

## **Monarch airlines' response to the CAA's review on Gatwick's commitment framework**

### **EXECUTIVE SUMMARY**

- Monarch Airlines Ltd (Monarch) welcome the CAA review of the contract and commitments framework, to ensure that Gatwick Airport Ltd. (GAL), is delivering on its commitments under its economic licence in the interest of passengers.
- We support the scope of the review in principle, but wish to see greater analysis, to be assured that GAL are delivering within the scope of the licence. We feel that whilst the proposed review will provide for a “health check”, the scope does not go far enough to provide assurances that GAL is performing under its commitments.
- We would like to see a fourth area of scope included in the review, which would provide for analysis of each airlines cost base (with or without bi-lateral agreements), to understand and confirm that a fair competitive environment exists, in the interests of passengers.
- We strongly oppose any reduction in oversight by the CAA as is suggested in the Para 3.5 page 23 of the consultation document. We believe that this would allow the potential for GAL to apply its own interpretation of the framework, which may be detrimental to the interests of passengers.

We would like to see a re-introduction of a financial penalty framework, for capital investment projects that are not delivered on schedule. We do not feel that we have yet seen any benefits under the new regulatory framework, and believe that GAL's position is based on traffic volumes, and thus revenue, which we feel is contradictory to the overarching purpose and philosophy of serving the passengers interests.

### **I. INTRODUCTION**

1. On the 15<sup>th</sup> March 2016, the CAA issued a consultative paper to airline operators at LGW, to seek agreement on the scope of their review of the commitments framework.
2. This review was included within the original licensing agreement, which was issued in 2014. The licence was issued for period 2014 – 2021 which saw a change from the traditional regulated asset base approach, to a more deregulated approach. The purpose of the CAA's review, is to understand the impact of the change in regulation and to identify as to whether GAL are meeting their obligations under the conditions of the licence. The CAA has advised that the review will provide for a “health check”, and will not be a full and thorough review of the framework. We would like to understand if & what the CAA plans to do, in order to review subjects not currently included within this review (i.e. Airport & Airspace congestion in London), and what they intend if the findings of the review suggest that the framework has been wrongly interpreted and implemented by GAL.
3. The CAA issued the consultative document, to seek agreement from the airport community, on the scope and content of the review, prior to review commencement in September 2016. ***The CAA proposed to review the following 3 scopes:***
  1. **GAL's service quality & Airport resilience**
  2. **GAL's investment performance**
  3. **GAL's relationship's with airlines & stakeholders**
4. Monarch welcomes this consultation and wants to collaborate with the CAA and GAL to ensure we are all working closely together in the best interest of passengers.

## II. MONARCH'S RESPONSE

### 1. GAL's service quality & Airport resilience

5. Monarch support the review on the quality of service delivered by GAL and hopes that the outcome will provide greater understanding and transparency on the mechanism used to calculate service quality, and will quantify the accuracy of the data. We believe that under the review, the CAA should clarify the data against actual given rebates and seek assurance through the review, that the mechanism is still fit for purpose and any deficiencies are rectified. We feel that there is scope for improvement in this area, which is substantiated by recent events, where the baggage delivery service standards were "technically" achieved via use of an out of gauge loophole. This event evidences that whilst the intention of the CSS measure is in the interest of the passenger, the reality can be somewhat different.
6. We further feel that more detailed analysis of the exemptions regime is required. Specifically we are concerned that the pier service level (PSL) target is being achieved (95%), however the application of exemptions does not provide an accurate view of actual pier service level.
7. We would encourage the CAA to take a wider view of service delivery beyond the CSS measure, in order to ascertain the real impact to passengers. With regards to airport resilience, we feel that whilst this item is included within scope, it requires greater analysis than is suggested as we see this area as being critical at LGW. We are concerned that under the current CSS framework, GAL seeks to incentivise its staff against the specific CSS measures, which we feel may drive incorrect behaviours of GAL employees. This behavioural change, may be detrimental to the passenger experience, as it seeks to meet targets, rather than to provide service levels in the interest of passengers. We have seen an increase in requests for exemptions for maintenance, and we feel the approach from GAL in this regard is having a detrimental effect to performance, and to the relationship between GAL and the community... We understand there are currently 18 exemptions and we believe that GAL are intending to apply for further exemptions in the near future... We feel it would be prudent for the CAA to review this area and consider the impact of staff incentives and as to whether this is a key driver behind their requests.
8. We have concerns regarding GAL's capital expenditure regarding asset maintenance (i.e. sub soil on stands), which we feel are floored at the outset and that this process is ineffective and results in GAL's failure to provide infrastructure maintenance in line with its obligations (Para 3.15 p.25). We would urge the CAA to consider this area for further review. We are in agreement with the CAA in that OTP can be affected by a number of reasons and factors (Para. 3.10). However, our belief is that this is a key responsibility for GAL, In this regard we have the following concerns:
  - By focussing only on increasing volumes, e.g. by imposing bi-lateral agreements based only on growth, when it is abundantly clear, that there is little slot availability due to capacity constraints and any additional traffic would have a detrimental impact on performance. An example of this strategy is the increase in S16 of 900+ movement days, increasing threefold on the previous year, The Community is concerned about the airport constraints and capacity of infrastructure.
  - By postponing/delaying delivery of project (i.e. Pier 1, Pier 5 even NT Security) with no justification/explanation provided to the airlines.

⇒ ***Monarch welcomes the CAA's assessment specifically on:***

- ***How the measurement & reporting are done by the airport (CSS, PSL, Bag delivery...)?***
- ***How the rebates are calculated?***

***We would like to understand what actions the Regulator will put in place if it finds out that the current system is not transparent and accurate enough?***

- ⇒ *Monarch expects a details review on the Airport resilience specifically on Maintenance's obligation, numerous exemptions requests... and wants to understand how the CAA would address any distortion/interpretation of the framework?*
- ⇒ *We hope that the CAA will analyse the infrastructure constraint created by GAL in the review as this has a huge impact on Service quality and Passengers' satisfaction.*

## **2. GAL's investment performance**

17. As the Regulator recognised in Para 3.14, the treatment of CAPEX is one of the “most significant departures from the previous approach of RAB-based price cap” which does concern Monarch as, so far, we haven't seen any promotion of a fair competition nor developing innovation and diversity as expected by the Regulator when accepting this new framework (Para 1.14 – Page 12).
  18. As mentioned in Art. 3.3 (p23), the traffic in GAL is today ahead of plan. First of all, we are concerned on how the traffic forecast have been built and the consequences it can have on the overall investment plans. We can see that GAL has the flexibility to bring investment forward, which they are starting to do (cf. Para. 3.17 of the consultation document: “GAL latest draft forecasts [...] show CAPEX being below our forecast for 2016/17, but above our forecasts for the next three years”). We would like to understand what are GAL's investment plan to address its operation/OTP weaknesses. The CAA should assess how GAL declares the capacity of the airport and if it prioritise operation's expenditure? As we see this having a big impact on the operations and the passengers' overall experience.
  19. As it has been raised by the ACC, GAL is consistently late on delivery of significant Capital Projects. In the 2014's licence, there was 2 major projects that should have been delivered within deadline. There were Pier 1 (around 20 months late and still not delivered) and Pier 5 (each 2 phases were delayed by 1 year or so each). This is happening because there is no longer any control mechanism, nor triggers, to force the Airport to deliver investment in schedule. This has limited the volume of facilities available (stands, Baggage's hall) and therefore affect operational performances and the passengers' overall experience.
  20. Monarch is also concerned that GAL prioritises retails infrastructures above operational needs. We already saw that main projects have been consistently late in delivery but when we look at retail investments, the trend seems to be the opposite. For example, in North Terminal (Level 00) the retails shops were not supposed to open before April 16 but were all ready and running before Christmas 2015, 6 months ahead of schedule. We understand the need of retail areas as well as the financial benefit for the airport but we believe that investment hasn't been prioritised in a constructive way and definitely not with the passengers' interest in mind.
- ⇒ *Monarch is looking forward to see the Regulator analysis in detail on the difference it may find between the Investment plans Vs CAPEX realisation and see if the choices has been made with the passenger's interest in mind.*
  - ⇒ *Looking ahead, Monarch would like the CAA to consider the level of investment to come for the airport to deliver better OTP and facilitate/ease operations. Also we would like to understand what the Regulator can do to enforce the airport to deliver projects on time (bringing back triggers/incentive and/or penalties?).*
  - ⇒ *Monarch would like to address GAL's position being based on volumes and thus revenue, as this approach is not in line within the scope of their licence under commitments, which requires the primary focus to be on the interests of passengers and not on developing Airport's revenue as the sole strategy.*

### 3. GAL's relationship with airlines and other stakeholders

23. Overall, we see some improvement, not so much on the relationship, but in the processes put in place by GAL. However, we don't see any innovation been delivered as promised from the new framework.
24. GAL has set up a lot of workshops and committees to share information with all stakeholders. However, there are too many of them which makes it difficult for smaller airlines to attend because they haven't got the same level of resources than bigger players.
25. It's also difficult to understand which ones of these groups are the most effective as the same subjects are discussed over in each group but without a clear understanding of where decisions are made. This doesn't seem to be efficient. It's a one way communication and not a constructive, opening dialogue. There is no clear governance.
26. Despite all these groups, GAL also tries sometimes to rush things through, or stay at high level without looking at specific solutions (i.e. PRM subject – GAL keeps separating operational issues to their cost and by consequences the charges. This is not acceptable for airlines to keep these separated).
27. GAL also tends to be slow in providing written responses/papers afterwards, which are often late which gives then limited time for airlines to review them (i.e. CIP documents)
30. Monarch aim is always to work collaboratively with all its stakeholders and suppliers to ensure best practices are in place for the benefit of our customers. We request for further detail on how the CAA is going to monitor GAL's commitment (Para. 1.16 – page 13) which has a direct impact on Passengers interests.
31. On the Level of charges, Monarch strongly disagrees with the Regulator when it says Para 1.10 (p10) that "The cap included in GAL's commitments was close to our view of a fair price". The difference is quite significant, between 1.6% (RPI + 0% vs RPI – 1.6%) up to 2.6% (RPI +1% Vs RPI- 1.6%).
32. We understand the Regulator is going to "compare the outturn **blended price** with our view of a fair price (RPI – 1.6%)". Monarch expects the CAA to review thoroughly all charges and not only the blended price which wouldn't give the overall picture of the situation.
33. Even further, we asks the CAA to analyse and compare each individual bi-lateral agreements between GAL and airlines. The Regulator should have a perfect understanding on each airlines' cost base in GAL to monitor if there is a fair and competitive environment between operators as this is for the benefit of all passengers and was the aim of this new framework. Monarch understands that easyJet's for example will have a lower cost base than Monarch because of overall volume. However, if the cost base difference per Departing pax is too significant, we would see this as discriminatory and an unfair treatment to our passengers which would have to pay much more than others for the same, or even better, services. Therefore, this cannot be a "**brief overview**" from the Regulator as it is stipulated Para. 3.25 page 28.
34. We would like to further understand the ambition of the CAA regarding their review of bi-lateral contracts. We note that the CAA has recognised that GAL has agreements with airlines, which represent more than 80% of passengers. We would like to understand if the CAA feel that this percentage is the accepted benchmark, or as to whether the view of the CAA is that this falls below the requirement of the licence and the overarching requirement to serve the interests of all (100%) of passengers. Presently we feel that our passengers potentially sit within the outstanding 20%, and that this may be detrimental both to Monarch and its passengers. We seek clarity on this point, in order to better understand our commercial position and would request that the CAA validate our position, to ensure that Monarch is not at a disadvantage by comparison to its competitors.
35. Lastly we would like to understand how operational excellence, which helps the airports reaching its targets and provide the best service to passengers, can be recognised within the new framework. We understand that GAL is introducing incentives to airlines & Ground Handlers to improve OTP but we need this to be further developed. The scheme proposed by GAL focus only

on the summer period and in Y1 on 1<sup>st</sup> Wave only. We don't think the proposal goes far enough and we don't feel the concessions made by airlines are fully recognised. Whilst we recognise GAL's intention to expand the scheme in S17, we feel that this is short sighted, and that such a scheme should be introduced year round if they wish to achieve the goal of improving performance for the benefit of passengers. We also feel that the scheme could benefit from enhancements to include a broader range of measures. Seemingly, GAL's position is being based on volumes and thus revenue, Monarch would argue that in part, this approach is not in line within the scope of their licence under commitments, which requires the primary focus to be on the interests of passengers.

- ⇒ ***Monarch expects the Regulator to analyse the processes & governance put in place by GAL within the current framework and provide a solution to make them more efficient in terms of:***
- ***time consumption,***
  - ***delivering accurate and quick response and***
  - ***Imposing a constructive dialogue by listening to the Community's concerns.***
- ⇒ ***Monarch asks officially to the Regulator to add the cost based analysis, airline by airline with a benchmark of all Airlines Departing Cost base as a 4<sup>th</sup> full point of the scope during the review.***

### **III. CONCLUSION**

The reasons that push the Regulator to accept GAL's commitments as the new framework for its regulation were because it would:

- diversify the service offering and incentivise volume growth,
- promote competition by facilitate innovation & diversity,
- lock lower future charges for longer,
- reduce operating expenditure & outperform commercial revenue,
- Facilitate efficient investment with the flexibility to tailor investment around airline's needs.

So far, we haven't seen the benefits expected from this new regulation and we encourage the CAA to review the airport with these elements in mind. We believe that the airport has taken advantage of this new framework in ways favourable of the airport's finance more than for the benefits of passengers.

Overall, Monarch supports this "health check" from the Regulator and see the 3 focus of this review pertinent but would like to get more details from the Regulator on the primary focus of their assessment.

Monarch strongly believe that a 4<sup>th</sup> scope should be introduced on the cost base per airline and we expect the Regulator to assess each bi-lateral deal and benchmark them. This should also be compared with the cost base of airlines with no agreement to assess if there is still a fair competitive environment which is in the overall interest of passengers.

Monarch would also expect the Regulator to require from the airport:

- To explain how it declare capacity in Gatwick and how this capacity declaration considered in the interest of passengers
- To share the future plans for investment with deadline (included penalties for late delivery) to increase capacity and improve OTP

- To produce a price forecast for the next 5 years and an indication for after the end of this licence

Last Monarch doesn't believe that the CAA should scale back from monitoring the Airport as this would be potentially devastating for airlines, specifically the smaller ones.

We have tried to provide some objective elements for the CAA to think of while reviewing the airport. Please do not hesitate to contact us if you have any question or need any support from Monarch. We would be happy to help.

Thank you.

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Below are the elements highlighted during the presentation above:

- ⇒ Monarch welcomes the CAA's assessment specifically on:
  - How the measurement & reporting are done by the airport (CSS, PSL, Bag delivery...)?
  - How the rebates are calculated?We would like to understand what actions the Regulator will put in place if it finds out that the current system is not transparent and accurate enough?
- ⇒ Monarch expects a details review on the Airport resilience specifically on Maintenance's obligation, numerous exemptions requests... and wants to understand how the CAA would address any distortion/interpretation of the framework?
- ⇒ We hope that the CAA will analyse the infrastructure constraint created by GAL in the review as this has a huge impact on Service quality and Passengers' satisfaction.
- ⇒ Monarch is looking forward to see the Regulator analysis in detail on the difference it may find between the Investment plans Vs CAPEX realisation and see if the choices has been made with the passenger's interest in mind.
- ⇒ Looking ahead, Monarch would like the CAA to consider the level of investment to come for the airport to deliver better OTP and facilitate/ease operations. Also we would like to understand what the Regulator can do to enforce the airport to deliver projects on time (bringing back triggers/incentive and/or penalties?).
- ⇒ Monarch would like to address GAL's position being based on volumes and thus revenue, as this approach is not in line within the scope of their licence under commitments, which requires the primary focus to be on the interests of passengers and not on developing Airport's revenue as the sole strategy.
- ⇒ Monarch expects the Regulator to analyse the processes & governance put in place by GAL within the current framework and provide a solution to make them more efficient in terms of:
  - time consumption,
  - delivering accurate and quick response and
  - Imposing a constructive dialogue by listening to the Community's concerns.
- ⇒ Monarch asks officially to the Regulator to add the cost based analysis, airline by airline with a benchmark of all Airlines Departing Cost base as a 4<sup>th</sup> full point of the scope during the review.