

ACC response on Gatwick Airport Limited's view on the impact of the Flybe slot purchase by EasyJet – 20 September 2013

Thank you for giving us the opportunity to comment on GAL's latest assumption in relation to the flybe slots in their traffic forecast.

As you are aware, the ACC provided the CAA with a transparent calculation on how we had taken account of this in our own forecast (based on average loads for flybe and easyjet) and easyJet have been in separately to the CAA to provide further commercially sensitive detail. We therefore stand by the estimates we made previously and both the ACC and easyJet are happy to discuss these estimates further with the CAA if helpful.

We have noted a few comments from the narrative GAL have provided. In particular:

GAL state that 'As we discussed, the slot times are not a perfect fit on the traditional easyJet three wave (LGW crew and aircraft) based business model, so they may have to adapt other routes or bases. As explained when we met, unlike other traditional carriers, easyJet more recently call a slot "based" depending on crew home base, but often have the aircraft fly in to LGW on the first leg (some LGW crews overnighing at other airports that are too small to set up traditional crew bases). This adds a degree of complexity on second guessing what the slots will be used for. In reality, they may be consumed by the whole easyJet European programme, leaving it very difficult to analyse and identify the actual pax / route variances.'

and

'We also have to consider that without direct commercial information from easyJet on how they will be using these slots or indeed what business purpose they were bought for (potential longer term competitive manoeuvre), we can only base our judgement on realistic assumptions as considered below.'

However, the ACC believes this is unnecessarily complicating the calculation, it does not appear to be clear why it matters if aircraft are based at the airport or not (this is not something the CAA have ever asked about previously). Also, given that easyjet has purchased the slots, at some expense, it would seem strange if they were not to fly them all and this will therefore replace flybe's current flying schedule. The CAA's sight of easyJet's own forecasts should back this point up.

GAL also note:

'We do not have the detailed ACC calculation mentioned in the meeting, however, we are concerned that this was built up using a very basic calculation, with the same routes as Flybe, an increase on aircraft size (to A319/A320), applying the average easyJet load factor for LGW and assuming additional passengers want to fly based on carrier change / price.

This approach is flawed on a number of fronts, including:

- average load factors do not take into account seasonality ratios or route specific intelligence*
- the fact that Flybe loads were not at 100% - so where do the additional passengers appear from if easyJet increase aircraft size? – (we do not believe that this was merely down to price sensitivity or brand.)*
- the bottom up SH&E forecast already contained a declining Flybe volume'*

We are surprised GAL do not believe they have seen our calculation, and appear to have some confusion over how it was derived. It was set out clearly in the ACC response to the CAA's initial proposals which was shared with GAL and addressed all these points. Moreover, to cover the issue of seasonal and route variability it was based on average numbers.

It is the fact that Flybe loads were not 100% which leads to the size of the traffic forecast increase. Flybe were carrying relatively few passengers per average ATM. easyJet's business model delivers high load factors. This is well documented and evidenced that this is indeed the outcome. Therefore, we believe it is clear that those Flybe slots will carry many more passengers than they currently do. Gatwick have data on the average passengers per airline, we assume they must be aware of the difference between Flybe and easyJet's average pax per ATM.

It is not clear whether the 'declining flybe volume' relates to slots or passengers. In any case, it is difficult for the ACC to comment as we have had no access to the bottom up element of the SH&E forecast, but we have seen no evidence to suggest that it did assume that Flybe slots would be progressively transferred to other airlines. We would note that if it instead relates to passengers, then the ACC estimate is underweighted as we used current average Flybe volumes. We would be grateful if GAL could clarify and, in particular, could provide SH&E's confirmation that their bottom up forecast of May did contain a reduction in flybe held slots.