

Jamie Hobbs
Chair
Airport Consultative Committee
3rd Floor South Terminal Gatwick Airport
West Sussex
RH6 0DW

23 December 2020

Dear Jamie

Economic regulation of Gatwick Airport Limited: Consultation on new commitments

I am writing in response to the ACC's request, repeated in several individual airline responses, that the CAA shares with the airline community the analysis that supports its conclusion that it is in consumers' interests to accept GAL's proposals.

As a general point, I would stress that the CAA had regard to a wide range of different sources of information, and that our view is formed based on what we consider will further our statutory duties. The range of sources of information includes (among others):

- the arguments and evidence accompanying GAL's proposal;
- our own analysis of GAL's current and possible future performance;
- comparisons with the performance of other UK airports (both regulated and unregulated); and
- reports by financial analysts and ratings agencies.

I would also note that we have regard to the potential broader strategic benefits of a regulatory framework that promotes and facilitates bilateral contracting between the airport and airlines, which help to allow requirements to be better tailored to each parties' interests. Reflecting the wider strategic value in a lighter touch regulatory framework means that it is not necessarily intended to replicate the outcome of a full RAB-based building blocks approach.

The appendix to this letter provides some examples of our internal analysis of GAL's possible future performance, which we reviewed alongside the other sources of evidence. This analysis is based almost entirely on public information,¹ and has not been discussed with either GAL or other stakeholders. We are providing these examples to assist your understanding of the situation. We recognise that individual assumptions could be debated, particularly in the current circumstances that create a particularly high level of uncertainty about future developments. The projections are intended to be useful and illustrative, rather than a firm set of predictions.

The effects of Covid-19, including both the very large reduction in passenger numbers and the potential enduring macroeconomic impacts even if vaccines or other developments

¹ The main exception is GAL's shadow RAB, which GAL calculates every year and supplies to the CAA. We used this to calculate regulatory depreciation.

reduce the severity of the pandemic sometime next year, have strongly influenced our approach to the current review. It seems clear that GAL is likely to face a further particularly difficult year financially next year, and very possibly the following year too. Since the next regulatory period is only four years long, the chances of GAL earning what might be regarded as excessively high profits over the period as a whole are much less likely than might have been the case prior to the current crisis. And there are plausible scenarios that would see GAL's profits remaining at a relatively low level throughout the whole period.

I hope this information is helpful. We would be happy to discuss this, and other aspects of your consultation response, further if that would be useful.

I am copying this letter and the appendix to Lorenzo Rebel, so that GAL is aware of the information that we are now sharing with you.

Yours sincerely

Stuart Holder
Head of Economic Analysis