

Airport Consultative Committee – Gatwick Airport (ACC)

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Civil Aviation Authority
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Dear Stephen

Gatwick ACC response to the CAA consultation on its planned review of Gatwick's commitments framework

Introduction

The Gatwick ACC represents all airlines at Gatwick. This response reflects the view of the ACC.

This response focusses, as the CAA have requested, on the scope of the mid-term review and not the issues that the ACC would raise in the review itself. Consequently, we have not sought to provide substantive evidence on some of the points raised in this response, and will instead bring these forward in the review.

The format of this response reflects the structure of the CAA's paper.

Summary

We agree that it is important that the CAA focus on resilience issues, alongside the other issues raised by the consultation. In particular, the CAA should look at the service regime, which does not adequately address resilience and service issues. There are also issues related to the delivery of capacity and investment projects that the CAA should consider in its review. Finally, it is important the CAA does not lose sight of the fair price that it set out in its regulatory decision, and ensuring that GAL delivers this outcome for passengers.

The economic regulation of GAL

Since the CAA's determination of Gatwick's licence in February 2014 Gatwick has outperformed the CAA's estimates and forecasts of airport outcomes in all areas except for service. This out performance has consistently been in ways that are favourable for GAL's profitability. This has occurred alongside significant increases in capacity and passenger traffic.

The capacity and passenger traffic increases are the most significant event at Gatwick over the last two years. As the CAA has noted passenger traffic has significantly exceeded all forecasts. But just as importantly, GAL has driven through an increase in declared slot capacity as well. This increase has occurred in two ways. Firstly, GAL has increased the overall declared slot capacity of the airport. Secondly, GAL has increased slot capacity in peak hours from 52 slots an hour to 55 slots an hour.

The impact of these capacity increases, combined with delays in the delivery of investment projects and the failure to invest in capacity have led to the resilience issues at Gatwick. We support the CAA's focus on resilience in its review.

The increase in capacity has been accompanied by service outcomes detrimental to passengers. In particular, on time performance at Gatwick has been low, as the CAA notes. But also actual pier service levels have dropped. Whilst GAL's reported pier service has remained above the CAA regulatory settlement of 95% the actual pier service levels have been much lower. To support punctuality and provide resilience to airline operations significant off pier operations have been requested for day to day operations, these have distorted the reported pier service levels as they have been recorded as pier served operations. Table 1 below highlights that the reported pier service level for Summer 15 in north terminal was 13% higher than the actual pier service level. We have also seen delays of all the main investment projects at GAL, and the only project that was planned to increase pier capacity has been cancelled.

We note that airlines have consistently highlighted their concerns about the impact of increases in slots on resilience and the negative effect this has on punctuality. Lack of progress on the airspace policy has not benefitted resilience.

Alongside this overall deterioration in outcomes, there have been specific service delivery failures which we will discuss in the context of the CAA review itself; this paper should not be read as a comprehensive review of the performance of GAL.

We support the requirement that GAL set out its shadow RAB. We expect full transparency over how this is developed, to an equivalent level as for Heathrow.

Finally, we should also comment on the airport charge. We strongly disagree with the assertion by the CAA in section 1.10 of its consultation that the CAA's determined fair price for Gatwick in this regulatory period is 'close' to GAL's committed price. This is not correct. By the end of the commitment period GAL's core charge will be about 10% higher than the fair price determined by the CAA. This is equivalent to over £40m for passengers in the final year, and over the full seven-year period the extra cost to passengers would be well over £100m.

The ACC remain committed to ensuring that the CAA requires GAL to deliver the fair price set out by the CAA.

Summary of recent developments

We recognise that the scoping document is not meant to be comprehensive, but in its review the CAA should report on the outturn of all the factors that make up calculation of its fair price for Gatwick.

The scoping document provides some reporting on GAL's service quality delivery. However, the approach taken is a narrow one as it simply reports the Core Service Standard (CSS) measures and does not necessarily reflect the actual passenger experience at the airport. In particular, due to the exemptions regime – where certain events are exempted from being captured by the service measures – passengers can experience service levels significantly below those reported by the CSS measures. We should also note that the CSS standards were the outcome of very limited dialogue between airlines and GAL due to the delayed nature of the consultation process ahead of commitments.

Of particular concern and an important example to highlight at this stage is the delivery of pier service. The pier service level (PSL) targets are clear: 95% of passengers should be served at a pier. The measure reported by GAL is consistently above this 95%. But this ignores the regular exemptions that GAL has sought for aircraft that were served off pier to facilitate airfield performance and the on time delivery of flights. In these cases, GAL has not had the facilities available to pier serve aircraft, and either requires aircraft to wait for a pier served stand, causing delay for passengers, or requires a PSL exemption *in advance* to serve the aircraft remotely. The effect of this is that many more passengers experience remote stands than the data reports. For the peak summer months of 2015 only 83% of all passengers in north terminal were pier served, whilst the reported figure was above 96%.

Table 1

	June	July	August	September	Total
North Terminal					
Total Passengers	1,986,538	2,267,142	2,314,899	2,150,768	8,719,347
Coached	231,458	401,693	444,790	396,474	1,474,415
Actual Pier Served	1,755,080	1,865,449	1,870,109	1,754,294	7,244,932
Actual PSL %	88.35%	82.28%	80.79%	81.57%	83.09%
Reported PSL %	96.89%	95.95%	96.04%	96.36%	96.31%
South Terminal					
Total Passengers	1,839,823	2,056,199	2,069,870	1,896,330	7,862,222
Coached	137,613	141,952	169,525	145,913	595,003
Actual Pier Served	1,702,210	1,914,247	1,900,345	1,750,417	7,267,219
Actual PSL %	92.52%	93.10%	91.81%	92.31%	92.43%
Reported PSL %	94.45%	95.12%	98.05%	98.36%	96.50%

It is important that the review takes a wider view of service delivery beyond the narrow construct of the CSS.

We also suggest that as part of its review of service delivery the CAA should look at how the internal bonus structure for GAL employees drives behaviour and whether these lead to sub optimal outcomes for passengers due to incentives being focussed on the CSS measures themselves rather than actual passenger outcomes

The scope of the mid-term review

Traffic

As outlined above, we will return to the issue of the very significant out performance of the CAA forecast in the review itself.

Service quality and resilience issues

The CAA has identified some of the issues that need to be addressed in the context of service and resilience. We support the focus on resilience in the introductory sections of the document and we agree that it is a critical issue at Gatwick and needs to be addressed in detail.

However, the main issues list does not adequately address resilience. There is no specific mention of the topic in the CAA's list of issues that it will look at. We trust this is an oversight but would be very concerned if the CAA is not planning any detailed analysis of resilience at Gatwick and the links to the regulatory regime. Particularly given that the CAA reports it as one of its key concerns

The CAA also needs to consider the role of the airport in delivering resilience and whether the service quality regime is providing any perverse incentives. Further, we suggest that resilience is a licence issue, GAL is required to operate in interests of passengers under the licence granted by the CAA. Consequently, any finding that GAL is not acting in the interests of passengers in the context of resilience may require a change to the service regime to address any weaknesses.

We note this is not the right place to provide a full assessment of Gatwick's resilience issues. But we should register our concern that GAL is trying to 'operate' its way out of the current OTP weaknesses at the airport, including the introduction of OTP financial incentive schemes for both Ground Handlers and airlines and seems unwilling to invest in terms of operating or capital expenditure to address the problem. This would seem to be a failure of the current service regime

As part of the investigation of resilience the CAA should assess how GAL declares capacity at Gatwick, and the extent to which this capacity declaration considered the interests of passengers.

We also have a concern around how GAL is consulting on operational issues. The current consultation approach, in particular through the Operational Consultation Forum:

- Does not differentiate between the magnitude of consultations. So consultation on an issue with a significant impact on passengers and airlines can have the same timeline and information provision as consultation on a relatively minor issue.
- There is a very high volume of consultation documents.
- There is inadequate information for meaningful consultation on significant issues.
- There is no clear governance or process around consultation, and the consultation documents frequently lack guidance on how the issues sit and affect the wider airport outcomes. And there is often not the provision of adequate GAL responses to airline views.

Investment

We have significant concerns over the delivery of investment projects. In particular, large scale projects are consistently late. These include:

- Pier 1 – The rebuilding of Pier 1 was supported by airlines. But the delivery of the new gates is much delayed.
- Pier 5 – This was a two phase capital project to deliver increases in capacity through the redevelopment of an existing pier. The first phase was delivered more than six months after the due date of May 2013 and was subject to extensive defects and snagging that delayed passenger usage. The second phase of the pier was delivered more than twelve months later than the original planned date.
- Main Runway Resurfacing – This project was due to complete in Nov 2012 delivering a new runway surface with a life of greater than twelve years. The project was delayed by six months and the final delivery included a reduced thickness of resurfacing which will reduce the usable life of the solution.

We are concerned that this is a systematic problem and it is unclear whether and how GAL are addressing it.

Further, the investment programme has already changed significantly from that put forward by GAL for this regulatory period. In particular, the Pier 6 south project has been removed with no replacement yet agreed. Just this week, the airport spoke with the airlines about a potential new project on Pier 3, the project is at concept stage and GAL have advised it will take up to four years to deliver.

Despite the very rapid growth in traffic at Gatwick meaningful airfield capacity enhancing projects (beyond runway flow) have either been delayed or removed. While there have been improvements in some areas, for example check-in, there has not been a consistent effort to ensure that capacity bottlenecks are identified and removed. In particular, we are concerned that there is a disconnect between airfield capacity and the volume of movements.

The CAA rightly raises in 3.18 the potential risk that changes to investment plans are not in the interest of passengers. We think it important that the CAA consider in particular the future plans for investment and how it will support the delivery of OTP and increased capacity, and whether the service regime adequately incentivises GAL to deliver the right levels of investment and to deliver it on schedule.

Airline/airport relationships

We support the CAA's approach in this area. However, one area the CAA should also consider is the extent to which the commitments regime has in practice encouraged innovation. This was one of the anticipated benefits of the regime and it would be helpful to assess progress.

We also note that in 3.5 the CAA says that it will use the state of GAL/airline relationships and whether outcomes are in the interests of passengers to determine whether it could scale back the monitoring of commitments in the future. We currently see no case for a reduced level of CAA monitoring

Other issues

Bilateral contracts

We recognise that there is value in the CAA assessing how the bilateral contracts regime is working, including for those with and without bilateral contracts.

The level of airport charges

The CAA must require GAL to produce a price forecast for the full regulatory period. This should not simply be 'discussed' with the CAA as the CAA proposes. It is important that airlines and the CAA have visibility over GAL's intent to deliver the CAA's fair price. It is not reasonable for a regulated entity with significant market power to refuse to share with its customers and passengers its forecast of a critical regulated outcome, indeed we suggest that the CAA has a responsibility to ensure that this occurs.

Yours Sincerely

PP: 

Chris Hope
Chairman
Gatwick Airline Consultative Committee