easyJet response to CAA consultation on the recovery of costs associated with obtaining planning permission for new runway capacity

Introduction

This response follows earlier submissions by easyJet, and easyJet supported submissions by the Gatwick ACC, on the issue of financing new capacity in the South East. This response is not intended to provide a full summary of easyJet's views on financing, which were covered in earlier submissions. These earlier papers provided evidence to show that prefunding of capacity is not in the interests of passengers and nor does it occur in competitive airport markets.

The CAA's proposals

Principles

We recognise that at Gatwick the current regulatory regime allows the airport to recover £10m of planning costs a year from airlines and their passengers. We do not support this allowance, but accept that it is built into the regulatory settlement. We do broadly support the remainder of the CAA's proposals for the treatment of planning costs.

The CAA's proposals limit the extent to which airports can prefund planning costs. This is consistent with the operation of competitive airport markets and also ensures that passengers do not face an unreasonable increase in charges ahead of the delivery of services.

We remain of the view that airports should only be able to recover the costs of new investment once that investment is in place and available for use by passengers. We continue to believe that this principle should apply to planning costs, and that the logical conclusion of this approach would mean that planning costs could only be recovered once the new capacity is being operated, rather than once planning permission is granted. However, we recognise that the CAA has taken a view that the purpose of the planning costs is to acquire planning permission and that therefore this is the service that passengers are receiving.

We also support the concept of risk sharing of the planning costs. While no doubt the precise quantum of risk sharing and the mechanism can be debated, the principle that the airport should be exposed to the costs of a failure to deliver an outcome must be in the interests of passengers.

Detail of the proposals

The **risk sharing** mechanism has been set at 105/85. We think it is right that this is asymmetric, as this reflects the outcomes that would be seen in a competitive market. However, allowing the airport to recover 85% of a failed application remains excessively generous for the airport. It is unclear where the interest lies for passengers in having to fund the vast majority of the cost of a failed planning application. If the airport has such little confidence that approval will be granted and therefore it needs to be almost fully insured against failure, then the value of the application has to be questioned. The CAA's approach of allowing for such a high level of recovery risks removing any real incentive on the airport to judge whether a planning application has a viable chance of success.

We recognise that the CAA has said it will reserve the right to determine that the airport could recover less than 85% of the costs of an application that is not approved. But without a clear statement of what conditions this would be applied under, it seems unlikely to have a significant impact on incentives.

We recognise the logic of allowing the airport to recover an amount in excess of its costs if the application is successful, and the amount proposed by the CAA is not unreasonable. However, we note that the CAA needs to be careful to ensure that the setting of future rates of the cost of capital are consistent with this allowance for over recovery, so that the airport is not in effect rewarded twice through the benefit of a higher cost of capital predicated on the basis of the airport carrying more risk.

The CAA has proposed 10 years for the **period** of the recovery of planning costs. This looks short compared to the lifetimes of many other airport assets, such as terminals and runways. We would suggest that the principle that should apply is that planning costs can be recovered over a similar timeframe to the new capacity itself. Ten years would seem to be particularly short given that the planning approval does not have to be replaced or refurbished.

We urge the CAA to increase the period of the recovery of planning costs to reflect the lifetime of the new capacity that the planning application is for.

The CAA has proposed an accumulation of **financing costs** during the planning cost accrual period, determined by the cost of capital. This is a sensible approach to the treatment of financing costs and we support it.

We support the definition of **eligible costs**, and the use of an Independent Fund Surveyor to support the assessment of what costs are reasonable.

easyJet

September 2016

that the right incentives are placed on airports to ensure the efficie

in particular the principle that airports should not be able to prefund a ma

The recognition that airports should not be able to charge airlines and their passengers for services in advance of their delivery is an important