

easyJet response to CAA's Q6 proposals

Summary

easyJet believes that charges at Gatwick can be significantly reduced, while maintaining services for passengers. The evidence set out by the Gatwick ACC supports this position and needs to be considered by the CAA in the development of its final proposals for Gatwick's Q6 settlement.

Introduction

This submission sets out easyJet's views on the CAA's April proposals for Gatwick's Q6 regulatory settlement.

easyJet fully supports the views of the Gatwick ACC, set out in its paper of 25 June 2013. This submission does not repeat the points made in that paper, instead it covers issues where either the ACC does not have a common position, or where further detail specific to easyJet is required.

easyJet at Gatwick

easyJet is GAL's largest customer, and we carry over 40% of the passengers who use the airport. It is also easyJet's largest base. The recent purchase of Flybe's Gatwick slots underlies the importance of the airport to easyJet, and will further increase our share of Gatwick's traffic.

Despite our size at Gatwick, the airport continues to have significant market power over easyJet, as we have shown in the evidence provided for the CAA's work on Gatwick's market power. Our preference is for competitively negotiated contracts with airports, not for airport regulation. However, where we can not achieve a mutually beneficial contract then we believe regulation is the only way to ensure passengers are protected. We will provide further evidence to the CAA's current consultation on Gatwick's market power.

The Q6 price cap

easyJet believe that the CAA should set a Q6 price cap for Gatwick of RPI-8.5%. This is derived from the adoption of the ACC's proposed RAB building blocks alongside the inclusion of the capital projects that easyJet supports in addition to those where there was full ACC agreement.

We recognise that this is significantly below the proposal set out by the CAA in April of RPI+1%. However, the ACC has provided strong supporting evidence on

each of the RAB building blocks to support a significant reduction in charges at Gatwick. We note that the change in forecast traffic numbers alone (most of it arising from the easyJet purchase of Flybe slots) would reduce the CAA proposed price cap to RPI-1%.

The ACC assessed each of the building blocks in light of the CAA's proposals, and only deviated from the CAA's proposals where there was evidence for such a change. For example the proposed WACC of 4.9% is derived from the CAA's own evidence, and the difference from the CAA's proposed WACC of 5.85% is due to issues of policy choices, not disagreements with the CAA's evidence base.

We recognise that the proposed price cap looks challenging. However, it needs to be put in the context of what occurred in Q5. Airport charges will have increased by almost a third in real terms, or over half in nominal terms. Investment in Q5 has brought the airport up to a good standard, recognised by the CAA's own research. Alongside this Gatwick's new owners have made significant efficiency gains (despite not planning to make any in Q6), and increased traffic is forecast for Q6. Finally, the cost of capital has fallen over the last few years, as the CAA's evidence shows. Taking all these together it is not surprising that charges should fall significantly over Q6.

Price Commitments

In our January submission to the CAA we set out easyJet's view on GAL's proposed price commitments. These were that:

- We were open to discussion with Gatwick on commitments
- Commitments have to be legally binding on GAL
- The commitments should deliver price and service outcomes that are equivalent to those we would expect from a mutually beneficial bilateral contract

Since January limited progress has been made on these issues. Gatwick did not meet easyJet or provide any further information to easyJet on price commitments until May, nor did it seek to present any new proposal before this time. GAL has still not provided an updated price proposal. Nor has it set out how it plans to ensure that the commitments are legally binding.

We support the CAA's efforts to explore alternatives to RAB regulation. Further, we support the conditions set out by the CAA on price commitments. However, the conditions are not precise enough to determine ex-ante whether or not any future proposals from GAL will meet these conditions. However, it is clear that GAL's current proposals do not meet these conditions.

If the CAA is going to further explore the potential for price commitments it will need to be clear and precise about the requirements for any commitment regime.

In addition, it is vital that airlines are fully involved in any further work on commitments. GAL have not had meaningful engagement with easyJet on this issue and it is very unlikely that we will be able to support commitments if we are not fully involved in their development.

Service

easyJet has consistently argued that the current SQR regime should move to a simpler model that is focussed on a few key service measures that are directly focussed on services that passengers care most about:

- Airfield performance (availability)
- Security queues
- Baggage delivery performance
- Passenger satisfaction with the terminal
- Pier service

We recognise that this is not supported by all airlines, and that this puts the CAA in a difficult position. However, we were disappointed that the CAA has proposed relatively minor changes to the SQR, despite the focus it has placed on passengers. It seems odd that for example the CAA has not placed more weight on the service metrics that evidence shows passengers are most concerned about.

We have worked with other airlines to better focus the SQR on key measures and on the basis that the SQR is retained we support the ACC position. We urge the CAA to consider further how to make service regime more relevant to passengers.

Capital expenditure

Alongside the agreements set out in the ACC document we would like to comment on three further proposed investment projects.

easyJet supports the **North Terminal IDL** extension project. This will deliver commercial benefits alongside passenger experience benefits. It also shows the benefit of strong airline/airport consultation, as GAL made significant efforts to improve the commercial return of the project, ensuring that passengers did not see increased charges in Q6 in return for promised future returns. We urge the CAA to support the project as now proposed by GAL.

We have further examined the case for the **North Terminal Early Bag Store**, following GAL's concern that airlines should not reject this project. The case is finely balanced, however, it is important that we do not take unreasonable risks with passenger service outcomes, so we support the project going into Q6 and urge the CAA to take it forward.

easyJet does not support GAL's proposed extension to **Pier 6**. We note the CAA's evidence showing that it will be of benefit to only a few passengers, and that it is an expensive project for this relatively small benefit. We do not object to GAL building the extension. But we do object to our passengers having to pay for it when they do not need it, and having to face the risk of operational disruption while it is being built. Modelling by GAL itself shows that pier service levels do not face any significant risk of being compromised if Pier 6 South is not built. Further, the achievement of 95% pier service can not be at any cost. We urge the CAA to reject this project and recognise that its costs outweigh the benefits to all of Gatwick's passengers.

easyJet consolidation

We have continued to work with GAL on the potential consolidation of easyJet's operations within one terminal. However, currently there is no clear plan for consolidation. Further, the purchase of Flybe slots will make it difficult for easyJet to consolidate in the South Terminal. Discussions continue and we will continue to focus on ensuring that we can achieve a unified product offering without incurring significant costs for all the users of the airport.

easyJet

25 June 2013