

YOUR LONDON AIRPORT

Gatwick

21 MARCH 2011

Iain Osborne
Group Director Regulatory Policy
Civil Aviation Authority
CAA House, 45-59 Kingsway
London
WC2B 6TE

Reference: Q5-031-LGW03

Dear Iain

Agreement as to Q5 extension

Please find attached a submission from the JSG which records the agreement of the ACC – representing the Gatwick airlines – and Gatwick Airport Ltd – as to the terms of the Q5 extension. On the basis of this agreement, Gatwick Airport will agree to vary the terms of the price control charging condition as required under Condition 40(6) of the Airports Act 1986.

The main features of the agreement are as follows –

- Gatwick will agree to have its price cap altered from **RPI+2** to **RPI-0.5** in the year 2013/14. This would be a relatively straightforward change to make, substituting - 0.5 for 2 in the $RPI_{t-1}+X$ term in paragraph 2 of Condition 1.
- The existing triggers would cease to operate as at 31 March 2013. Gatwick would consult on and agree triggers applicable for 2013/14 with respect to 2013/14 capital expenditure.

Airline agreement follows a process of consultation with all members (ie email distribution list) of the ACC, the FPRCG and the AOC. With respect to the ACC, we can record that airline members are in favour of this proposal representing over 90% of the traffic at this airport.

Yours sincerely

Stewart Wingate



JSG Joint Chair

Alan Peever



JSG Joint Chair

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Subject to contract and without prejudice

Fourth Proposal on 2013/14 Extension

We thought it would be helpful to summarise our latest proposal without the explanatory preamble contained in our proposals of 22nd February and 8th March and 10th March.

Price Cap

Gatwick will agree to have its price cap altered from **RPI+2** to **RPI - 0.5** in the year 2013/14. This would be a relatively straightforward change to make, substituting “ - 0.5 “ for 2 in the $RPI_{t-1}+X$ term in paragraph 2 of Condition 1.

Capital expenditure triggers in 2013/14

The existing triggers would cease to operate as at 31 March 2013. Gatwick would consult on and agree triggers applicable for 2013/14 with respect to 2013/14 capital expenditure. We propose that failure by Gatwick to agree triggers with the airlines would lead to the triggers being set – without the right of appeal – by the CAA – as a change to the then current drafting of “Monthly Trigger Payment” in paragraph 6 of Condition 1. As airport operator, we would agree that the CAA could change the charging condition.

In terms of drafting, possible text could be -

“ Rows 4 and 5 of Table 1 will cease to apply from 1 April 2013 and will be replaced by new trigger(s) to be agreed by the airport operator and the airlines (represented by the ACC). In the event that new triggers covering 60% of the forecast 2013/14 capital expenditure cannot be agreed and submitted to the CAA by June 2012* – or earlier if practicable –along with the trigger definitions, GAL hereby provides the CAA with formal agreement (as required by the 1986 Airports Act 40(6)) to amend Table 1 to replace Row 4 and 5 with appropriate triggers and accompanying trigger definitions to encourage the timely delivery of projects which the airport operator and airlines have agreed are to be carried out during 2013/14. * (In the event that both the ACC and GAL agree that additional time is needed beyond June 2012 then a joint letter will be written to the CAA stating the new date)”

We confirm that GAL would propose triggers be applied to at least 60% of 2013/14 capital expenditure. The 2013/14 capital expenditure would be agreed with the airlines using the normal Annex G process.

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Correction for under or over recovery in 2013/14

The CAA is proposing to allow the price cap in 2013/14 to include any under or over recovery in 2011/12. We support this approach.

The SQR regime

The CAA is proposing that the SQR regime is extended without adjustment to the sums at risk. We support this approach. The CAA is proposing the ability to make adjustments to the detail of the scheme. Subject to the views of our customers, we would be happy to consider and agree such minor changes for 2013/14.

The security cost pass through

The CAA proposes to extend the "S" term. Gatwick supports this approach.

Public interest conditions

The CAA proposes to extend the existing conditions. Gatwick supports this approach.

Regulatory depreciation

We have been asked to make clear the current assumption of regulatory depreciation in 2013/14. This is £101m (at 2007/08 prices).

Process

Any change to the charging condition would be by agreement of Gatwick to proposals made by the CAA.

Gatwick Airport Ltd

18 March 2011