

Economic regulation of Gatwick Airport Limited: Final Proposals on extending the current commitments

CAP3078

About this document

This document gives formal notice under section 22(2) of the Civil Aviation Act 2012 (“CAA12”) of our proposal to modify Gatwick Airport Limited’s (“GAL”) economic licence to accept GAL’s proposed new commitments for the four-year period from 2025/26 to 2028/29. It sets out:

- the context to the proposed modifications including GAL’s proposal to extend the commitments;
- the process we have followed so far;
- our assessment of respondents’ views on our August 2024 Consultation on these matters; and
- our Final Proposals to accept GAL’s proposals to extend the commitments framework and why we consider this is in the interests of consumers.

We are consulting on these issues for a period of 4 weeks until 25 March. We expect to set out our decision on these modifications in May or June 2025.

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The latest version of this document is available online at www.caa.co.uk/CAP3078

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Introduction and summary

Purpose of this document

1. In the August 2024 Consultation¹ we set out our intention to accept the commitments put forward by GAL, as the basis for the framework for the economic regulation of GAL, for the four-year period from 2025/26 to 2028/29, subject to certain conditions.
2. This document provides our Final Proposals on these matters and responds to the issues raised by stakeholders following our August 2024 Consultation, including in relation to:
 - GAL's prices and profitability;
 - uncertainty around capacity expansion;
 - service quality targets; and
 - the scope and timing of a future review of the commitments framework.
3. It explains our proposed approach and sets out how we propose to ensure that GAL continues to act in a way that is consistent with the interests of consumers.²
4. Having carefully considered the responses received and carried out further work to consider the issues, our view remains that we should accept GAL's proposals. We are, therefore, inviting stakeholders to comment on the proposed modifications to GAL's licence set out in the statutory notice of proposed modifications at Appendix C.

The process to date

5. The economic regulation of GAL is based on a set of "commitments" that are incorporated into GAL's licence³ as conditions. This approach to the economic

¹ Economic regulation of Gatwick Airport Limited: second consultation on extending the current commitments CAP3012. See www.caa.co.uk/CAP3012

² As set out in Appendix A, the Civil Aviation Act 2012 requires the CAA to conduct its activities (including in relation to this review) in the manner it considers will further the interests of users (which we refer to collectively referred to as "consumers") of air transport services regarding the range, availability, continuity, cost, and quality of airport operation services ("AOS"). In these Final Proposals, we refer to both consumers and passengers, the latter being an important subset of consumers using Gatwick Airport.

³ Licence granted to Gatwick Airport Limited by the Civil Aviation Authority under section 15 of the Civil Aviation Act 2012 on 13 February 2014, see: https://www.caa.co.uk/media/fgdeir1y/gatwick-licence-consolidated-version_2-18-june-2021.pdf

regulation of GAL was introduced in 2014 under the Civil Aviation Act 2012 (“CAA12”) and reflects the circumstances of Gatwick airport, including that there is some competitive pressure on Gatwick and that its airline customers have some countervailing buyer power. The commitments cover, among other things, the maximum level of airport charges that GAL can levy, a system of rebates if GAL misses certain service quality targets, and a minimum level of investment that GAL will undertake.

6. GAL consulted airlines on an initial proposal for extending the existing commitments in the summer of 2022 and provided a revised proposal to us in March 2023. In summary, this revised proposal included:
 - a price ceiling of CPI-1% on GAL’s published charges for the first two years of the extension period (2025/26 and 2026/27) and CPI+0% for the final two years of the extension period (2027/28 and 2028/29). This compares to RPI+0% for the period of the commitments that is about to expire;
 - changes to the current service quality targets and rebates with a focus on areas of the operation at Gatwick Airport that have been problematic in recent years. GAL and airlines have discussed these changes during 2024, including an enhanced measure on air traffic control performance and the introduction of financial incentives for improving performance in some special assistance services; and
 - a commitment to continuous investment in the airport by extending GAL’s current commitment to invest a minimum of £136 million (in 2022 prices) each year, on average, over the period. This average will now be assessed over the ten years from 2019/20 to 2028/29.
7. An important component of GAL’s future investment plans is a proposal to extend its current “standby” northern runway and bring it into regular use. The northern runway could be used by departing aircraft, increasing Gatwick’s maximum capacity by an estimated 13 million passengers per year. If the application GAL has made for a Development Consent Order (“DCO”) under the Planning Act 2008 to permit this is successful, the new runway could come into operation in the late 2020s or the early 2030s.
8. During the period of GAL’s commitments extension (to March 2029), it expects to spend around £580 million on the northern runway with the total cost of the project estimated by GAL at £2.2 billion (figures in 2022 prices). Under GAL’s commitments, charges will not vary depending on the actual costs that GAL incurs, so it will bear the risks associated with the planning, development and delivery of this project during the extension period.
9. We issued a first consultation on GAL’s proposals in June 2023. In response, airlines requested that we undertake a detailed assessment of GAL’s proposals.

10. The August 2024 Consultation addressed this request, including a new assessment framework and our initial views on whether GAL's proposals are in the interests of consumers. In assessing GAL's proposal against our duties under CAA12 and our assessment framework, we considered a range of evidence including:
- its performance over the period of the existing commitments;
 - its future capital investment plan;
 - consumer research;
 - the views of the CAA Consumer Panel and wider stakeholders;
 - the progress GAL had made in signing bi-lateral contracts with its airline customers; and
 - a report for the CAA by PA Consulting that benchmarked GAL's historical financial performance with a comparator group of UK airports.

Initial Assessment

11. Our assessment framework included a wide range of factors:
- the relative level and trend in GAL's airport charges;
 - its profitability and efficiency;
 - the quality of service provided to passengers and airlines;
 - the effectiveness of special assistance services provided to passengers (including for disabled and less mobile passengers);
 - its performance in coordinating activities across the airport campus;
 - progress in being able to negotiate longer-term commercial deals with airlines;
 - proposals for, and progress with, the development of its northern runway;
 - GAL's environmental performance; and
 - any other matters that have a significant impact on protecting consumers or other aspects of our statutory duties.
12. Our initial assessment in the August 2024 Consultation was that GAL's proposals to extend the commitments for four years, with a tightened price cap, and to pursue plans for capacity expansion, were likely to be in the interests of consumers. However, this initial assessment was subject to two important caveats, that:

- GAL obtains a DCO for its plans for capacity expansion and demonstrates that it can make good progress with developing these plans over the period of the extended commitments; and
 - in response to the August 2024 Consultation, GAL brings forward credible plans to deal with the concerns we raised in relation to quality of service and special assistance services.
13. Several airlines⁴ supported GAL's extension proposal and said that GAL had engaged extensively with the airline community in shaping its proposal to extend the commitments and had made changes to reflect feedback. Norse Atlantic UK, which is a relatively new entrant at the airport, commented that it had been pleased by GAL's positive attitude to facilitate its entry and that GAL supported its goal to bring affordable fares to the transatlantic market.
14. While respondents to the August 2024 Consultation supported the commitments framework in principle, a number of specific issues were raised which we have considered in detail in preparing these Final Proposals. These included concerns about the likely levels of GAL's prices and profits and issues around the possible re-opening of the commitments should GAL not proceed with its plans for capacity expansion. These matters are considered further below, alongside issues around quality of service and the provision of special assistance services.

Main issues discussed in this document

The assessment of prices and profitability

15. BA and IAG said that GAL's proposals would lead to excessive charges and excess profits such that the headline commitments price ceiling should be significantly reduced.
16. In contrast, GAL said we had exaggerated the likely level of future profits and challenged a number of our modelling assumptions including the average level of discount and the base level of traffic. GAL provided additional information on its likely operating costs and noted the potential for significant increases in business rates during the period.
17. We commissioned independent advice from Grant Thornton ("Grant Thornton")⁵ and asked it to critically evaluate certain key aspects of the evidence and arguments submitted to the CAA, particularly on GAL's prices and profitability and issues around its plans for capacity expansion. Grant Thornton examined the submissions made by all parties and the analysis that it has completed suggests some of the issues highlighted by GAL in relation to the expected level of future costs, including those in relation to business rates and passenger

⁴ Including Norse Atlantic UK, Turkish Airlines, and Wizz Air.

⁵ The Grant Thornton report is published alongside this document on the [G7 page of the CAA website](#).

numbers appear to be valid. On this basis, we are of the view that the expected level of GAL's profits is likely to be below the central case set out in the August 2024 Consultation.

18. Bearing these findings in mind and the importance of GAL pursuing capacity expansion (as explained further below) we are of the view that GAL's prospective profits do not raise sufficient concerns at this stage to warrant regulatory intervention. Our assessment of these matters is explained further in chapter 1.

Capacity expansion

19. As noted above, our initial support for GAL's commitments proposal was conditional on it continuing to make progress with plans for capacity expansion, including obtaining a DCO. The project is now at the decision stage when the Secretary of State reviews the report from the Planning Inspectorate and makes the final decision. The date set for this to be completed is 27 February 2025, but the Secretary of State does have the discretion to delay this decision. There is also a possibility of any decision being challenged by judicial review and uncertainty about these matters is likely to continue well into the commitments extension period.
20. easyJet requested clarification from the CAA on what happens in these circumstances including on timescales and the role of the CAA. Other airline respondents made similar comments. BA said that a price control reopener mechanism should be included in GAL's licence so that GAL's commitments could be revised if GAL's plans for expansion change. GAL said that a commercial process should be followed in these circumstances, consistent with the wider approach it takes to renegotiating the commitments with airlines.
21. We remain of the view that capacity expansion is important to passengers. Grant Thornton was also asked to explore these matters and concluded that benefits to passengers of capacity expansion would be significant.
22. In addition to considering the views of stakeholders and the analysis completed by Grant Thornton, we have considered the implications of the recent Government announcement in relation to the development of a third runway at Heathrow airport. Gatwick's airline and passenger base is significantly different from that using Heathrow and we remain of the view that there are likely to be benefits to consumers in expanding capacity in Gatwick, including in relation to meeting the demands of passengers in the choice of destinations, enhanced competitive pressure on airlines and the greater resilience of airport infrastructure.
23. Bearing the above in mind, we remain of the view that we should review GAL's commitments during the price control period if it becomes apparent that GAL is either unwilling, or unable, to proceed with its capacity expansion plans.

Consistent with how the wider commitments regime has successfully operated to date, the onus will be on GAL to renegotiate with airlines in the first instance and we will provide a window of six months for GAL to progress these discussions with airlines and submit its revised proposal to the CAA for review.

24. We consider that this approach provides reasonable certainty for stakeholders while preserving the premise of the commitments framework, which is that it is for GAL to seek agreement with airlines on an appropriate way forward. We will then scrutinise arrangements to ensure that they are in the interests of consumers and step in if appropriate.

GAL's service commitment

25. The August 2024 Consultation highlighted a number of areas around service provision that GAL should consider further, including in relation to the Core Service Standards ("CSS"), provision of special assistance services and coordinating activities across the airport.
26. In each of these areas, GAL has set out details of the actions it has taken and plans it has in place to improve performance for consumers including:
- a number of new measures and changes to existing measures in the CSS framework, including the aerodrome congestion term, special assistance services, security queues, self-service bag drop and availability of the "community app";
 - steps to address the concerns raised by the CAA around special assistance services, such as agreeing a new contract with its provider incorporating new and tighter service level agreements, and developing a new CSS metric based on arrival wait time target for disabled and less mobile passengers to receive assistance with a penalty attached to incentivise improved service; and
 - a root cause analysis of On Time Performance ("OTP") losses, looking at the negative contribution different factors have on the overall ability to keep flights to schedule. Following this, GAL has taken several actions to improve OTP including investing in airfield resilience and focusing on analysis and monitoring to improve airfield efficiency.
27. In general, we consider that these changes will lead to a number of improvements for passengers. On that basis, we consider GAL has set out sufficient steps to enhance service provision as part of its commitments proposal.
28. We recognise that GAL did not agree to every change proposed by airlines, and we also note that there are some issues on which GAL expects to continue discussions. We consider that it is important that this happens and that the discussions reach a satisfactory conclusion in a timely fashion. We expect GAL

to make final proposals to airlines on metrics not already agreed by the end of September 2025 and we will continue to monitor progress on these matters.

A future review of the commitments framework

29. easyJet and other airline respondents suggested that there are elements of the framework that would benefit from a more detailed CAA review during the extension period including the approach to consultation, investment, customer experience and resilience.
30. We note that a review of the commitments framework would allow us to assess more broadly whether the framework is continuing to deliver in the interests of consumers and whether there are future changes that could further improve outcomes for consumers. We consider that starting this work in 2027 would be appropriate as we would be able to take proper account of experience during the extension period. The review will need to be sequenced appropriately with the process for GAL renegotiating the commitments with airlines. We invite stakeholders to set out their views on the scope and timing of such a review in response to this consultation, as discussed further in chapter 4.

Final proposal to accept GAL's proposed extension

31. The commitments framework is intended to be a proportionate and targeted approach to the economic regulation of GAL. By encouraging bilateral contracts, the framework is designed to further the interests of consumers in terms of the range, availability, continuity, cost and quality of airport operator services, in particular by:
 - supporting service offerings that are more targeted at the individual needs of its airline customers and their passengers, so having regard to the need to secure that the reasonable demands of consumers are met; and
 - better incentivising traffic growth through the provision of bilateral commercial contracts and the quality and range of services, again having regard to the need to secure that the reasonable demands of consumers are met and that GAL can finance its activities.
32. We consider that bilateral engagement with airlines also promotes:
 - innovation by GAL in the provision of new and existing services, and so both economy and efficiency on the part of GAL and the provision of services that meet consumers' demands; and
 - competition between GAL and other airports.
33. In the light of the assessment summarised above and set out in greater detail in both the August 2024 Consultation and in this document, we propose to accept GAL's proposed extension to the commitments as the basis of our economic

regulation of GAL from 2025/26 to 2028/29 as being in the interests of consumers. This is subject to a further review if GAL does not make appropriate progress with capacity expansion. Appendix C sets out a statutory notice of the modifications we propose to make to GAL's licence to implement this proposal.

Next steps

34. As noted above, we are consulting on the proposals set out in this consultation and the notice of proposed licence modifications under section 22(2) of CAA12 set out in Appendix C. The consultation period will run for four weeks. Please e-mail responses to economicregulation@caa.co.uk by no later than 25 March 2025.
35. We expect to publish the responses we receive on our website as soon as practicable after the period for representations expires. Any material that is regarded as confidential should be clearly marked as such and included in a separate annex.
36. We have powers and duties with respect to the disclosure of information under section 59 CAA12 and the Freedom of Information Act 2000 and it may be necessary to disclose information consistent with these requirements.
37. After considering the responses we receive to this consultation, we will publish our decision in May or June 2025 on the modifications we will make to the Licence. If the responses we receive indicate that we should propose an approach that differs substantially from that set out in this consultation, we will re-consult before making that decision.
38. If you would like to discuss any aspect of this document, please contact elly.shafran@caa.co.uk

Our duties as economic regulator of GAL

39. We carry out our work on the economic regulation of GAL in the light of our duties under CAA12. Our primary duty under CAA12 is to further the interests of users regarding the range, availability, continuity, cost and quality of airport operation services, having regard to the matters set out in our "secondary duties". Further details of these duties are set out in Appendix A.

Structure of this document

40. This document has the following structure:
 - this introduction and summary;
 - chapter 1 summarises the responses to our previous consultation on GAL's price commitment and sets out our views on these matters;

- chapter 2 summarises the responses to our previous consultation on dealing with the uncertainty around expansion at the airport and sets out our views on the way forward;
- chapter 3 summarises the responses to our previous consultation on GAL's service commitment and sets out our views on the way forward;
- chapter 4 sets out our views for consultation on the scope and timing of a future review of the commitments framework;
- Appendix A summaries our statutory duties under CAA12;
- Appendix B sets out a glossary of the terms used in this consultation; and
- Appendix C sets out the notice under section 22(2) of CAA12 of the modifications we propose to make to GAL's licence to implement these proposals.

Chapter 1

GAL's pricing commitment and levels of profitability

Introduction

- 1.1 This chapter sets out an overview of the initial assessment of GAL's proposed prices and profitability set out in the August 2024 Consultation. It then summarises the responses to that consultation and sets out our final proposals on these matters.

Our initial assessment

- 1.2 The assessment of GAL's prices and profitability is an important part of our overall assessment of whether the commitments proposed by GAL will further the interests of consumers, particularly in relation to the cost of the airport operation services that GAL provides, and whether GAL will be able to finance its activities.
- 1.3 In the August 2024 Consultation, we set out our high-level projections of GAL's profitability under its proposal across a range of scenarios, including 'high opex' and 'no DCO' cases. We also considered analysis we had commissioned from PA Consulting which benchmarked GAL's financial and cost performance against a group of comparator UK airports.
- 1.4 We concluded that while the level of GAL's charges remains relatively high compared to other comparator airports, and GAL may earn relatively high levels of profits during this period, the trend in the level of charges that GAL has proposed for the extension period is reasonable, with modest real reductions in the level of its published tariffs. We also noted the benefits to consumers that would flow from GAL's proposals to develop its northern runway.

Responses to the August 2024 Consultation

- 1.5 Most of the responses to the August 2024 Consultation commented on our analysis of GAL's prices and profitability under its proposal.
- 1.6 GAL welcomed the CAA's support for its proposal, but challenged our analysis of charges and profitability, including some of our key assumptions relating to operating expenditure ("opex"), capital expenditure ("capex"), traffic, and the level of discounts offered to airlines.
- 1.7 It said that the CAA's 'high opex' scenario (which included an additional £80m per year in opex in real terms from 2026/27 onwards) was likely to be a closer reflection of GAL's expected opex than the CAA's 'middle case' scenario set out in the consultation. Moreover, it thought our high opex scenario would under-

estimate GAL's likely opex over the period, in view of developments in business rates, staff costs, service contract costs, construction and staffing for new technology.

- 1.8 On business rates, separately GAL has told us that the Valuation Office Agency is proposing to change the basis for calculating rateable values for airports which GAL has said could lead to business rates increasing substantially during the extension period.
- 1.9 easyJet did not comment in detail on our prices and profitability analysis but noted that GAL's profit margins have increased significantly since the start of the 'light-touch' regulatory framework. While recognising that it is possible that some of GAL's profitability may be explained by efficiency of the costs incurred, it noted that the CAA has not indicated the level at which it would consider profits to be excessive.
- 1.10 BA said that the commitments proposal would lead to excessive airport charges, and excess profits for GAL of at least £1 billion over the period. It said that our approach of benchmarking the airport's financial performance, profits and revenues against other UK airports was too simplistic. BA also said that GAL did not need to be rewarded with excess profits over and above a reasonable cost of capital, and operating margins significantly above those of a competitive entity, to encourage expansion at the airport.
- 1.11 BA provided the CAA with financial modelling supporting its view that the level of GAL's airport charges should be significantly reduced and said its analysis indicated that the headline commitments price ceiling should be reduced by between CPI-20% and CPI-30%.
- 1.12 BA's owner, IAG, on behalf of its other airlines operating at Gatwick (Iberia Express and Vueling), endorsed the response submitted by BA.
- 1.13 The Airport Consultative Committee ("ACC"), representing airlines at Gatwick, did not comment on specific price details but welcomed the shift from RPI to CPI as the basis for the price commitment.
- 1.14 The Communities Against Gatwick Noise Emissions ("CAGNE") stated that prices should be increased to reflect the impact of aircraft noise, carbon emissions, greenhouse gases and light pollution.

Our views

Grant Thornton study

- 1.15 We asked Grant Thornton to critically evaluate the evidence and arguments submitted to the CAA on prices and profitability, particularly the detailed analysis submitted by GAL and BA. Grant Thornton's findings are set out in its report which is published alongside this document and are summarised below.

- 1.16 Grant Thornton assessed the sensitivity of our modelling to the different assumptions that GAL suggested for opex, traffic and discounts. Grant Thornton found that:
- alternative assumptions for traffic and discounts had a relatively modest impact on projected profitability; but
 - the more pessimistic, but nonetheless plausible, assumptions on opex could reduce profitability significantly.
- 1.17 It noted that not all of these factors are outside of GAL's control and that there may be sources of upside (for example, opportunities to reduce costs or increase commercial revenues) that have not been shared by GAL which could have the effect of increasing its profits compared to those assumed previously.
- 1.18 Grant Thornton also considered BA's submission in detail, including the modelling BA had undertaken to arrive at its conclusions that GAL would earn excess profits. Grant Thornton noted that BA's modelling is based on somewhat different assumptions to those used by the CAA, for example, in relation to opex, and that BA had used a cost-based model to calculate a level of charges that it considered would allow GAL to finance its operations, earn a reasonable profit and finance the northern runway programme. Nevertheless, Grant Thornton concluded that BA's analysis did not appear to have produced any substantially new evidence beyond what had previously been considered by the CAA.
- 1.19 Overall, the additional analysis completed by Grant Thornton indicates that GAL's profits over the period may be expected to be lower than anticipated at the time of the August 2024 Consultation.
- 1.20 Grant Thornton undertook sensitivity analyses on GAL's profitability under alternative modelling assumptions, and compared them to the 'middle case' presented by the CAA in the August 2024 Consultation (which had estimated operating profit as a percentage of fixed assets in 2028/29 of 13.4%). The sensitivities were as follows:
- **average charges discount: -0.5 percentage points.** Increasing the average airport charge percentage discount to the 2024/25 level resulted in an estimated operating profit as a percentage of fixed assets in 2028/29 of 12.9%.
 - **base levels of traffic: -1.0 percentage points.** Applying a less optimistic forecast to passenger volumes, drawing on the estimates from GAL commitments proposal and figures in later years cited in its consultation response, resulted in an estimated operating profit as a percentage of fixed assets in 2028/29 of 12.4%.
 - **Base level of opex: -5.0 percentage points.** Applying three changes: (a) adjusting the starting opex to reflect outturn 2023/24 data, and projecting this change forward, (b) adding a possible

business rates increase from 2026 indicated by GAL, and (c) adjusting non-rates opex in line with CPI+2 per annum, resulted in an estimated operating profit as a percentage of fixed assets in 2028/29 of 8.4%.

- 1.21 Having assessed the analysis provided by Grant Thornton, we now consider a lower profit outcome to be more likely than suggested by the 'middle case' scenario set out in the August 2024 Consultation. This is in view of the likelihood of at least some of the cost impacts from external factors identified by GAL materialising, including possible increases in business rates.
- 1.22 As an alternative to our previous central case, we have, therefore, considered another scenario which better captures some of these issues, assuming the lower traffic levels, higher discounts on published charges and half of the impact of the higher level of base opex (which may arise either because cost increases are less, or there are other upsides as discussed above that have a similar impact on GAL's profits as assuming lower increases in costs). This new scenario would result in GAL's operating profit as a percentage of fixed assets in 2028/29 being around 9.5%. On balance, we now consider that is a more likely outcome.
- 1.23 As we indicated in the August 2024 Consultation, there are also significant benefits to consumers from GAL's commitments in relation to the development of GAL's northern runway and the corresponding need for it to be able to finance such a development. Advantages for consumers would arise from:
- the additional choice and flexibility in terms of the numbers of flights, airlines and destinations that could be served by the airport;
 - enhanced resilience of the airport's operations; and
 - GAL will have additional airport capacity that it will have an incentive to market and sell to airlines, and this increase in the supply of airport capacity will tend to put downward pressure on prices and have the potential to reduce any incentives on GAL to exploit its market power.
- 1.24 The Grant Thornton report confirms that the northern runway programme has the potential to increase capacity in a system that has experienced excess demand for many years, and that this is likely to lead to lower airfares and potentially very substantial benefits for passengers, in addition to increasing competition both between airports and between airlines.
- 1.25 Grant Thornton also considered what impact a tighter price control than that proposed could have on capacity expansion. It found that a modest tightening of the price control would have a limited financial impact but that there would be risks associated with this. In particular, Grant Thornton noted the relatively low internal rates of return ("IRR") on the project in the early years (for instance, under certain assumptions, Grant Thornton finds that the IRR becomes only

positive after approximately 17 years) and the potential negative signals that could be created about the future nature of regulation of Gatwick at a time that is critical for expansion.

- 1.26 We remain of the view that capacity expansion is important to consumers. In this context, and in the light of the lower levels of profitability discussed above, it would not be appropriate to intervene as part of this review in relation to GAL's prices and profits. To do so in a material way would likely create unnecessary risks to GAL's plans for capacity expansion.

Summary of our views and final proposals

- 1.27 Having considered the responses to the August 2024 Consultation and the additional analysis conducted by Grant Thornton, we are of the view that the likely levels of GAL's profitability are significantly below the levels indicated in our previous central case.
- 1.28 We conclude that the latest projections of profits summarised above are not excessive in the context of the importance of allowing the reasonable financing of the substantial levels of investment required to support the development of the northern runway proposal, and that there would appear to be advantages to consumers in arrangements that involve both modest real reductions in charges and support the funding of capacity expansion.

Chapter 2

Capacity expansion

Introduction

- 2.1 This chapter sets out the background to capacity expansion at Gatwick and explains how we proposed to deal with the uncertainty around GAL's plans for capacity expansion in our August 2024 Consultation. It then summarises the responses to that consultation, sets out an assessment of the benefits that expansion could bring for consumers and our final proposals on these matters.

Development of the northern runway

- 2.2 Consideration of the issues surrounding GAL's investment plans, including its plans for the northern runway, is an important part of our assessment of whether the commitments that GAL has proposed will be in the interests of consumers. This includes in relation to the range, availability, and cost of the airport operation services that GAL provides, including whether GAL will be able to meet the reasonable demands placed on it and do so in a manner that promotes economy and efficiency.
- 2.3 GAL's investment plans include bringing its current 'standby' northern runway into regular use. With further investment, the northern runway could be used by departing aircraft, increasing Gatwick's maximum capacity by an estimated 13 million passengers per year. During the period of GAL's commitments extension (to March 2029) it expects to spend around £580 million on the northern runway with the total cost of the project estimated by GAL at £2.2 billion (2022 prices).
- 2.4 Under GAL's commitments, charges will not vary depending on the actual costs that GAL incurs in developing this project, so it will bear the risks associated with planning, development and delivery during the extension period.
- 2.5 GAL's DCO application for its plans for the northern runway is now at the decision stage when the Secretary of State reviews the report from the Planning Inspectorate and is due to make a final decision by 27 February 2025. If the DCO application is successful, the new runway could come into operation in the late 2020s or the early 2030s.
- 2.6 However, as we discuss later in this chapter, it is important to acknowledge that uncertainty about the outcome of GAL's planning application could continue well into the commitments extension period.

Our initial assessment

- 2.7 In the August 2024 Consultation, we said that GAL's proposals to extend the commitments and its proposals to pursue plans for capacity expansion are likely to be in the interests of consumers in terms of increasing passenger choice, airline competition and resilience. But our assessment was subject to the caveat that GAL obtains a DCO to enable its plans for capacity expansion and that it makes good progress with developing these plans over the period of the extended commitments.
- 2.8 Given the uncertainty around the plans for expansion, we said that, if GAL fails to progress its DCO application, fails to obtain consent, or decides not to pursue the development after it has obtained consent, then:
- GAL should enter new discussions with airlines in a timely way and, if appropriate, bring forward new proposals for its pricing commitment; and
 - we would also consider if changes to the pricing commitment would be appropriate to protect the interests of consumers.

Responses to the August 2024 Consultation

- 2.9 We received mixed views from stakeholders on our proposed approach to dealing with uncertainty. There was general agreement that under a no expansion scenario, the arrangements for the extension period should be revisited but views varied on how best to achieve this.
- 2.10 GAL said that CAA intervention was not necessary, and that under the commitments framework, a commercial process should be followed if there was no expansion. In contrast, BA said that a price control reopener mechanism should be included in GAL's licence so that GAL's commitments could be revised if GAL's plans for expansion change.
- 2.11 easyJet said it would welcome engagement and clarification from the CAA on what happens if the northern runway project falls away including on timescales and the role of the CAA. Other airline respondents made similar comments.

Our views

- 2.12 Capacity expansion has the potential to bring significant benefits to consumers including:
- additional choice and flexibility in terms of the numbers of flights, airlines and destinations served by the airport;
 - enhanced resilience around operations; and

- additional airport capacity to be utilised potentially leading to a reduction in any incentives on GAL to exploit its market power, which would have benefits for passengers.

2.13 The Grant Thornton study (also discussed in chapter 1) provides further information in relation to consumer benefits including:

- analysing the benefits to passengers of capacity expansion, primarily based on a national economic impact assessment of the northern runway project carried out by Oxera⁶ on behalf of GAL in 2023 and submitted as part of GAL's DCO application. Grant Thornton concluded that the overall picture is broadly robust: GAL's northern runway project will deliver substantial benefits to passengers;
- highlighting that the passenger benefits are primarily associated with a reduction in airfares generated by greater competition between airlines at Gatwick, as well as increased choice for passengers and better connectivity;
- summarising the wider benefits highlighted by the Oxera study, including Government benefits (increased tax revenues as more passengers travel from the airport) and benefits to the local economy with more direct and indirect jobs (for example, through supply chains that support services) at the airport. We note that although of wider importance, these matters are not directly relevant to our assessment, which is focussed on the interests of consumers (consistent with our statutory duties);
- noting that Oxera considered social impacts as part of its overall impact assessment of the northern runway project, including environmental impacts caused by additional greenhouse gas emissions as well as noise and disturbance from additional aircraft and airport activity;
- outlining some further benefits that were qualitatively assessed in the Oxera report including:
 1. benefits from increased competition between airports and between airlines, which could lead to further fare reductions, improvements in service quality and/or increased innovation;
 2. an increase in operational resilience of Gatwick Airport and the London airport system, which could reduce delays (both day-to-day and major delays); and
 3. an increase in freight handled by Gatwick airport.

⁶ The most extensive analysis of user impacts of expansion at Gatwick. 2023 [Gatwick Airport Northern Runway Project: Needs case appendix 1 – national economic impact assessment, 2023](#).

- 2.14 Under GAL's proposed commitments, there is no direct pass-through of costs to airlines and so GAL will bear the risks associated with planning, development and delivery costs of the project throughout the extension period.
- 2.15 That said, should GAL be either unable, or unwilling, to proceed with capacity expansion, there would potentially be significant changes (and/or reductions) in GAL's investment programme for the extension period and a loss of the consumer benefits associated with expansion.
- 2.16 A final decision on GAL's DCO application is due by 27 February 2025, but the Secretary of State does have the discretion to delay this decision (and we note that a similar decision in relation to capacity expansion at Luton airport has been delayed more than once). The decision could also be challenged by judicial review.
- 2.17 In this context, it is important that the regulatory framework continues to provide GAL with an incentive to pursue its plans for capacity expansion, is flexible to respond to changes in GAL's investment plans during the extension period and that it ensures consumers are protected in the event GAL fails to progress expansion.
- 2.18 We do not consider that it is necessary to introduce a formal reopener through a licence modification to trigger a review of GAL's commitments if GAL does not progress its plans for expansion. The essence of the commitments framework is that it is for GAL to negotiate with airlines in the first instance and we would only step in if these negotiations do not result in arrangements that deliver appropriate outcomes in the interests of consumers.
- 2.19 So, we will want to retain the flexibility to act in a way that takes account of the result of commercial negotiations and to best protect consumers. We consider that this is best dealt with by the statements we make in these Final Proposals and the Final Decision, where the context can be properly explained rather than the formal legal drafting of a licence condition which may not be sufficiently flexible to deal with the circumstances as they arise.
- 2.20 This approach is consistent with one of the key advantages of the lighter touch framework applied by the CAA to the regulation of GAL, namely that it has a more agile and commercial focus. It requires GAL to work flexibly with airlines to resolve issues and, if necessary, to bring forward a new set of commitments if circumstances materially change. For example, a commercial approach was used to resolve issues when GAL and airlines were faced with a significant change in circumstances during the covid-19 pandemic.

Summary of our views and final proposals

- 2.21 We remain of the view that GAL's commitments proposals are in the interests of consumers, provided that it continues to make good progress with its plans for

expansion including obtaining a DCO and progressing the delivery of expansion. As such, the commitments offered by GAL appear to further the interests of consumers in relation to the range, continuity, availability and costs of airport operation services provided by GAL should expansion proceed as GAL plans.

- 2.22 That said, if GAL is either unwilling or unable to proceed with its plans for capacity expansion, we expect GAL to:
- renegotiate (within a reasonable period of time) with airlines a new set of commitments for the remaining extension period in the context of no expansion; and
 - submit in a timely way its revised proposal to the CAA for review, setting out how any alternative arrangements will operate in consumers' interests.
- 2.23 We expect GAL to act in a timely and reasonable way to deliver capacity expansion and we will monitor its progress with respect to these matters. If either circumstances are such that it cannot reasonably proceed, or it decides not to proceed with its plans for capacity expansion, we expect it to notify airlines and the CAA in a prompt and timely way. GAL will then have a window of six months to progress these discussions with airlines and submit its revised proposal to the CAA for review.
- 2.24 We will scrutinise any new proposals to ensure that they are in the interests of consumers. We would then consult on our assessment of GAL's revised proposals providing stakeholders with an opportunity to respond to our proposals.
- 2.25 This approach should provide reasonable certainty for stakeholders while preserving the basic characteristics of the commitments framework, which is that it is for GAL to seek agreement with airlines on an appropriate way forward.

Chapter 3

GAL's service commitments

Introduction

- 3.1 Consideration of the issues surrounding GAL's Service Commitments is an important part of our assessment of whether the commitments that GAL has proposed will be in the interests of consumers. This includes assessing the quality of the airport operation services that GAL provides, including whether GAL will meet the reasonable demands for airport operation services placed on it. We have also given specific attention and focus to GAL's special assistance services, consistent with our duty under the Equalities Act.
- 3.2 In the August 2024 Consultation, we considered GAL's Service Commitments under three broad categories:
- service quality and the Core Service Standards ("CSS");
 - special assistance services; and
 - coordinating activities across the airport.
- 3.3 This chapter is structured according to these three broad categories. For each, we summarise the assessment we set out in the August 2024 Consultation, stakeholders' views received in response and any developments since. We then set out our final views and proposals.

Service quality and the Core Service Standards

Our August 2024 assessment

- 3.4 In the August 2024 Consultation, we considered that GAL's performance against its CSS had been acceptable, but that it would be important for GAL to agree its future CSS targets with airlines, including a more stretching target for satisfaction with passenger seating in departure lounges. As such, we gave an **amber** "RAG" (Red, Amber, Green) rating to quality of service, and asked GAL to provide an update on progress towards agreeing new service standards with airlines and proposals to improve passenger seating, such as raising the departure lounge seating target from 3.8 to 4.0 out of 5.

Responses to the August 2024 Consultation

- 3.5 GAL said that it is committed to delivering the highest standards for consumers and said it had been performing well in 2024. It noted its performance on meeting the CSS metrics, as well as highlighting positive feedback from

consumer research studies. GAL also set out details of the steps it is taking to enhance the passenger experience.

- 3.6 easyJet noted the ongoing discussions between GAL and airlines to review the CSS framework and expressed general concerns with the efficacy of the CSS. In particular, it noted that not all relevant core services are included and that existing targets are not sufficiently challenging. It also considered that CAA engagement during this process would be beneficial.
- 3.7 BA said that GAL should work with airlines to address the operational failures currently being experienced by airlines and consumers and this should involve far-reaching improvements to the CSS framework.
- 3.8 IAG said we need a more robust CSS framework to ensure GAL is held accountable for providing passenger service and satisfaction. IAG urged the CAA to consider a complete redesign of the current CSS framework more accurately to reflect the expectations of consumers.
- 3.9 The ACC set out details of the discussions it has been having with GAL, including with respect to security queues, pier service, runway availability and baggage drops. The ACC said it would like to see a strengthening of the link between the CSS and capital investment and there should be an ongoing evaluation of metrics to ensure they remain relevant based on current conditions and consumer needs.
- 3.10 Norse Atlantic UK considered that GAL has a tough set of CSS metrics and its view is that service provision is currently strong. It noted that it has the opportunity to raise any concerns with GAL through ongoing engagement and welcomed GAL's proposal to enhance certain metrics. Turkish airlines made similar observations.
- 3.11 Gatwick Airport Consultative Committee noted that its Passenger Advisory Group continues to input into GAL's review of service standards to ensure they remain fit for the future.

GAL Proposed Service Commitments

- 3.12 GAL subsequently provided an update on the progress of discussions with airlines to review the CSS measures including proposed new measures and corresponding targets and financial penalties as follows:
- for special assistance services, the achievement of the European Civil Aviation Conference ("ECAC") arrivals measure with an associated penalty of 0.3% of airport charge revenues. This measure involves 98% of arriving pre-notified passengers having assistance available within 20 minutes from 'on chocks' and 98% of arriving non-notified passengers, having assistance available within 45 minutes from 'on chocks'. The performance level is equivalent to a rating of 'very good' under the Airport Accessibility Framework. The penalty

equates to around £1.8m per year across the two terminals. The penalty payment is subject to the airline community achieving a pre-notification rate of 65% (rising by 1 percentage point each year for four years);

- for self-service bag drop (“SSBD”), GAL is proposing the addition of an availability metric for SSBD equipment with a penalty of 0.1% of airport charge revenues which equates to £600k per year across the two terminals, similar to other equipment penalties such as Flight Information Displays; and
- for the Community App, which includes a wide range of operational features used by airlines and other stakeholders, GAL proposes a 99.5% availability threshold with a penalty of 0.1% of airport charge revenues, which equates to £600k per year across the two terminals.

3.13 GAL has also proposed changes to:

- the aerodrome congestion metric which currently only measures whether the runway is open or closed and does not capture reductions in runway capacity when local flow rates are imposed because of, for example, shortages of air traffic controllers in the tower. GAL proposes to enhance the metric to cover not just the physical availability of the runway itself but also the loss of airfield resources or assets which reduce airfield capacity below what the schedule requires and to double the financial penalties associated with the metric from £100k per incident to £200k per incident. The trigger for rebate payment remains at 15 minutes of runway unavailability;
- staff search: airlines had requested a tightening of this metric from queue times of <5mins 95% of the time to <5mins 97% of the time, aligned with standards in Atlantic House and Jubilee House. GAL has agreed to this change for the South Terminal route but considers it necessary to assess the impact of changes to staff parking arrangements on staff flows before adopting the new metric for the North Terminal. GAL expects this to be completed by May 2025;
- transfer security: as part of the implementation of new passenger screening technology, the screening of transfer passengers is being consolidated into central search (“CSA”) facilities in both terminals. This renders the existing separate metric for transfer security queue times obsolete and represents a tightening of the metric for passengers as they will now be covered by the CSA metric of 95%/5 mins rather than 95%/10 mins; and
- departure lounge seating: the threshold metric for departure lounge seating is currently 3.8 and GAL proposes to increase this to 4.0. In earlier discussions with airlines, GAL had proposed to combine the existing score for International Departure Lounge (“IDL”) seating with the score for the availability of seating in Food and Beverage outlets

but now proposes to continue monitoring the two metrics separately and for the CSS measure to focus on the IDL.

- 3.14 GAL proposes to remove the:
- airfield travel time measure: on the basis that it was not considered to be an effective measure and thus should be replaced with new measures as discussed further below in the section on Coordinating activities across the airport.
- 3.15 GAL explained that, in the light of these changes, the weighting of the penalties for transfer security, arrivals reclaim and passenger sensitive equipment have been adjusted so that the total maximum rebate remains at 7 per cent of GAL's airport charges revenue in any given year.
- 3.16 It noted that in some areas it had not been able to make further progress with airlines at this time, including in relation to simplifying security queue metrics, developing a maximum queue time for staff search, developing a broader 'basket' of airfield performance measures and changing the pier service level metric from a moving annual to a more granular target.
- 3.17 GAL has included the arrangements described above as part of its Conditions of Use that will apply with effect from 1 April 2025.

Our views and final proposals

- 3.18 The proposed changes to GAL's CSS metrics and targets reflect the outcome of detailed and lengthy discussions between GAL and airlines. These changes will lead to a number of improvements in the interests of consumers compared with the current service quality targets. We also note that, as well as improved incentive arrangements, GAL has been taking meaningful steps to improve the quality of service. For example, the quality of the terminal air navigation service available at Gatwick has been an area of concern highlighted to us in the past (particularly in the summer of 2023). On that basis, we welcome GAL's proposal to include an enhanced service quality incentive in this area. Similarly, passengers should benefit from the other new measures and changes proposed.
- 3.19 GAL has made a number of helpful changes to its proposals since the August 2024 Consultation. We particularly welcome its proposal in relation to departure lounge seating (as summarised above) and GAL's latest position on these matters is a very positive development, which also emphasizes the flexibility and advantages of the broader commitments framework.
- 3.20 We recognise that GAL did not agree to every change proposed by airlines and we also note that there are some issues on which GAL expects to continue discussions. We consider that it is important that this happens and that the discussions reach a satisfactory conclusion in a timely fashion. We note that the commitments framework gives flexibility for GAL and airlines to make

modifications during the extension period on areas on which they agree. At present, however, we consider that GAL's proposed changes to service standards and rebates are sufficient as part of an overall package that is likely to be in consumers' interests. We will continue to monitor these developments and expect GAL and airlines to make significant progress on these matters. If this is not the case, we will consider as part of the review of the commitments framework discussed in the chapter below whether greater regulatory intervention in these matters may be appropriate in the future. This wider review will also give us the opportunity to consider how some of the airline suggestions for a more fundamental review of GAL service quality incentives and targets should be taken forward.

- 3.21 For the reasons stated above, our final proposal is that GAL's proposed new and updated CSS commitments are sufficiently in the interests of consumers.

Special assistance services

- 3.22 A crucial aspect of service quality relates to those passengers who require special assistance services, including disabled and less mobile passengers. Airports and airlines are required to offer special assistance services free of charge for passengers, aiding in airport navigation, and aircraft boarding and disembarking. Airports, in particular, are responsible for helping disabled and less mobile passengers move around the airport and get on and off the aircraft.

Our August 2024 assessment

- 3.23 The August 2024 Consultation noted that there had been significant concerns about GAL's service in this area in relation to the quality of data collection and target monitoring, and some concerns regarding staffing levels and equipment availability, especially considering the increased demand for the assistance service.
- 3.24 In the light of these concerns, we said that GAL should take steps to ensure that its various performance measures of special assistance services are demonstrably accurate. We also said GAL should demonstrate it has credible plans, including in terms of appropriate levels of operational resources and investment, that ensure its special assistance services continuously meet GAL's obligations in this important area.

Responses to the August 2024 Consultation

- 3.25 GAL said that it is committed to providing an excellent level of service and set out details of the plans and assurances it has in place to address the issues raised about special assistance services. The steps taken include:
- working with the Independent Gatwick Accessibility Panel as well as other disability groups and charities to shape the accessibility strategy and improve services for passengers requiring assistance;

- completing a number of actions to address concerns highlighted by the CAA on data integrity, greater monitoring of arriving passengers and improved technology;
- agreeing a new contract with its special assistance provider, Wilson James, with new and tighter service level agreements; and
- as noted above, the sign-off of a new CSS metric based on arrival wait time target for disabled and less mobile passengers to receive assistance, with a rebate designed to incentivise improvements in services.

3.26 GAL also said it aims to improve other service quality aspects related to special assistance, such as increasing its internal headcount and investing in new uniforms of special assistance staff to make them easier to identify.

3.27 easyJet raised concerns about how the financial rebate for the waiting time performance of special assistance services measure may be structured, especially if payment of the rebate depends on an airline community-wide minimum level of pre-notification (that is, an average across all airlines). easyJet said that GAL might avoid rebate payments to airlines that have been compliant with their notification obligations and suffered service failures when the wait time target has not been met because other airlines have not achieved the pre-notification target rate.

3.28 The ACC raised similar concerns and said it is hesitant to agree to any criteria that would be unduly affected by the performance of any individual airline on pre-notification, given special assistance is a community service.

Our views and final proposals

3.29 We welcome the progress that GAL has made and the steps that it has taken to improve the provision of special assistance services. In particular, since the CAA rated the airport as 'needs improvement' in the 2023/24 Airport Accessibility Performance report⁷, Wilson James as supplier of the service has increased headcount significantly, thus improving performance levels during the second half of 2024. In addition, GAL has submitted data on audits it has carried out since April 2024 which demonstrate that the data collection issues identified by the CAA have been addressed.

3.30 The new CSS measure for special assistance services is an important development that will help to further the interests of consumers. We note the airlines' concerns around the implications of pre-notification levels and we will require GAL to provide us with an update on the operation of the new metric including on whether and how pre-notification levels are being met within 12

⁷ [Airport accessibility performance report 2023/2024](#)

months of the measure coming into effect. To the extent that the concerns raised by airlines are realised, we will expect GAL to propose measures to address these concerns.

Coordinating activities across the airport

- 3.31 For passengers to enjoy a smooth journey through the airport, it is essential that key activities are well coordinated, and that the airport operator supports the operation of punctual flight services. This means that, as well as managing processes for which it is directly accountable such as those covered by the CSS, GAL should also seek to ensure a good service is provided by third parties such as the terminal air navigation service provider and ground handlers.

Our August 2024 assessment

- 3.32 We gave GAL a green rating for its efforts to coordinate services across the airport. We said it would be particularly important that the contractual arrangements GAL has in place to support its terminal air navigation service delivers an appropriate number of air traffic controllers and an appropriate level of resilience in service provision.

Responses to the August 2024 Consultation

- 3.33 BA expressed concerns over GAL's On Time Performance ("OTP")⁸ relative to other European and international airports, claiming it is an outlier and the worst performing airport when measuring the percentage of flights departing on time. BA said the CSS should be revised to incentivise GAL to improve the overall performance at the airport. This includes addressing airfield delays, especially when aircraft are ready to depart on time from their stands.
- 3.34 IAG welcomed the introduction of an updated metric on air traffic control in the CSS. It said it has limited visibility of the operations of third parties responsible for services, such as air traffic control, and wants to be more actively involved in GAL's contracting with third-party suppliers of services to ensure contracts provide the right incentives.
- 3.35 easyJet noted there had been recent, positive steps to come to an agreement on an updated runway availability metric.
- 3.36 GAL included a root cause analysis of OTP losses in its submission. This included details of an investigation into the negative contribution different factors have on the overall ability to keep flights to schedule. GAL said some of these factors are within its control, and others, such as wider air traffic management and navigation issues, airline turn performance (that is, how long it takes for a plane that has landed to prepare for its next departure) and weather, are outside

⁸ Proportion of flights operating within 15 minutes of scheduled time.

of its control. According to this analysis, a considerable proportion of observed on-time departure losses in the analysis were because of factors outside of GAL's control.

- 3.37 It said that it has taken a range of actions to help mitigate losses where it is the responsible party and has worked with others where factors are outside of GAL's control, including:
- introducing incentives to improve baggage delivery and aircraft turnaround service levels, monitoring seasonal readiness of ground handlers and the promotion of joint recruitment fairs;
 - partnering with airlines to ensure the availability of standby aircraft and resourcing to ensure better airline turn round performance;
 - working with EUROCONTROL, NSL and NERL on resourcing and operational planning; and
 - investment in the airfield and facilities, and a focus on analysis and monitoring, to make processes more cohesive and efficient.
- 3.38 GAL states these changes are having positive impacts on OTP, noting between Q2 2023 and Q2 2024 there was a 10 percentage points increase in OTP.

Our views and final proposals

- 3.39 We welcome the efforts that GAL has taken, together with other stakeholders, to improve OTP in the interests of passengers. We are also encouraged by the discussions that are currently taking place between airlines and the airport to develop a broader 'basket' of airfield performance measures, including elements such as taxi-time and call-up response time. We agree that a comprehensive set of metrics capturing all aspects of the airfield eco-system would assist in driving improvements in OTP.
- 3.40 As and when additional metrics capturing airfield performance are fully developed, we strongly support the inclusion of these in the CSS framework as these should improve the quality and continuity of the services provided to consumers by GAL.

Chapter 4

A future review of the commitments framework

Introduction

- 4.1 This chapter summarises what we have previously said about carrying out a future review of GAL's regulatory framework. It also covers stakeholder responses on this issue and sets out our latest views and final proposals on the way forward.

The existing framework

- 4.2 The current regime for GAL was first set up in 2014. In 2016, we carried out a mid-term review of the first set of commitments to consider whether any aspect of the framework was operating against consumers' interests.⁹ None of the airlines we spoke to at that time suggested that there should be a return to the previous form of regulation (an incentive-based price control with a regulatory asset base to promote the cost effective funding of investment).

- 4.3 We found that most things were working well but we also identified some potential issues around:

- the progress of airfield investment projects;
- on-time performance; and
- some aspects of GAL's relationships with airlines.

- 4.1. In February 2021, we said that we intended to carry out focussed assessments of several areas, including;

- GAL's net charges and the average level of discounts GAL offered through bilateral agreements with airlines; and
- service quality issues and investment

and we would consider a review of issues arising during the process of renewing the commitments.¹⁰

- 4.4 We did not carry out these assessments, initially because GAL and airlines were focussed on operational issues as traffic recovered after the covid-19 pandemic, and then because GAL notified us of its intention to propose an extension to the current commitments.

⁹ See [CAP1387](#), [CAP1437](#) and [CAP1502](#).

¹⁰ See section 2 of [CAP2144](#). Economic regulation of GAL: notice of licence modifications.

Responses to the August 2024 Consultation

- 4.5 easyJet and the Gatwick ACC said there are elements of the framework that would benefit from CAA review including GAL's approach to consultation with stakeholders on investment, customer experience and operational resilience. easyJet suggested such a review should take place in the first half of 2027, to provide time to undertake detailed and robust economic assessment and to carry out consultation with stakeholders to ensure that the framework delivers appropriate outcomes in the interests of customers.
- 4.6 BA/IAG did not comment specifically on a future review of the framework, but did highlight several areas that could be improved, including meaningful consultation with airlines on investment decisions so that airline priorities are properly considered.
- 4.7 They also said that they consider that any commercial agreements reached with airlines are one-sided as airlines do not have visibility of GAL's costs to inform their negotiations. They said the CAA should take a more active role in monitoring and the oversight of GAL, to ensure that it does not take advantage of its market power.

Our views and final proposals

- 4.8 Our work on these final proposals has identified a number of areas that we may need to review in the future, in particular matters relating to service quality and incentives as discussed in chapter 3. We also note that the focused reviews envisaged in 2021 did not take place.
- 4.9 It is also good practice to periodically review regulatory arrangements to ensure that the regulatory framework continues to deliver for consumers.¹¹ We consider that we should review the commitments framework during the next price control period (that is, before March 2029), particularly as it has now been over ten years since the framework was first introduced in 2014.
- 4.10 Such a review would allow us to assess more broadly whether the commitments framework is continuing to deliver for consumers and whether there are changes to the framework that could further improve consumer outcomes. We would expect the review to include an overall assessment of whether the commitments framework continues to be the most appropriate form of regulation for GAL, in the light of our statutory duties. We will also consider specific issues raised by

¹¹ For example, in August 2024 we carried out a lessons learnt exercise to review the regulatory arrangements for HAL and NERL which are the other organisations that we regulate and are subject to an economic licence. See [CAP3000](#).

stakeholders, such as the issues set out in chapter 3 relating to a broad review of the incentives on GAL to provide an appropriate quality of service.

- 4.11 Our current thinking is that we should start this review in the second half of 2027 and seek to complete the review by mid-2028. This would allow us to take proper account of experience during the extension period and provide our views on the framework before the end of the extension period. But it is also important that the timing of a regulatory review does not unduly interfere with the commercial process between GAL and airlines for the next regulatory period.
- 4.12 Given the uncertainty around expansion at Gatwick, we may need to revisit the proposed timings of a review, for example, if GAL negotiates a new set of commitments with airlines for us to consider. As set out in the introduction and summary to this document we invite views from stakeholders on the scope and timing of such a review.

Appendix A

Our duties

- A.1 The CAA is an independent economic regulator. Our duties in relation to the economic regulation of airport operation services (AOS) are set out in the Civil Aviation Act 2012 (CAA12).
- A.2 CAA12 gives the CAA a general ('primary') duty to carry out its functions under CAA12 in a manner which it considers will further the interests of users of air transport services regarding the range, availability, continuity, cost and quality of AOS.
- A.3 CAA12 defines users of air transport services as present and future passengers and those with a right in property carried by the service (i.e. cargo owners). We often refer to these users by using the shorthand of 'consumers'.
- A.4 The CAA must also carry out its functions, where appropriate, in a manner that will promote competition in the provision of AOS.
- A.5 In discharging this primary duty, the CAA must also have regard to a range of other matters specified in CAA12. These include:
- A.6 the need to secure that each licensee is able to finance its licensed activities;
- the need to secure that all reasonable demands for AOS are met;
 - the need to promote economy and efficiency on the part of licensees in the provision of AOS;
 - the need to secure that the licensee is able to take reasonable measures to reduce, control and/or mitigate adverse environmental effects;
 - any guidance issued by the Secretary of State or international obligation on the UK notified by the Secretary of State; and
 - the Better Regulation principles.
- A.7 CAA12 also sets out the circumstances in which we can regulate airport operators through an economic licence. In particular, airport operators must be subject to economic regulation where they fulfil the market power test as set out in CAA12. Airport operators that do not fulfil the test are not subject to economic regulation. As a result of the market power determinations we completed in 2014, the airport operators of both Heathrow and Gatwick airports are subject to economic regulation.
- A.8 We are only required to update these determinations if we are requested to do so and there has been a material change in circumstances since the most recent determination. We may also undertake a market power determination whenever we consider it appropriate to do so.

Appendix B

Glossary

The terms used in this consultation have the meanings set out below.

Acronym/term	Description
ACC	The Airport Consultative Committee, representing airline users of Gatwick
CAA, “we”, “us”, “our”	The Civil Aviation Authority
CAA12	The Civil Aviation Act 2012
Consumers	We use this term to cover “users” are defined in section 69 CAA12 as passengers and those with “a right in property” (cargo) carried by air transport services and include future users.
CPI	Consumer Prices Index, a measure of price inflation
CSS	Core Service Standards
DCO	Development Consent Order granted under the Planning Act 2009
ECAC	European Civil Aviation Conference
GAL	Gatwick Airport Limited, the operator of Gatwick airport
HAL	Heathrow Airport Limited, the operator of Heathrow airport
IAG	International Airlines Group
NERL	NATS (En Route) plc
NSL	NATS Services Limited
Opex	Operating expenditure
OTP	On-time performance
PRM	Passengers with reduced mobility
RAB	Regulatory Asset Base
RPI	Retail Prices Index, a measure of price inflation

Appendix C

Notice under section 22(2) of the Civil Aviation Act 2012 (“CAA12”) that the CAA proposes to modify the Licence

Introduction

- C.1 This Appendix gives notice under section 22(2) of the Civil Aviation Act 2012 (“CAA12”) (“Notice”) that the CAA proposes to modify the licence granted to GAL by the CAA under section 15 CAA12 on 13 February 2014 (“the Licence”). The effect of these modifications is to implement the proposals set out in the Introduction and summary and chapters 1 to 3 of this consultation by incorporating the commitments for the 4-year regulatory period from 1 April 2025 to 31 March 2029 that GAL is making to its airline customers into the Licence.
- C.2 Where the reasons for, and effects of, the modifications set out in this Notice are set out in other chapters of this consultation, the reasons for, and effects of the proposed modifications set out in those other chapters are deemed to be incorporated in this Notice. This Notice sets out where those reasons and effects are to be found.

What the modifications cover

- C.3 Key areas that are addressed by the proposed modifications are set out below:
- We propose to change our approach to incorporating GAL’s commitments in the licence by removing the Appendix that set out the Conditions of Use in full and replacing it with a shorter Appendix setting out only the Commitments. We consider that this proposal to separate the Commitments from the Conditions of Use reflects the fact that the Conditions of Use include material that is not relevant to the Commitments or the Licence and are updated on an annual basis, so that over time there is a mismatch between the Conditions of Use in operation from time to time and those set out in the Licence. As such, we consider that the proposed approach will produce obligations that are clearer and more targeted.
 - We propose to retain the current “Licence backed” commitments regime. To reflect the proposed approach to incorporating only the commitments into the Licence, we are modifying Condition C to simplify it significantly, while ensuring that it continues to
 1. make clear that the commitments are conditions of the Licence;
 2. require the commitments to be set out in the Conditions of Use; and

- identify clearly the circumstances in which GAL can modify the commitments.
- We also propose to remove references made obsolete by the change of approach that we propose to adopt to incorporate the commitments into the Licence.
- The new Appendix would set out the pricing commitment that GAL is making for the period from 1 April 2025 to 29 March 2029. This commitment is for a price ceiling of CPI-1% on GAL's published charges for the first two years of the extension period (2025/26 and 2026/27) and CPI+0% for the final two years of the extension period (2027/28 and 2028/29). This compares to RPI+0% for the period of the commitments that is about to expire. The reasons why we consider that GAL's pricing commitment is appropriate in the interests of consumers are discussed further in chapter 1 (GAL's pricing commitment and levels of profitability).
- The new Appendix would set out the changes in the minimum investment commitment from at least £720m to £1.2bn measured over the period 1 April 2019 to 31 March 2029 (rather than 31 March 2025). The reasons why we consider that GAL's investment commitment is appropriate in the interests of consumers are that this spending should increase the capacity and resilience of its airfield and other airport infrastructure and explained further in chapter 1 (GAL's pricing commitment and levels of profitability) and chapter 2 (Capacity Expansion).
- The new Appendix would set out updated elements of the core service standards to reflect GAL's new service commitment, as follows:
 1. Departure Lounge Seating Availability target level has been increased from 3.8 to 4.0;
 2. Deletion of Transfer Passenger Search standard;
 3. Staff Search (Terminals) target level has been increased from 95% to 97%;
 - Runway Availability has been updated to Runway Availability and Capacity to include dual metric which considers: a) the physical condition of the runway; and b) local ATM flow restrictions resulting from lack of resources (e.g. air traffic controllers) or failure of equipment (e.g. navigation aids) directly within the control of Gatwick Airport Limited. Also, the financial penalties associated with the metric were doubled from £100k to £200k per incident;
 4. Addition of a new standard on Self-Serve Bag Drop Availability;
 5. Addition of a new standard on Special Assistance for arriving passengers meeting ECAC waiting targets;

6. Addition of a new standard on Community App Availability;
 - Deletion of the Airfield Travel Time (monitoring only) standard; and
 - Maximum rebate weightings remain at 7% of airport charges but distributed slightly differently over the various measures. Maximum rebate weightings were reduced by 0.1% for Arrivals Reclaim and by 0.2% for Passenger Sensitive Equipment (Priority). These, along with the weighting associated with the removed Transfer Passenger Search standard (0.2%), were reallocated to the new standards: 0.3% for Special Assistance, 0.1% for Self-Serve Bag Drop Availability and 0.1% for Community App Availability.
- The reasons why we consider that GAL’s service commitments are appropriate and in the interests of consumers are discussed further in chapter 3 (GAL’s service commitments).

Proposed modifications to the Licence

C.4 The proposed modifications are set out below and, except where indicated, are set out in “tracked change” format in red compared to the current version of the Licence, which took effect on 18 June 2021. Where a condition, or part of a condition, is not set out below, no modifications to it are proposed.

Proposed modifications to Condition C1

C.5 For the reasons set out above, the CAA proposes to modify Condition C1 of the Licence as follows:

C1 Commitments

C1.1 The Commitments **set out in the Appendix** are conditions of this Licence **and shall be set out in the Conditions of Use.**

C1.2 **The Licensee shall include the Commitments in the Conditions of Use. Obligations placed on third parties in the Commitments shall not be treated as conditions of this Licence.**

C1.3 In complying with this Condition C1 and the Commitments, the Licensee shall, so far as reasonably practicable, do so in a manner designed to further the interests of passengers regarding the range, availability, continuity, cost and quality of airport operation services.

Modification of the Commitments

C1.4 The Licensee shall not modify the Commitments otherwise than **in accordance with the terms of the Commitments and the Licensee shall inform the CAA of any modifications it has made as soon as reasonably practicable.:**

~~(a) — in the circumstances set out in the modification provisions of the Commitments (as defined in Condition C1.7(c)); or~~

~~(b) in accordance with Condition C1.6.~~

C1.5 ~~The Licensee can make M~~modifications ~~can be made~~ to the Commitments under Condition C1.4~~(a)~~ at any time.

C1.6 Where the CAA makes any changes to the conditions of this Licence under section 22 of the Act, the Licensee shall, as soon as reasonably practicable and subject to the outcome of any appeal to the Competition and Markets Authority under section 25 to 30 of the Act, make any necessary consequential changes to the Conditions of Use.

Definitions

C1.7 In this Condition C1:

~~(a) the Commitments are the commitments made by the Licensee to airline users of London Gatwick Airport as set out in the Appendix to this Licence and means the contractual obligations given by the Licensee to providers of air transport services at Gatwick Airport and in the case of certain obligations also to other service providers of Gatwick Airport as contained in the following provisions of the Conditions of Use as agreed by the CAA and to be effective from the date this Licence comes into force and as amended from time to time under Conditions C1.4. to C1.6 namely:~~

~~(i) Condition 2.1.2 of the Conditions of Use (Applicability and Enforceability of Conditions of Use);~~

~~(ii) Condition 2.1.3 of the Conditions of Use (Variation);~~

~~(iii) Conditions 2.1.11-2.1.20 of the Conditions of Use (Dispute Resolution Procedure);~~

~~(iv) Condition 5 of the Conditions of Use (Price Commitment);~~

~~(v) Condition 6 of the Conditions of Use (Service Standard Commitment);~~

~~(vi) Condition 7 of the Conditions of Use (Continuity of Service Plan, Operational and Financial Resilience);~~

~~(vii) Condition 8 of the Conditions of Use (Investment and Consultation Commitment);~~

~~(viii) — Condition 9 of the Conditions of Use (Financial Information Commitment);~~

~~(ix) Schedules 2, 3 and 4 to the Conditions of Use and associated appendices; and~~

~~(x) Annex to the Conditions of Use (the Gatwick Airport Core Service Standards Handbook);~~

(b) the Conditions of Use means the Gatwick Airport Conditions of Use, published by the Licensee ~~as defined in the Appendix.;~~ ~~and~~

~~(c) the modification provisions of the Commitments referred to in Condition C1.4(a) means the modification provisions set out at:~~

~~(i) Condition 8.2 of the Conditions of Use (investment and consultation commitment);~~

~~(ii) paragraph 3 of Schedule 2 to the Conditions of Use (price commitment);~~

~~(iii) paragraph 5 of Schedule 3 to the Conditions of Use (service commitments); and~~

~~(iv) the final paragraph in Schedule 3 Appendix I to the Conditions of Use (core service standards).~~

Proposed modifications to replace the existing Appendix setting out the Conditions of Use with new Appendix based solely on the Commitments

C.6 For the reasons set out above, we proposed to delete the existing “Appendix: The Commitments, as set out in the Gatwick Conditions of Use” in its entirety and replace with the new “Appendix: Commitments by Gatwick Airport Limited” set out below.

Appendix: Commitments by Gatwick Airport Limited

Definitions

‘Airport Charges’ means charges for the landing and taking off of aircraft, the parking of aircraft and the departure of passengers.

‘Airport User’ means any Operator or other person using the facilities at the Airport other than as a Passenger.

‘Bilateral Contracts’ means any contract relating to Airport Charges payable between an Operator and Gatwick Airport Limited other than the Conditions of Use.

‘Conditions of Use’ constitute an offer by Gatwick Airport Limited to permit the use of its facilities on the terms set out therein. The use of any facilities at the Airport whether airside or landside other than as a Passenger constitutes acceptance of the Conditions of Use. It is intended that the Conditions of Use constitute a contract as between Gatwick Airport Limited and each and every Airport User in relation to obligations relevant to them.

‘Core Service Charges’ means those charges referred to in Appendix I of the Schedule of Charges set out in the Conditions of Use as may be varied from time to time in line with

these commitments with the exception of any charges levied in respect of whole plane cargo flights, positioning flights and general and business aviation.

'Core Service Rebate' is the amount payable by Gatwick Airport Limited to Operators paying Core Service Charges for commercial passenger services operated under the Conditions of Use or similar charges for commercial passenger services under the terms of Bilateral Contracts where the application of the Core Service Standards have not been waived or replaced.

'Core Service Standards' are standards for services and facilities in connection with the landing, parking or taking off of aircraft at the Airport to be subject to penalties / rebates as defined at Annex 1 to Schedule 2.

'Core Service Standards Rebate Level' is the amount payable by Gatwick Airport Limited for failure to meet its Core Service Standards.

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

'Maximum Gross Yield' for a Relevant Year or '(Myt)' is defined as the Underlying Gross Yield (Ut) plus the Permitted Security Cost (St) as such terms are defined in Schedule 1.

'Operator' in relation to an aircraft means the person for the time being having the management of that aircraft.

'Passenger' means any persons carried on an aircraft with the exception of the flight crew and cabin staff operating the aircraft flight.

'Permitted Security Cost' reflects changes in the required security standards at the Gatwick Airport Limited and is defined at Schedule 1: Price Commitment.

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

'Service Rebate Percentage' is the maximum penalty / rebate payable by Gatwick Airport Limited for failure to meet its Core Service Standards and is defined at Schedule 2: Service Commitment.

'Special Assistance Services' means the special assistance services described in the Special Assistance Gatwick Airport Directive and General Advice Notice.

'Underlying Gross Yield' is the Maximum Gross Yield minus the Permitted Security Cost.

Introduction

1. This Appendix sets out the commitments made by Gatwick Airport Limited for the period from 1 April 2025 to 31 March 2029 (the '**Term**'). Gatwick Airport Limited will reflect these commitments in its Conditions of Use published in each year during the Term.

Price commitment

2. Gatwick Airport Limited's maximum average annual rate of increase in the Underlying Gross Yield (i.e. the Maximum Gross Yield excluding the Permitted Security Cost) will be no more than CPI-1% for the first two years of the Term (01 Apr 25 – 31 Mar 27) and no more than CPI for the second two years of the Term (01 Apr 27 – 31 Mar 29), subject to the Underlying Gross Yield not reducing in nominal terms in the first two years of the Term. The Underlying Gross Yield ceiling remains a year-by-year limit rather than an average measured over the Term.
3. Gatwick Airport Limited will comply with the price commitments set out in Schedule 1 throughout the Term.
4. Gatwick Airport Limited will provide Operators with comprehensive information and consultation on the evolution of airport charges on an annual basis.
5. Gatwick Airport Limited commits to seek to increase the capacity and resilience of its airfield infrastructure and include details of its plans to do so annually as part of its capital investment plans. It further commits to continue to bear the cost and risks incurred during the Term 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 Northern Runway.

Service standards commitment

6. Gatwick Airport Limited 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 which it will continue to operate for the Term. The Core Service Standards are set out in Annex I to Schedule 2.
7. The Core Service Rebate is the amount payable by Gatwick Airport Limited to Operators paying Core Service Charges for commercial passenger services operated under the Conditions of Use or similar charges for commercial passenger services under the terms of Bilateral Contracts where the application of the Core Service Standards have not been waived or replaced if it fails to meet the Core Service Standards Rebate Level as set out in Annex I to Schedule 2 and calculated in accordance with Schedule 2 paragraphs 1 and 2. In any Relevant Year the Service Rebate Percentage shall not exceed 7% of revenue from Core Service Charges payable by Operators in the Relevant Year.
8. The Core Service Rebate shall be paid quarterly, within one month of the end of each quarter (being June, September, December, March). The rebates shall be calculated by terminal (with the exception of runway and community app availability which will be calculated at an airfield level and the same percentage applied to both terminals) by month and allocated to the Operators that used the terminal pro-rata with the Core Service Charges payable in that month.
9. Rebates payable in respect of a Relevant Year will be based on a forecast of Core Service Charges revenue for that Relevant Year, for each terminal. To the extent that

actual revenues differ from forecast revenues, rebates will be recalculated and under- or over- payments of rebate will be reconciled and paid or invoiced (as appropriate) to the Operators by no later than 31 August following the Relevant Year, one month after the deadline for Gatwick Airport Limited to publish its price monitoring report for the Relevant Year to the CAA.

10. The Airline Service Standards are set out in Annex II to Schedule 2. An Operator that has not met the applicable Airline Service Standards Target Level as set out in Annex II to Schedule 2 will have its entitlement to Core Service Rebates reduced, in accordance with paragraph 3 of Schedule 2.

Continuity of service plan, operational and financial resilience commitment

11. Gatwick Airport Limited shall prepare and at all times maintain a continuity of service plan. The plan shall describe such legal, regulatory, operational and financial information that an administrator, receiver, or new management might reasonably be expected to require, in addition to the aerodrome manual and other statutory or regulatory documents which Gatwick Airport Limited is required to maintain, in order for it to efficiently carry out its functions and to remain compliant with its aerodrome licence. Gatwick Airport Limited shall provide the CAA with details of any material variations to the continuity of service plan.
12. Gatwick Airport Limited will develop and maintain an operational resilience plan which will set how it intends to operate an efficient and reliable airport to the levels required by the Core Service Standards or otherwise agreed with users and, in particular, how it will secure the availability and continuity of airport operation services, particularly in times of disruption. Gatwick Airport Limited will consult annually on the resilience plan with all interested parties including the CAA. Such plans and any amendments will have regard to any relevant guidance issued by the CAA.
13. Prior to publishing any plans or other documents under paragraph 12, Gatwick Airport Limited shall consult all relevant parties on those plans or documents in a fair and timely manner providing consultees with an adequate level of information.
14. Gatwick Airport Limited shall so far as is reasonably practicable coordinate and cooperate with all relevant parties at the Airport to meet the requirements of this operational resilience commitment and shall at least twice a year hold a meeting to which all relevant parties or organisations representing them shall be entitled to attend to discuss any issues pertinent to this operational resilience commitment.
15. All providers of air transport services and ground handlers shall use best endeavours to cooperate with Gatwick Airport Limited in implementing the plan(s).
16. During periods of service disruption Gatwick Airport Limited shall use reasonable endeavours to coordinate the communication of operational information and to ensure the provision of timely, accurate and clear information about its operations to Passengers of air transport services as well as information as to their rights under denied boarding regulations.

17. The Directors of Gatwick Airport Limited will provide an annual confirmation of adequate financial resources to operate the Airport and provide the Core Services.
18. Gatwick Airport Limited shall not amend, vary, supplement or modify or concur in the amendment, variation, supplementation or modification of any of its finance documents in respect of credit rating requirements (whether in each case in the form of a written instrument, agreement or document or otherwise (a '**Variation**') unless it has given prior written notice thereof to the CAA.
19. Gatwick Airport Limited shall, as soon as reasonably practicable notify the CAA of the possibility of any such Variation; and provide a summary of the executed change. The provisions of this condition shall not apply to any administrative or procedural variation.

Investment and consultation commitment

20. 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 ensure the Core Service Standards are met.
21. Gatwick Airport Limited commits to invest at least £120m in 2018/19 prices per year on average over the Term.
22. Gatwick Airport shall invest at least £1.2bn in 2018/19 prices during the period commencing 1 April 2019 and ending 31 March 2029, save where paragraph 23 applies.
23. Gatwick Airport Limited may invest less than £1.2bn in 2018/19 prices during the period commencing 1 April 2019 and ending 31 March 2029 if consent to such a proposal is given in writing by:
 - a. 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 £1.2bn (during the period commencing 1 April 2019 and ending 31 March 2029); and
 - b. Operators representing at least 50% of the Operators responding in writing.
24. Gatwick Airport Limited will undertake consultation in relation to the capital investment to be undertaken during the Term in accordance with the capital investment consultation framework set out in the Conditions of Use.

Financial information commitment

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

of disclosure in its Annual Report and Financial Statements for the year ended 31 December.

Schedule 1: Price Commitment

1. For the purposes of this Schedule, in addition to the definitions set out at the start of the Appendix, the following definitions apply:
 - 1.1. **'Actual Gross Yield'** means the Gross Yield determined following the completion of a Relevant Year.
 - 1.2. **'Actual Net Yield'** means the Net Yield determined following the completion of a Relevant Year.
 - 1.3. **'Core Services'** means such services and facilities in connection with the landing, parking or taking off of aircraft at the Airport for which a standard is set in Annex 1 to this Schedule.
 - 1.4. **'Gross Revenue'** means the sum in a Relevant Year of:
 - 1.4.1. revenue arising from Core Service Charges for relevant commercial passenger services operated under the terms of the published airport tariff set out in the Conditions of Use; and
 - 1.4.2. revenue arising from charges equivalent to the Core Service Charges for relevant commercial passenger services operated under the terms of Bilateral Contracts, but substituting for the actual revenue received the revenue that would have been received if such services had been offered and charged under the terms of the Schedule of Charges set out in the then applicable Conditions of Use but excluding revenue from any other charges not included within the definition of Core Service Charges whether levied under the terms of the Conditions of Use or under the terms of Bilateral Contracts or separate commercial arrangements.
 - 1.5. **'Net Yield'** means the Gross Yield adjusted to reflect the impact of discounts and marketing support offered under Bilateral Contracts.
 - 1.6. **'Planned Gross Yield'** refers to the Gross Yield assumed at the time the Core Service Charges for the Relevant Year were set, as detailed in Gatwick Airport Limited's annual charges consultation documents. The Planned Gross Yield shall not exceed the Maximum Gross Yield.
 - 1.7. **'Qt'** means the total number of Passengers using the Airport in a Relevant Year.
 - 1.8. **'CPI t-1'** means the percentage change (positive or negative) in the CPI All Items Index (D7BT): Jan 2015=100 published by Office for National Statistics between August in year t-1 and the immediately preceding August.

1.9. ‘**St**’ means the permitted security cost per passenger in Relevant Year t, if any, being: the aggregate of:

1.9.1. 90% of the amount by which the increase, or decrease, in security costs at the Airport in year t, which arise as a result of a change in required security standards at the Airport, exceeds £1.75m; and

1.9.2. the cost of installing new hold baggage screening equipment in order to meet the requirements of the Department for Transport, the European Commission or other aviation security regulator with the cost in year t calculated by amortising the capital costs and associated funding costs over the assessed life of the equipment, in equal annual amounts divided by the total number of Passengers using the Airport (Qt). A methodology for recovering the costs associated with the EDS Standard 3 project was consulted on with the airline community in 2016. Full details can be found in ‘2017/18 Airport Charges Consultation, New Hold Baggage Screening Equipment, Explosive Detection Systems (EDS) Standard 3’ published by GAL on 6 June 2016 and ‘2017/18 Airport Charges Consultation, New Hold Baggage Screening Equipment, Explosive Detection Systems (EDS) Standard 3, Decision Advice’ published by Gatwick Airport Limited on 2 September 2016.

1.9.3. The capital and operating costs of implementing the Department for Transport mandate for Next Generation Security Checkpoints which includes new requirement for screening of passengers and staff and their belongings (i.e. body scanners and C3 cabin baggage technology). The capital costs and associated funding costs will be subject to consultation in accordance with the Conditions of Use and a similar methodology to the amortisation of costs will be adopted as for hold baggage screening as outlined in paragraph 1.9.2.

1.10. ‘**Ut**’ in Relevant Year t, defined as the Underlying Gross Yield:

Where $t=2025/6$ or $t=2026/7$

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

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

Where $t=2027/8$ or $t=2028/9$

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

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

2.1. Subject to paragraph 2.3 below, should the Actual Gross Yield be greater than the Maximum Gross Yield, a rebate will be issued to those carriers that paid Core Service Charges or operated under Bilateral Contracts where such contracts adopt the airport tariff as a reference price index in the Relevant Year. For each carrier, the value of the rebate for the Relevant Year will be equal to the Core Service Charges or equivalent paid by the carrier multiplied by the percentage difference

between the Maximum Gross Yield and the Actual Gross Yield. Rebates will be issued to carriers by no later than 31 August following the Relevant Year, one month after the deadline for Gatwick Airport Limited to publish its price monitoring report for the Relevant Year to the CAA.

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

2.3. The provisions of paragraph 2.1 of this Schedule 2 shall not have effect before the Relevant Year ending 31 March 2023.

3. Any amendment to the Maximum Gross Yield may be made by Gatwick Airport Limited if consent to that amendment is given in writing by:

3.1. Operators carrying at least 67% of passengers (in the 12 months immediately preceding the date on which Gatwick Airport Limited notified Operators of the proposed amendment to the Maximum Gross Yield) on airlines operating at the Airport paying the Core Service Charges or under Bilateral Contracts where such contracts adopt the airport tariff as a reference price index and

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

4. When undertaking the annual consultation on airport charges, Gatwick Airport Limited will publish a comparison of the actual net yield, the Actual Gross Yield and the Maximum Gross Yield for the most recently completed Relevant Year and estimates for the current Relevant Year. Gatwick Airport Limited will also publish the Planned Gross Yield and the Maximum Gross Yield for the Relevant Year which is subject to consultation.

5. Gatwick Airport Limited shall notify the CAA and all Operators at the Airport at least 2 years prior to the end of the Term of its intention with regards to the continuation of commitments, if any, on pricing, service standards, continuity of service, operational and financial resilience, investment consultation and financial information.

6. Gatwick Airport Limited shall make available Core Services to all Operators at the Core Service Charges rate as amended from time to time.

7. Subject to complying with paragraph 6 above Gatwick Airport Limited may offer enhancements or additions to the Core Services either under Bilateral Contracts or at charges separate from the Core Service Charges.

Schedule 2: Service Commitment

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

Core Service Rebate T-j = Service Rebate Percentage (calculated in accordance with paragraph 2 below) T-j x Annual Core Service Charge T

Where:

Annual Core Service Charge T =

in respect of terminal ‘T’, in any Relevant Year, is the annual revenue arising from Core Service Charges or equivalent charges under Bilateral Contracts for relevant commercial passenger services operated by Operators under the terms of the published airport tariff set out in the Conditions of Use.

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

Deduction from Core Service Rebate a,T,j = Airline Standard Reduction Percentage (calculated in accordance with paragraph 3 below) a,T,j x Core Service Charge a,T,j

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

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

$$T,j = \sum_i \text{Standard } 2 \times (p_{i,T} / 12) \times (x_{i,T,j})$$

Where:

$p_{i,T}$ = the maximum potential Core Service Standard rebate percentage for standard “i”, for terminal “T”, as set out in Annex I to this Schedule.

If the standard “i”, for terminal “T”, in month “j” is greater than or equal to the Core Service Standard rebate level, as set out in column 4 of Annex I to this Schedule then $x_{i,T,j} = 0$.

If the standard ‘i’, for terminal ‘T’, in month ‘j’ is less than the Core Service Standard rebate level, as set out in Annex I to this Schedule, then $x_{i,T,j} = 1$ or 0, if prior to month ‘j’ there have been any six or more months in a Relevant Year in which the standard ‘i’, for terminal ‘T’ was less than the service rebate level, as set out in Annex I to this Schedule. This provision applies in precedence to, and overrides, the provisions above providing for the calculation of $x_{i,T,j} = 1$.

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

$$\text{Airline Standard Reduction Percentage } a,T,j = \sum_k \text{Standard } r_{k,T} \times z_{a,T,j,k}$$

Where:

$r_{k,T}$ = the potential Airline Service Standard Reduction Percentage per month for standard 'k', for terminal 'T', as set out in column 4 of Annex II to this Schedule.

$z_{a,T,j,k} = 0$ if the standard 'k', for terminal 'T', in month 'j' is greater than or equal to the Airline Service Standard Target Level, as set out in column 4 of Annex II to this Schedule; or 1 if the standard 'k', for terminal 'T', in month 'j' is less than the Airline Service Standard Target Level, as set out in column 4 of Annex II to this Schedule.

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

Amendment

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

Monitoring

6. Gatwick Airport Limited shall monitor and publish on the Gatwick Airport website a monthly report in relation to certain Airport-wide activities including:
 - a. The Core Service Standards.
 - b. The Airline Service Standards.
 - c. Special Assistance service and notification.
 - d. On-time performance (departures and arrivals).

7. If Gatwick Airport Limited fails to meet any Core Service Standard for any six consecutive months it will prepare an improvement plan to address the failure and will consult with the Gatwick Airline Consultative Committee and the CAA on its proposals and will then implement the improvement plan.

On-time performance

8. Gatwick Airport Limited will continue to seek ways to expand its capacity, resiliently, to meet the growing demand through innovation, investment and process improvements. Gatwick Airport Limited will provide leadership and focus in the drive for on-time performance, while recognising that punctuality is a product of efficient delivery from many organisations; airlines, ground handlers and air traffic controllers, as well as the airport operator.
9. Starting from the IATA Summer 2021 season, Gatwick Airport Limited introduced new service targets to underpin its continuing focus on improving punctuality and operational resilience:
 - a. Average departure punctuality will have a target of at least 70% in the summer season and 75% in the winter season. (Punctuality is defined as the percentage of scheduled flights which depart from their stand no more than 15 minutes and 59 seconds after their scheduled departure time.)
 - b. Gatwick Airport Limited will report to airlines and their ground handlers on the punctuality performance of each season within one month after its conclusion and publish results on its website.
 - c. If the reported seasonal punctuality drops below the relevant target set out in 9a above, then Gatwick Airport Limited will within three months of the publication of the punctuality performance set out in 9b above consult with the airlines, their ground handlers and Passenger Advisory Group on a root cause analysis of the Airport's and airlines' collective performance over the season, and then develop with airlines a punctuality improvement plan for the following equivalent season. If appropriate, Gatwick Airport Limited may invest in a portfolio of operational incentives and financial incentives for airlines and/or their ground handlers.
10. For avoidance of doubt, it is the responsibility of airlines operating at Gatwick Airport 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. Gatwick Airport Limited will design any measures to not disadvantage those airlines who already run a resilient operation at Gatwick Airport.

Annex I: Core Service Standards (Rebates)

CAP3078 Appendix C: Notice under section 22(2) of the Civil Aviation Act 2012 (“CAA12”) that the CAA proposes to modify the Licence

	(1) Standard	(2) Metric	(3) Target Level	(4) Maximum potential rebate (both terminals, unless noted)
(i)	Passenger satisfaction measures			
	Departure Lounge Seat Availability	Moving Quarterly Average QSM score	4.0	0.20%
	Cleanliness	Moving Quarterly Average QSM score	4.0	0.20%
	Way-Finding	Moving Quarterly Average QSM score	4.1	0.20%
	Flight Information	Moving Quarterly Average QSM score	4.2	0.10%
	Passenger Wi-Fi	Moving Quarterly Average QSM score	4.0	N/A
	Special Assistance	Moving Quarterly Average PRM survey	4.0	N/A
(ii)	Security			
	Central Passenger Search	Times <5 Minutes & Times <15 Minutes	95% 98%	1.0%
	Central Passenger Search ¹	Day when single time slice > 30 Minutes	Single event per day	0.05% per day (0.7% max per month)
	Staff Search (Atlantic and Jubilee)	Times <5 Minutes	97%	0.175%
	Staff Search (Terminals)	Times <5 Minutes	97%	0.175%
	External Control Posts Search	Times <10 Minutes	95%	0.35%
(iii)	Passenger operational measures			
	Passenger Sensitive Equipment (General)	% Time Available	99%	0.05%
	Passenger Sensitive Equipment (Priority)	% Time Available	99%	0.30%
	Inter Terminal Shuttle System	% Time 1 Car Available & % Time 2 Cars Available	99% 97%	0.50% (NT)
(iv)	Airline operational measures			
	Stands	% of required occasions (arriving aircraft)	99.5%	0.15%
	Jetties	% of required occasions (arriving aircraft)	99.0%	0.30%
	Pier Service	Moving annual average % passengers pier served	95.0%	0.50%
	Fixed Electrical Ground Power	% of required occasions (arriving aircraft)	99.5%	0.15%
	Runway Availability and Capacity	Dual metric which considers: a) the physical condition of the runway and b) local ATM flow restrictions resulting from lack of resources (e.g. air traffic controllers) or failure	Single event metric	Depends on duration: 15 mins to 45 mins (£100,000) > 45 mins (£200,000)

		of equipment (e.g. navigation aids) directly within the control of Gatwick Airport Limited		Maximum annual penalty 0.5%.
	Self-Serve Bag Drop Availability		TBD ²	0.10%
(v)	Baggage Measures			
	Arrivals Reclaim (Baggage Carousels)	% Time Available	98.5%	0.40%
	Outbound Baggage	OBP Daily	98%	0.175% daily (0.7% max per month across both Outbound Baggage metrics)
	Outbound Baggage	OBP Monthly	99%	0.70% monthly (0.7% max per month across both Outbound Baggage metrics)
(vi)	IT Measures			
	Flight Information Display Screen system	% Time Available	99.9%	0.10%
	Community App Availability	% Time Available	99.5%	0.10%
(vii)	Special Assistance			
	Special Assistance	ECAC arrivals target achievement (monthly)	98% pax in: 20 mins (notified) 45 mins (un-notified) ³	0.30%
	Total			7.25% (NT) 6.75% (ST)

¹ In a day when the single time slice is greater than 30 minutes the maximum daily penalty is 0.05% with a maximum monthly penalty of 0.70%.

² Target level to be agreed with ACC after February 2025 review.

³ ECAC arrivals targets are set out in CAA CAP1228.

Calculation and measurement of the Core Service Standards will be undertaken in accordance the ‘Gatwick Airport Core Service Standards Handbook’ annexed to

the Conditions of Use which may be amended from time to time by agreement between Gatwick Airport Limited, the Gatwick Airline Operators Committee and the Gatwick Airport Consultative Committee.

Annex II: Airline Service Standards

(1) Standard 'k'	(2) Metric	(3) Target Level	(4) Reduction Percentage
Check-in performance – queue time	Times <30 Minutes	95%	1.0%
Arrivals bag performance – last bag on carousel	Times <55 Minutes (large aircraft) Times <40 Minutes (small/medium aircraft)	95%	0.50%

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