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27 September 2013

Our Reference: TOR 158607K

Dear Mr Pagdin

## **London Luton Airport Planning Application**

**Reference: WR/12/01400/FUL**

I refer to your email of 11 September enclosing Chris Smith's Final Capacity Report. I am grateful to you for providing this to us. I appreciate that Dr Smith's independent two-part report responds to the Council's commission to assess the current and future capacity of London Luton Airport.

Whilst Dr Smith's report in many respects endorses our view of the airport's capacity, you will appreciate that the assessment of airport capacity is a complex matter, involving many different regulatory, operational and site specific factors. There are, therefore, some elements of Dr Smith's analysis with which London Luton Airport Operations Limited does not agree.

I am therefore writing formally to record these key points and to request that these areas of disagreement are reported to your Committee in its consideration of the above planning application.

In order to provide our feedback in the most constructive way, we have structured our response as follows:

**Section A:** Factual Corrections, where we consider the reports to be simply inaccurate.

**Section B:** Differences of Interpretation, where we offer a different view to that put forward by Dr Smith, accepting that airport capacity is, to some degree, a matter of interpretation of facts. This section is offered as additional information to the Planning Authority, to be used as it sees fit.

**Section C:** Clarifications, where we deal with a number of areas of content, where we believe that our position should be made clear to your Committee.

## **Section A: Factual Corrections**

Dr Smith states that current capacity is a minimum of 10mppa. This is clearly an erroneous assertion given that throughput has already exceeded this level. There is clear evidence, proven in our previous paper of 26 April that capacity without a requirement for capital investment is up to 12.5mppa.

Paragraph 2.3 and Table 3.1 are incorrect at the annual level, which is the relevant reference point for this capacity evaluation. The increase in commercial passengers per commercial movement is not 'less than 2%', across the year. As was reported in the 2011 AMR (the latest published document), commercial passengers per commercial movement in 2011 were 137. The LLAOL Masterplan shows the equivalent annualised figure for 2028 as 154 (17,828,296 commercial passengers divided by 115,659 commercial movements). The growth in passengers per commercial movement, which is information in the public domain, is not, therefore, 1.7% but 12.4%. This is important as it is a key factor in Dr Smith's later, and therefore, incorrect, evaluation of potential future capacity.

Paragraphs 4.38 and 4.40 are misleading. 39 movements on the runway is acceptable and sustainable. Movements in excess of this give rise to unacceptable delays. While from time to time movements of 40 or 41 may be achieved, it is misleading to suggest that a sustained level of 42 could be achieved on a consistent enough basis to be offered to the market as an acceptable figure for scheduling capacity. However, the summary table 4.9 is an acceptable way to represent this component of capacity.

## **Section B. Differences of interpretation**

As you are aware, throughput reached 10.3mppa for the rolling year ending in October 2008. LLAOL does not accept the essentially theoretical argument made by Dr Smith that the capacity of any airport, Luton included, can be lower than its historical throughput. We consider this to be a fundamental difference of interpretation. Our contention is that an arithmetical extrapolation of capacity from throughput in a single hour to an annual figure ignores the practical reality of process, technology, management and commercial responses to any capacity context. We do not argue that the busy hour rate approach is irrelevant. Indeed, we use busy hour rates as a basis of much of our planning. Nor do we seek to argue that capacity is indefinable or that it can be stretched indefinitely. However, our position is that, intuitively, and, empirically, without infrastructure changes that would have the effect of reducing capacity, current capacity can never be less than historical throughput. Since 2008, Luton has increased capacity in key sub-systems (security, immigration, highways and aircraft stands). If the busy hour rate computation suggests that current capacity is lower than historical throughput, then other factors, such as infrastructure, need to be factored in to obtain a practical, as opposed to theoretical, estimation of capacity. We stand by our position that the current capacity of Luton is in the range 10.5 to 12.5mppa.

The approach on this issue explains some of the other erroneous figures in the future capacity report, which, as we have pointed out conflates capacity and throughput and relies very heavily on the more extreme end, rather than the more probable mid point, of the relationship between busy hour/ busy day and annual capacity.

Paragraph 1.5 of the future capacity report refers to 'uncertainty' about future air travel demand. At one level, this is plainly correct: forecasting is always uncertain, especially with regard to the future. However, in the context of planning for future air transport infrastructure, account should be taken of official government forecasts. These make clear that the DfT does not believe that this demand will return to historic patterns. The DfT forecasts are the foundation of current and emerging policy on aviation infrastructure and must be accorded weight. At top level, they state 'Demand for air travel is forecast to increase within the range of 1% - 3% a year up to 2050, compared to historical growth rates of 5% a year over the last 40 years. The slowdown in growth rates in the future reflects the anticipation of market maturity across different passenger markets and a projected end to the long-term decline in average fares seen in the last two decades.' And whilst many (unsurprisingly, given vested interests) have argued about the weakness of the DfT's model at the demand allocation (i.e. micro) level, there is no such objection to the overall rate of growth, i.e. at the macro level.

In exploring this discussion with regard to Stansted (STN), Dr Smith suggests that "some at least" of the factors which Ryanair suggest have led to the recent reduction in throughput (fuel prices, APD and airport charges) "may be expected to moderate from their current levels". Unfortunately, his own analysis suggests a different interpretation. He states fuel, which cost at \$65 a barrel in 2006 is forecast to be \$85 in 2015 and \$90 in 2030. APD was either £5 or £20 per pax in 2006; in 2012, £5 had become £12.80 and £20 had become between £63.94 and £90.25. Government policy is for it to continue to increase with rpi. The suggestion that STN might achieve operating efficiencies of £1-£2 per passenger "over the next two years" implies a cost reduction of £17.8m to £35.6m in that time frame. The cost base at STN from which such "efficiencies" could be derived is at the very most £100m (source: Stansted Regulatory Accounts). It is difficult to agree with Dr Smith that such efficiencies are credible and, even if they were, the two other "demand suppressors" identified in his analysis are trending upwards

Paragraph 2.6 introduces the concept of 'spare' capacity, although caveated by reference to service standards. We consider that Dr Smith has placed too much emphasis on 'spare' capacity and too little on the need to provide a degree of resilience which is a key issue in the provision of airport infrastructure at major airports. In seeking to demonstrate that there may be 'spare' capacity, it is erroneous to suggest that all of this 'spare' is available for potential additional throughput. At least some 'spare' and sometimes all 'spare' is provided in order to make the airport resilient in order to be able to manage incidents, delays and unforeseen circumstances without major and extended disruption. It is precisely the absence of resilience that has recently caused other airports, in particular Heathrow, difficulty in managing events such as heavy snowfall, low visibility, strong cross winds and even thunderstorms without resorting to wholesale flight cancellations. We consider therefore that Dr Smith's 'Enhanced capacity' assessment is not sustainable at Luton.

The argument that STN should be used as the sole comparator is, in our view, extremely risky. First, STN is a sole data point, never good practice from the point of view of general comparison. Second, STN is dominated by Ryanair so its behaviour is to some extent at least reflective not only of one airport but of one airline at one airport.

We do not interpret figure 5.1 in the same way as Dr Smith, for two reasons. First, the shape of the 2011-12 gradient is far shallower than the 2001-6 gradient and second

(more fundamentally), it is very dangerous to derive a long term trend from two data points.

## **Section C: Clarifications**

The wording of paragraph 1.7 is unhelpful and should make clear that Dr Smith's assessment of 'capacity' is 'potential' or 'theoretical'.

Paragraph 2.3 also introduces the concept of 'enhanced' capacity. The word 'enhanced' implicitly suggests 'improved'. However, the capacity of the infrastructure contained within the planning application relates not just to a planned increase in passenger throughput, but also to an improvement in passenger experience, a factor which is important to LLAOL and, importantly, central to Government policy. Any reference to higher 'capacity' in this report should be described as 'potential' or 'theoretical'.

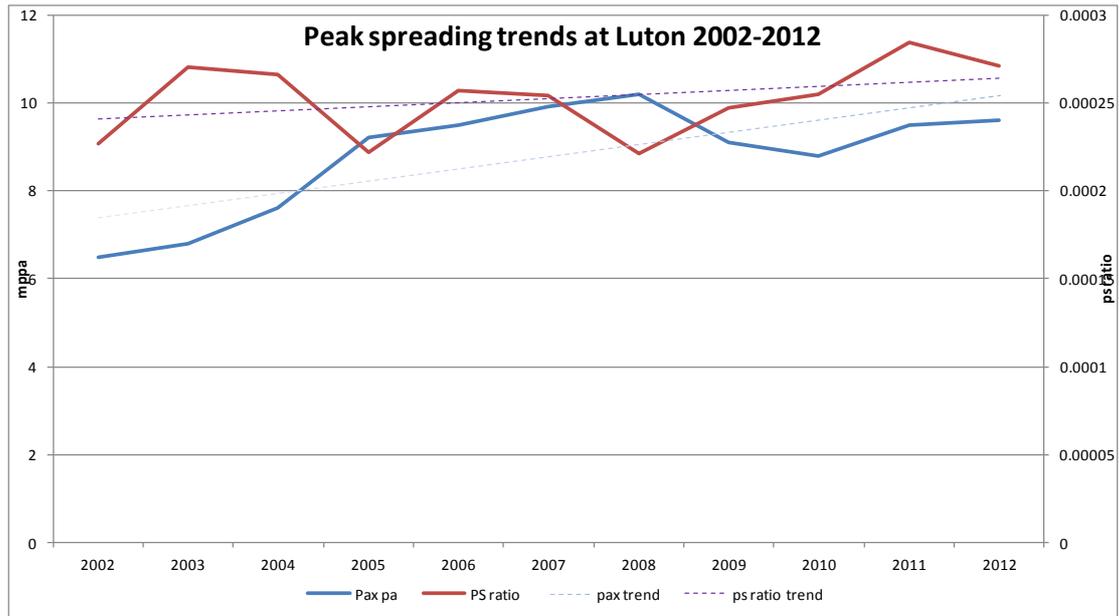
In paragraph 2.8, the third sentence is irrelevant and misleading, adds nothing to the evaluation and confuses the picture. It should not be given weight.

Paragraphs 4.4 – 4.5 are misleading. At present, LLAOL has a 'one bag' policy. It is the only major UK airport to have retained that policy but airlines are increasingly keen to move on from it. Allowing two bags per person requires more security capacity and the LLAOL proposed infrastructure has been sized to allow for this. The suggestion, therefore, that the number of lanes provided delivers materially greater capacity than required is not appropriate as the basis of this calculation, i.e. current throughput per lane, is not sustainable.

In paragraph 4.37, there is some confusion about the acceptable delay. LLAOL's policy is there should be a maximum delay of 10 minutes in the busy hour. This is not the same as the average delay over a three-hour period. It is not acceptable to LLAOL's customers that there should be 'eight flights being delayed until the next hour'. If this occurs at 08.00 hours, it means that there would already be a 14 minute delay for any aircraft scheduled to depart at 0800 and subsequent aircraft in this hour would probably also be delayed. This would be tantamount to over scheduling and would not be acceptable.

Paragraph 4.41 implies higher capacity without damaging 'design and service quality standards'. As set out above, the need for improved passenger experience and the need to provide resilience have been given insufficient attention. This paragraph is therefore potentially misleading.

Section 5 of the report is unhelpful in many ways. It does not add to the examination of the capacity of the planned infrastructure and introduces confusing and unsubstantiated assertions. For example, the assertion in 5.3 that 'there is a recognised trend for peakiness to decrease as annual throughput increases' has not been evidenced over the past 10 years at Luton, as the chart below demonstrates:



The (considerable) detail devoted to LLAOL benchmarking appears to be unnecessary, as Dr Smith argues in favour of STN as 'easily the most appropriate analogue'. It is also confusing, in that it deals with the original and revised benchmarks, thereby advancing figures for future capacity as far apart as 18.7mppa and 23.5mppa. It provides a further challenge to clarity by describing some figures as 'interpolated', without explanation of which data points have been interpolated, or on what basis.

As mentioned above, Section 6 of Dr Smith's report relates to a matter that we consider is for the planning authority to address.

I trust that these points are clear. We are, of course, willing to provide any further clarification if this would assist you.

Yours sincerely

Ann Bartaby  
Director

Cc Glyn Jones LLAOL