virgin atlantic

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Virgin Atlantic Airways' response to the Civil Aviation Authority's final decision

Virgin Atlantic Airways (VAA) welcomes the opportunity to respond to the Civil Aviation Authority's (CAA) final decision for regulation at Gatwick and Heathrow published on 10th January 2014.

This response supports and compliments those of the LACC at Heathrow and ACC at Gatwick and is without prejudice to any individual carrier's right to appeal the final decision.

Heathrow

Whilst it is helpful that CAA has lowered the RAB Price, since its final proposals in October, we still consider that your review of our earlier submitted evidence remains incomplete. Together with British Airways, VAA therefore commissioned the respected expert Professor Sudi Sudarsanam to produce an expert's report on the errors that the CAA has made in its calculation of the WACC. This report is attached at Annex A, and VAA endorses its content and conclusions.

Whilst we note the consultation is on the proposed licence conditions, we would also like to reserve our position on a number of other assumptions made by the CAA in its calculation of the price cap. In particular:

- Traffic – VAA welcomes the upward adjustment made to the CAA's traffic projections over the Q6 period. To take no account of recent outperformance in the base year would have been a clear error of fact. However, it is disappointing that the CAA has not taken full account of this and has therefore inflated the fair price the passengers will pay. Furthermore, we continue to disagree with the CAA's inclusion of demand shocks and treatment of the Olympics impact within the forecast.
- Capital plan – VAA has always supported development in the passenger interest in Q6, where there is a robust business case for doing so. While we broadly welcome the size and shape of the proposed capital plan, we remain disappointed about the inclusion of the Crossrail funding within the settlement.
- Operating costs – While we welcome the adjustment made to wage inflation and the frontier shift, VAA continues to believe the airport could and should deliver more significant operating cost savings than proposed by the CAA.
- Commercial revenue – VAA continues to maintain that the targets set by the CAA are not stretching enough and it continues to support the figures as set out in previous submissions.

VAA agrees and supports the comments of the LACC on the proposed licence and conditions of use. These points need to be satisfactorily resolved to ensure the settlement is both workable and protects our passengers from the market power held by the airport.

Gatwick

VAA welcomes the both the opportunity to respond to the CAA's final decision and the update to the fair price calculation within the final decision document, however we continue to assert that this price should be lower.

Whilst we note the consultation is on the proposed licence conditions, we would like to reserve our position on a number of assumptions made by the CAA in its calculation of a 'fair price' comparison. In particular:

- Traffic – whilst we welcome that the CAA has taken account of recent evidence that points to higher than previously forecast traffic growth over the Q6 period, we believe the CAA should have taken full account of the evidence provided by easyJet suggesting a higher impact from the acquired flybe slots. Further, we also note that the CAA has not taken full account of base year growth or the full impact of the additional slots from summer 2014. Airlines set out a robust and cautious estimate of the impact of these slots and we believe this should have been used.
- Capital plan – VAA has always supported development in the passenger interest in Q6 where there is a robust business case for doing so. We look forward to the development of north Terminal security during the Q6 period as the South Terminal product has proved popular with passengers. However, we are disappointed that the CAA has continued to include pier 6 south within its capital plan used as a fair price comparison. As stated throughout constructive engagement and during the last year, airlines believe this project is unnecessary and poor value for money. This therefore inflates the fair price comparison.
- Operating costs – VAA believes the airport could deliver more significant operating cost savings than proposed by the CAA. In particular we do not believe it is value for money for our passengers to subsidise the GAL pension scheme and further disagree with the treatment of the commutation payment.
- Commercial revenue – VAA welcomes the small raise to the commercial revenue forecast. We believe this should have been more significant and believe the CAA should have placed more weight on the expert evidence provided by Javelin.

VAA believes there is scope currently for GAL not to comply with the fair price calculation proposed and therefore the CAA unequivocally needs to be clear that GAL should price to recover a blended rate of RPI-2% (the seven year RAB price comparison) per annum.

VAA agrees and supports the comments of the ACC on the proposed licence and conditions of use. These points need to be satisfactorily resolved to ensure the settlement is both workable and protects our passengers from the market power held by the airport.

We look forward to continuing to work with the CAA and airports to ensure that Q6 delivers for our passengers.