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RESPONSE BY LLAOL TO COMMENTS ON FORECASTS BY HARPENDEN SOCIETY

Introduction

This note has been prepared by London Luton Airport Operations Limited (LLAOL) to respond to the note titled *“Clarification of fleet forecasts presented by Karl Wingfield on behalf of The Harpenden Society”* which was submitted to the Inquiry on 3 October 2022 (INQ27).

LLAOL’s forecasts have been produced based on a detailed understanding of Luton Airport’s operations and the intentions of airlines that operate aircraft from Luton Airport and so are familiar with it as well as their own wider aviation requirements. That contrasts with Mr Wingfield’s comments and approach. Based on LLAOL’s understanding of Mr Wingfield’s approach as described in his note, Mr Wingfield also appears to have made at least two fundamental errors. These are: (a) the adoption of incorrect assumptions regarding the retirement age of the current fleets by airline operators; and (b) the adoption of incorrect assumptions about the fleet mix of airline operators. Each of these is explained further below. As a more general point, cost is an important factor in airline fleet replacement and where airlines choose to base their aircraft – this means that there are commercial incentives for airlines to modernize.

Incorrect assumptions about retirement age of aircraft

Paragraph 2.2 of Mr Winfield’s note (INQ-27) states that he has sought to assess easyJet and Wizz’s fleet renewal programme until 2028 and he sets out his approach in more detail in Appendix 2 and the results of his approach in Appendix 8.


Mr Winfield’s assumptions do not recognise that a number of the fleet currently operating at Luton Airport will retire before 2028 because of the existing age of aircraft. This is a factor which particularly affects the easyJet assumptions in relation to the A320. It has less of an impact on Wizz as Wizz has published a full fleet plan up to 2028, but the same is not true of easyJet.

Airlines retire aircraft to avoid requirements for heavy maintenance checks that are costly, and time consuming. In short, the older aircraft get, they become more expensive to operate.

Prior to the pandemic, easyJet would normally retire aircraft from its fleet after 14 years. Resumption of that pattern will mean that the easyJet A320 aircraft using Luton Airport will start to leave the fleet in the next twelve to eighteen months. It is possible that the pandemic means that this may be pushed back by a couple of years and LLAOL has built this assumption into its forecasting. The reason the pandemic has pushed back the renewal program is because some planes have not been flown as often as prior to the pandemic and so their normal retirement (taking account of usage) can be postponed for a short period.

The maximum age of an easyJet aircraft prior to retirement has been 17 years (this is a retirement age that has been extended by the pandemic - previously it would have been 14 years). This is the approach that has been taken to A319s and a similar pattern is expected for the A320s as they are the same family of aircraft (part of the Airbus A320 series. In light of the pandemic, the retirement age of the A320 aircraft will be 17 years for the next three years so altering the historical norm of 14 years. This is illustrated in Image 2 of Appendix 1 to this note. This is the assumption that has been used in the LLAOL forecast and is an appropriate and robust assumption to use.

Mr Wingfield has assumed that the A320 will not start to leave service until 2028/29. This is not a valid assumption (see image 3 in appendix 1). It would make the oldest aircraft in the fleet 20 years old at this point. This is not a valid assumption. The invalidity of this



assumption is further underlined by the statement which easyJet made to the stock market following the June 2022 fleet order stating:

*“The new aircraft will also facilitate further up-gauging of the fleet – increasing the average seat count per aircraft of the easyJet fleet. This is achieved through some of the new A320s (with 186 seats) replacing smaller A319s (with 156 seats) **and 180 seat A320s**” [emphasis added]. (Included at Appendix 7 to INQ-27, 5th bullet point)*

There is no basis for Mr Wingfield’s assumption which would involve easyJet changing its fleet retirement policy. The stock market statement highlighted the risk of utilising older technology to fill any capacity gap.

“If instead easyJet sourced aircraft from the secondary market, this may expose easyJet to older technology. easyJet would face greater exposure to fluctuating fuel prices and carbon related taxes and would be competitively disadvantaged relative to the more modern fleets operated by its competitors. In addition, easyJet would be delayed in achieving its sustainability and net zero emissions objectives.” (Included at Appendix 7 to INQ-27, 5th paragraph from the end)

Where an airline needs to retire an aircraft without having placed an order for a replacement it has two main options. It can either ‘wet lease’ an aircraft or lease an aircraft for several years. Wet leasing is a short term and relatively expensive solution that utilizes charter carriers to fill short term gaps in capacity. The second option is to lease an aircraft for several years from an aircraft leasing company. This is something which easyJet already does and it currently flies leased aircraft out of Luton. Therefore, if an order has not been placed to buy a replacement aircraft it can be expected that easyJet will lease one from an aircraft lessor.

It also appears that Mr Wingfield has made an error in assuming that easyJet’s fleet will materially increase (see Appendix 7 to INQ-27, 2nd bullet point) as he refers to a potential for additional NEOs to be purchased. However, it is expected that these purchases will be for fleet renewal and that the fleet size will remain largely static. easyJet’s statement to the stock market made this clear:

‘Maintain Operational Scale: The new aircraft will be used to replace older aircraft as they reach the end of their useful life. These aircraft will become economically unviable for our high intensity low-cost operation and will need replacement if we are to maintain the current scale of our business. ’

The incorrect assumption made by Mr Wingfield means that he has underestimated the rate of modernization of the easyJet fleet. He assumed that 47% of easyjet would be modernized by 2028, compared to 71% in the Airport’s forecast which is based on easyJet’s established approach to aircraft retirement.

Incorrect assumptions about fleet mix

In paragraph 3.1 of his note, Mr Wingfield has adopted another invalid assumption in relation to his calculations which is to assume that the network wide fleet mixes flown by easyJet and Wizz will be exactly replicated at Luton Airport. This is not expected to be the case.

First, in relation to Wizz, Appendix 11 of Mr Wingfield’s note refers to Wizz’s network-wide (across Europe) fleet renewal program. However Wizz are expected to fly a greater proportion of A320s from Luton (as opposed to A321s). The reason for this is that Wizz will want to preserve the frequency of their flights and network breadth. If Wizz were to fly entirely A321s from Luton, then due to the additional seat capacities on the flights and the passenger cap, Wizz would have to reduce their flight numbers by around one tenth (one



for every five A320 movements it currently operates, with the current operation split evenly between A320s and A321s). This would not be possible on some routes which are only served by, say, two flights a week. Operating some smaller aircraft on certain routes will enable Wizz to maintain frequency and the breadth of the network which they fly to.



Mr Wingfield may have adopted this invalid assumption based on a misreading of Wood's Clarification Response on Noise Issues (August 2021) included at Appendix 1 to HS' note. The statement made in that note (highlighted in green) related to fleet renewal i.e. modernisation. It did not state that the fleet mix (i.e. A321s vs A320s) would be the same at Luton as across the entire network and that is not a valid assumption.



Second, in relation to easyJet, by contrast, it is expected that this airline will fly almost entirely A320s from Luton. Mr Wingfield appears to accept this.

The combined effect of the two errors is that HS has assumed 1,421 fewer flights will be flown than has been assumed in LLAOL's forecasts.

Other matters

In paragraph 4.5 Mr Wingfield claims that two methods of fleet forecasting have been used by LLAOL. LLAOL is not sure what is meant by this statement as only one forecast methodology has been used.

Conclusion

Mr Wingfield appears to have adopted at least two invalid assumptions in his calculations.

The assumptions underpinning LLAOL's forecasts have been based upon publicly available information, discussions with airlines and an understanding of the operation of Luton Airport at 18mppa. As stated in LLAOL's note appended to Mr Hunt's proof, the forecasting of an additional 1mppa involves a relatively low level of uncertainty (para.45 of that note). LLAOL remains of the view that its fleet renewal assumptions and forecasting is robust.

Appendix 1

Image 1 – Expected Fleet renewal of airlines – Network wide (LLAOL analysis)

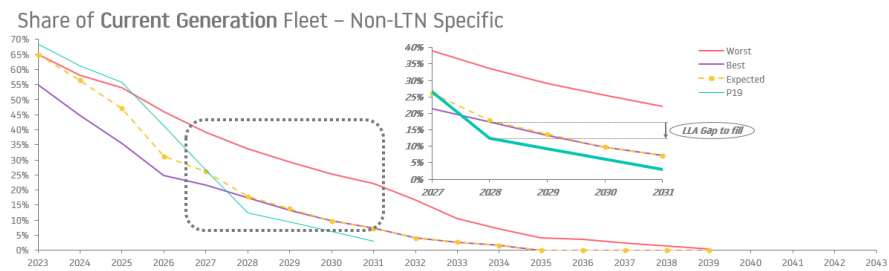


Image 2 - easyJet Fleet renewal (LLAOL analysis)

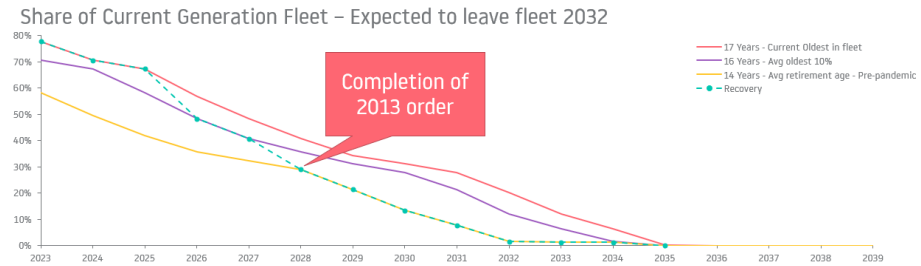


Image 3 - Pre-Covid Aircraft Retirements

Source <https://www.planespotters.net/airline/easyJet-Group>

REG ↕	AIRCRAFT TYPE ↕	CONFIG	DELIVERED ↕	EXIT DATE ↕	STATUS / FATE	REMARK
📄 G-EZEG	Airbus A319-100	Y156	Apr 2004	Nov 2019	Scrapped	Isd
📄 G-POWU	Airbus A321-200	Y210	May 2018	Nov 2018	G-POWU Titan Airways	Isf Titan Airways
📄 G-EZIR	Airbus A319-100	Y156	Jul 2005	Nov 2018	N321NV Allegiant Air	Isf Allegiant Air
📄 D-AMGL	British Aerospace 146-200	Y90	Jan 2018	Nov 2018	D-AMGL WDL Aviation	Isf WDL Aviation
📄 ES-SAP	Airbus A320-200	Y180	Apr 2018	Oct 2018	ES-SAP SmartLynx Estonia	Isf SmartLynx Estonia
📄 G-EZIT	Airbus A319-100	Y156	Aug 2005	Oct 2018	N323NV Allegiant Air	Isf Allegiant Air
📄 YL-LCP	Airbus A320-200	Y180	Apr 2018	Oct 2018	YL-LCP SmartLynx	Isf SmartLynx
📄 ES-ZGI	Airbus A320-200	Y180	Jul 2018	Oct 2018	ES-ZGI SmartLynx Estonia	Isf SmartLynx Estonia
📄 G-EZDC	Airbus A319-100	Y156	Sep 2004	Oct 2018	EC-NCB Volotea Airlines	Isd
📄 ES-SAQ	Airbus A320-200	Y180	Jan 2018	Oct 2018	ES-SAQ SmartLynx Estonia	Isf SmartLynx Estonia
📄 G-EZIP	Airbus A319-100	Y156	Jul 2005	Oct 2018	N320NV Allegiant Air	Isf Allegiant Air
📄 G-EZIS	Airbus A319-100	Y156	Aug 2005	Sep 2018	N322NV Allegiant Air	Isf Allegiant Air
📄 G-EZEZ	Airbus A319-100	Y156	Dec 2004	Sep 2018	N314NV Allegiant Air	Isf Allegiant Air, Love Napoli cs
📄 G-EJAR	Airbus A319-100	Y156	Mar 2005	Sep 2018	N315NV Allegiant Air	Isf Allegiant Air, Unicef cs
📄 D-AZFR	British Aerospace 146-200	Y82	May 2018	Aug 2018	D-AZFR WDL Aviation	Isf WDL Aviation