

# Airport Consultative Committee – Gatwick Airport (ACC)

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Dear Tim

## **GAL SUBMISSION 3 DECEMBER 2013 - ACC RESPONSE**

In short the Airline Consultative Committee (ACC) welcomes Gatwick Airport's (GAL) recognition that its passenger traffic volumes are significantly ahead of both the CAA's and GAL's forecasts. We also welcome GAL's recognition that this means its proposed Commitment price was too high. However, GAL's reduction of its Commitment offer by only 0.5 percentage points is not enough to reflect either the higher traffic or recent evidence on the cost of capital of regulated entities.

The ACC also note that the GAL response was only made on 3 December 2013, a week later than the deadline that the CAA set for comments. The ACC would like to understand both the justification from GAL for this late response and the CAA's ability to take this response into account, given its late submission. We await notice of such justification.

Price Commitments Regarding price, GAL's reduction of their Commitment offer is not sufficient to reflect its acceptance that passenger traffic is already significantly out performing its earlier forecasts and the new slot release, let alone to take account of recent evidence on the cost of capital of regulated entities.

GAL has simply dismissed the Competition Commission's (CC) proposed Cost of Capital for Northern Ireland Electricity Limited. Its argument essentially boils down to a claim that the CC is wrong and that it can be safely ignored in developing a 'fair price' comparison of GAL's commitment offer. This peremptory response cannot be reasonable and any fair price comparison must reflect the latest evidence on the cost of capital of UK utilities.

Traffic Forecasts GAL has recognised that its original traffic forecast was too low. Further, it also acknowledges that the CAA's forecast was too low.

However, instead of GAL recognising that a higher base year for its traffic forecast is likely to lead to increased traffic in the future (compared to the CAA's forecast) it claims that future growth rates will reduce as a result of greater traffic this year and next year. In effect GAL is claiming that traffic has been pulled forward, but has provided no evidence for why this might be the case.

It seems highly unlikely that at a time when UK economic forecasts are being revised upwards there will be a *fall* in the growth rate of passenger traffic at Gatwick compared to the growth rates that GAL and the CAA expected several months ago. GAL expects future passenger growth after 2015 to only be 0.3m passengers a year. This contrasts with the average annual growth of 1.2m passengers seen over the last four years.

We do not agree with GAL's assertion that the increase in slot capacity from summer 2014/15 will have no impact on overall passenger demand. Gatwick is currently full at peak times - all the new peak slots have already been taken. It seems clear that any new peak slots will therefore be used to for unmet demand.

The ACC has set out how it has arrived at its cautious assessment of the impact of these additional slots.

Following GAL's recognition that passenger traffic is significantly higher than it forecast the ACC's view is that the base should be updated to reflect this, and that a minimum the CAA's cautious growth rates should be applied through the remainder of the regulatory period.

Yours Sincerely

PP: 

Jason Holt  
Airline Consultative Chairman

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