure and good levels of service. • The benchmarking analysis included in GAL's July 2022 consultation paper – which is also repeated in this paper – highlights that based on data for 2019, GAL's airport charges are currently in the lower half of the sample and circa 20% below the weighted average for the comparator set.
One respondent noted that it was sceptical of benchmarking in justifying charges or their future increase, since airports have vastly different regulatory regimes in place, and the quality of their facilities varies enormously.	Benchmarking is an important tool in all aspects of commercial business and while we recognise the challenges raised by the respondent in the use of benchmarking, this does not mean that they cannot be used as they remain a cost-effective way to get a sense as to whether airport charges are reasonable. That said, a key challenge with benchmarking, particularly of aeronautical revenues is that it observes performance for a period that is 12-18 months old and tries to infer whether charges will be efficient in the future based on this data. That said there are some mitigating

	factors in how GAL makes use of the data and how the price ceiling operates within the context of the Commitments. • Firstly, the benchmarking of aeronautical revenue is used in conjunction with benchmarking of airport charges of the most recent data. • Secondly, charges tend to have some inertia over time and therefore the overall picture is unlikely to change dramatically year-on-year. • Thirdly, GAL has a long track record of charging at a competitive level and below its ceiling. • Fourthly, the CAA monitors the net charges of GAL (i.e. the outturn aeronautical revenue). If, during the commitments period, the CAA were to observe an increase in GAL's returns, particularly if associated with an increase in its net charges compared to other airports then it still has the ability under the Civil Aviation Act 2012 to take further actions.
<u>Term of extension</u>	
One respondent suggested that an extension to 2027 should be considered rather than 2029 to align with the Northern Runway proposals	The Northern Runway could start delivering extra capacity by 2029. An extension to 2027 would not provide sufficient time for there to be clarity on the outcomes of the DCO application (including any judicial review), for GAL to consult with airlines, and the CAA to conduct a regulatory process potentially lasting two years.
One respondent noted that an extension of the commitment period raises the question of how the CAA can implement any adjustment it might feel necessary based upon its review metrics.	GAL is not asking the CAA to rule out any intervention if they judge it to be in the consumers' interests. This ability for the regulator to step in (subject to the appeal mechanism) was a key enabler for alternative forms of regulation enabled through the Civil Aviation Act 2012.
One respondent suggested that a new, but longer period, beginning in 2025 might also be considered.	A new, longer period beginning in 2025 is difficult to achieve in practice due to the difficulties and inefficiencies in undertaking a review before the DCO is settled. An extension of four years ensures enough time is available for the outcome of the DCO application to settle, for the long-term implications of the Covid-19 pandemic to be seen with more clarity, and for the economic climate to stabilise. The idea of a longer-term arrangement is one which could be explored for the period following the extension.

One respondent stated that it felt that GAL had not provided a rationale for a four-year extension	The Northern Runway could start delivering extra capacity by 2029. A four-year extension provides sufficient time for there to be clarity on the outcomes of the DCO application (including any judicial review), for GAL to consult with airlines, and the CAA to conduct a regulatory process potentially lasting two years.
Other topics	
Several respondents asked how GAL would challenge its own costs further so that it continues to drive cost efficiencies over time.	GAL has very diligently managed its cost base during the pandemic. This has been a key enabler in avoiding having to propose above inflation increases to charges. In addition to this GAL also took decisive action to limit the cost base of ancillary charges. Taken together these efficiencies give GAL the confidence that the cost and inflation challenges can be managed within the existing price commitment. GAL hopes that its vision to deliver ease, efficiency and experience makes it clear that it will continually strive to find new cost efficiencies. GAL sees this as a way to differentiate itself against other airports and drive a real competitive advantage.
One respondent noted that the environmental impacts (particularly noise) of the level of airport charges should be considered due to the impact of the airport on local communities	GAL recognises the environmental impact of its operation and the importance of this issue to local communities. Indeed, GAL recently accelerated its commitment to net zero by 2030 and is working closely with its stakeholders to reduce scope 3 emissions and ensure we are creating a sustainable airport for the future. GAL acknowledges that airport charges have a role to play in incentivising improved environmental outcomes and notes that under its structure of charges, there are price signals to incentivise the use of quieter, cleaner and greener aircraft. These are delivered through lower charges for the use of aircraft with the best in class noise performance and with lower NOx and CO2 emissions. As evidenced by the recent introduction of a carbon incentive in the tariff structure, environmental charges have become an increasingly prominent feature of GAL's charging structure. GAL is required to consult annually on any changes to the structure or level of its charges and will continue to review the price signals delivered by the tariff, including environmental charges, to ensure they remain relevant and appropriate. Noting the

	importance of environmental ambitions for stakeholders across the industry, GAL anticipates that environmental charges will continue to be a key area of focus.
Several respondents noted that GAL's passenger forecasts appear conservative and took different views on the likely evolution of traffic, for example on the likely resilience of leisure markets or the strength of the post-Covid bounceback.	GAL has provided further context for the lower end of its forecasting range in section 4.1 of this paper. GAL notes that its forecast range has been (i) informed by a range of information, including forecast ranges supplied by airline customers and (ii) benchmarked against external industry sources: • Airline Forecasts: Some of the forecasts shared by airline customers as part of bilateral discussions indicate that passenger volumes may take a number of years to recover to pre-pandemic levels and that slot portfolios may not ultimately support the same volume of passengers as they did prior to the pandemic, with less efficient use of slots during off-peak periods of the year. • Benchmarking: GAL notes that when indexed, its forecast range compares favourably with the most recent medium-term forecasts released by Eurocontrol in October 2022.[53] In particular, (i) the lower end of GAL's forecast range is closer to Eurocontrol's Base scenario than Eurocontrol's Low scenario and (ii) the upper end of GAL's forecast range is higher than Eurocontrol's High scenario.
One respondent noted that there has not been sufficient provision of information (financial and other, and both current and future) or rationale for the extension to enable airlines to understand whether the proposed package of Commitments is in passengers' interests	GAL carried out a comprehensive consultation (which was extended by 2 months to accommodate airlines' requests for more time). GAL has continued to engage with airlines following the consultation end date of 17th October 2022. Throughout this time, substantial information was provided and GAL is confident that all questions were addressed in a comprehensive manner. Clarification was sought where necessary when questions were unclear.
One respondent noted that the CAA's confidence in GAL's weakened market power does not seem to be evidenced at this time	The assessment of market power is a complex exercise that GAL has not set out to undertake in this submission. GAL continues to believe that it does not possess significant market power.
One respondent stated that any dialogue on the regulatory framework should take place with the ACC, not with individual airlines	The structure of the overall regulatory framework is ultimately a matter for the CAA. GAL has engaged extensively with its airline partners, both multilaterally through the ACC and bilaterally to seek to understand their views on the proposed extension of the

	Commitments framework. Different airlines will have different perspectives given their commercial interests and strategies: one of the benefits of the Commitments framework is that agreements between GAL and the airlines can be tailored to those airline interests, to the benefits of passengers.
One respondent noted that it was concerned that GAL's EBITDA is a sign of exceptional profits	GAL has included a comparison of historical returns (ROCE) against other UK non-regulated airports, which demonstrates its returns are in line with the average (and below over the pandemic).
One respondent noted that it is important that GAL addresses the specific areas that the CAA highlighted in its previous reviews	The CAA identified a number of focused reviews and outstanding issues: *1. Net charges:* A focused assessment of GAL's net charges once traffic level has recovered *2. Service:* Whether outstanding service quality issues have been resolved and how the new metrics are working (i.e. security and particularly progress towards per passenger metric) *3. Investment:* • How the new investment consultation process is working. • Whether airfield investment is being reinstated sufficiently quickly. Also: Paragraph 1.20 of CAP2103: "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." GAL believes that it has addressed these issues: 1. **Net charges**: While traffic levels have not yet recovered fully, GAL maintains transparency around its net charges through its reporting to the CAA. 2. **Service:** o **Security**: GAL commissioned the new security queue measurement technology in both terminals in 2021. We expect to evaluate an alternative (per passenger) expression of the security target as part of the current service review. o **Seating**: In the aftermath of the pandemic and due to press reporting of queueing problems at other airports, passenger presentation in 2022 was abnormal. This, coupled with shortfalls in food and beverage provision due to resourcing and the failure of several businesses, put stress on seating scores in both terminals, but this may not have been symptomatic of a capacity issue. With the return to a more

	normal operation in 2023 we will monitor the performance of ST departure lounge seating carefully to determine whether any actions are needed. During 2022, GAL expects to replace the seating in NT IDL with a broader mix of seat types in reconfigured areas. **3. Investment** o The new investment **consultation** process was developed in close collaboration with the ACC and will remain under continual review. GAL will continue to work with the ACC to develop the process if needed. o **Rate of re-instatement of airfield investment.** The main runway resurfacing project was one of the first projects to re-start and was completed in 2022. A project to build an additional Rapid Exit Taxiway (RET) has recommenced, as has the Pier 6 extension, which aims to maintain and increase pier service for NT passengers and the taxiway rehabilitation programme. 4. **Evidence for review**. GAL notes the common misconception that there is a "standard" or "correct" way to undertake a regulatory review. This can lead to very onerous regulatory reviews and, as has been demonstrated in the cases of Heathrow, and to a degree Dublin, to cause difficulties for the regulator to make ex-ante determinations in the face of uncertainty. GAL believes that it has provided sufficient evidence to justify the proposals but is always open to feedback on what information would be valuable in enabling stakeholders to reach informed decisions; without making the regulatory process at Gatwick overly costly and onerous for all parties. GAL continues to be of the view that the transparency it provides on its costbase through the accounts, on investment through the CIP process, service through its service publication and charges through the charges consultation process enables users to assess its extension proposal. GAL will work with the airlines and the CAA to explore these topics as and when the CAA decides to undertake the focused assessments.
One respondent noted that it was concerned that GAL's conditions of use permit withholding of such rebates where check-in queues and arrivals baggage does not perform within GAL's requirements, as this might undermine the incentive on	Passengers rarely understand who is accountable for which services at the airport and simply view the experience as "Gatwick". Good service relies on the airport, ground handling teams and airlines to operate collaboratively and to a collectively high standard.

areas that sit within GAL's responsibilities, with such metrics also influenced by factors beyond airline and handler control.	GAL would challenge the view that poor performance in check-in or inbound baggage would lead it to lower its own performance standards and would point out that it offered £1m in financial incentives to the ground handlers in summer 2022, along with considerable supplementary resource, in an effort to ensure good inbound baggage delivery for passengers. This is not consistent with an organisation seeking to exploit difficulties experienced by others. GAL believe that it is appropriate that baseline standards for two critical passenger experience points should be covered in the core service standards and would observe that they are set at very achievable levels (for example 95% of passengers queue for less than 30 mins) when compared to GAL's service standards (9% of the time passengers queue for less than 5 minutes).
One respondent noted that GAL should seek to gain a common understanding from airlines as to their strategic needs, ensuring that its forecasts are aligned to airline fleet plans, schedules and expectations across all time horizons. Further, this respondent noted that with individual airlines, GAL would be advised to ensure it has a good understanding of each airline brand's value proposition, ensuring they can sufficiently distinguish themselves whist providing optimal operational efficiency.	GAL agrees with this. It is one of the driving forces for why we believe bilateral contracts have such an important role to play as it enables richer airport-airline collaboration
One respondent noted that it is important that GAL recognise that the absence of any large-scale, targeted financial support for the aviation industry in the UK which necessitated the adopted approach to slots, and that potential entrants have always been free to seek leases in the meantime. The alternative would have been a deeply unsustainable situation with ghost flights and disorderly breakdown of the system.	GAL recognises the need for Government intervention in the slot market and supported the introduction of the waiver during the pandemic as a sensible step once the scale of the pandemic became apparent. Our observations around the slot regime rather relates to the ongoing operation of the slot system and its functioning as a competition safeguard.
One respondent noted that where uncertainty constrains the ability for GAL to plan, various plausible scenarios might be modelled to ascertain likely outcomes for the extension period. This might give reassurance to the CAA and consumers	GAL agrees with the sentiment of the need to have a flexible framework that can respond and adjust accordingly to various scenarios. GAL hopes that the past decade under Commitments has provided significant evidence that demonstrates how the framework can flex and respond. The Commitments framework even withstood the most severe test in

that the commitments framework can flex and respond accordingly whilst protecting consumers interests	aviation history of the Covid-19 pandemic where GAL continued to prioritise the importance of long--term partnerships by giving short term alleviation, despite the need to inject new equity, undergo two covenant waiver processes and raise significant sums of new debt. In addition, in this document, GAL has presented multiple scenarios on traffic and capital investment to enable a deeper understanding of the impacts of different scenarios. Ultimately though, the strength of the Commitments framework lies in its flexibility to deal with uncertainty through constructive commercial agreements which are flexible to dealing with changes as circumstances become known.
One respondent noted that it is keen to engage with GAL to explore the possibility of finding a more proportionate solution than a fuller regulatory review	GAL is grateful for the ongoing constructive dialogue with its airline partners. It has listened carefully to the feedback received during the consultation on the proposal for an extension and has extensively adjusted the proposal in response to that feedback. GAL hopes that this process of consultation and adjustment demonstrates the continued success of the Commitments framework, but it is ultimately for the CAA to decide on the regulatory process that it wishes to follow.
One respondent noted that there is a divergence in required expenditure at the end of the extension period that results from the Northern Runway expansion project; and that it was concerned that where the gross yield price path can accommodate such additional investment, were the DCO unsuccessful, significant value might flow to GAL. This respondent noted that it may be useful to consider how commitments might evolve in the event of a successful DCO, ensuring consumers are protected in either a successful or unsuccessful DCO scenario which would ensure that both the capital commitment and the gross yield price path adapt appropriately, ensuring the CAA's metrics that assess the framework deliver an appropriate outcome in either case.	GAL believes a competitive gross price ceiling protects consumers from the majority of risk associated with the Northern Runway project. GAL would bear the construction and cost escalation risks. In the event that the pace of Northern Runway project spend is not what was anticipated, GAL would take a decision in the round, taking into account all other factors on traffic, total investment, service performance and competitiveness, on what it believes is an appropriate planned gross yield during its annual tariff consultations. All else going well, GAL's pricing decision would consider and take account of any reduction in capital expenditure.

One respondent requested that GAL clarifies that it will bear all planning, development and delivery costs of the Northern Runway project	GAL confirms that this is the case, within the extended Commitments period.

Annex: Proposed amendments to Conditions of Use

This section sets out the indicative amendments needed to the GAL Conditions of Use and licence.

In 1.1 Definition of Terms

1.1.24 'Term' means the period from 1 April 2021 to 31 March 202~~5~~9.

In 2.0 Conditions

Variation

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 202~~5~~9 may be made to the following Conditions and Schedules:

Condition 1.1.2~~2~~4 (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 3 of Schedule 2, paragraph 5 of Schedule 3 and in the final paragraph of Schedule 3 Appendix 1.

In 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 £~~720m~~1.2bn (~~Seven~~

~~Hundred and twenty million pounds~~ one billion two hundred million pounds) during the period commencing 1 April 2019 and ending 31 March 202~~5~~9, save where condition 8.2 applies.

8.2 Gatwick Airport Limited may invest less than £~~720m~~1.2bn during the period commencing 1 April 2019 and ending 31 March 202~~5~~9 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~~1.2bn (during the period commencing 1 April 2019 and ending 31 March 202~~5~~9); and
8.2.2 by Operators representing at least 50% of the Operators responding in writing

In Schedule 21.11 ~~'RPI_{t-1}'~~ 'CPI_{t-1}' means the percentage change (positive or negative) in the ~~RPI All Items Index (CHAW): Jan 1987=100~~ CPI All Items Index (D7BT): 2015=100 published by the Office for National Statistics between August in year t-1 and the immediately preceding August.

1.13 "U_t" in the Relevant Year t, defined as the Underlying Gross Yield:

Where t=2025/26 or t=2026/27

$U_t = U_{t-1}(1+\cancel{RPI_{t-1}}CPI_{t-1}-1\%)$ *and,*

That if the formula above would lead to $U_t < U_{t-1}$, then $U_t = U_{t-1}$

Where t=2027/28 or t=2028/29

$U_t = U_{t-1}(1+\cancel{RPI_{t-1}}-CPI_{t-1})$