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# The ACC's response to the CAA's final proposals: Gatwick's counter-response

**Introduction**

In response to the CAA's final proposals, the ACC suggested an increase to the traffic forecast used to calculate the CAA's "fair price". Subsequently, the CAA has suggested that the final cost of capital in the "fair" RAB-based price may need to take account of the Competition Commission's provisional findings in the NIE appeal matter. The CAA has asked Gatwick to consider the core points in the ACC's response and the cost of capital issue.

This paper provides Gatwick's counter-response and is set out in the following sections:

- Traffic expectations;
- Cost of capital;
- Other items that the CAA needs to consider; and
- Gatwick's commercial response to higher short term traffic expectations.

Gatwick recognises higher short term traffic expectations and has made the commercial decision to respond by reducing its Commitments prices from the headline price at RPI+1.5% and blended price at RPI+0.5% to a headline price at RPI+1% and blended price at RPI-0% for a 7 year period.

**Traffic expectations**

**ACC's latest traffic expectations**

The ACC's response to the CAA's final proposals included a new set of traffic figures. We note that the ACC has identified additional traffic from two sources: "*increase in passengers this year and additional slots that have been created by GAL.*" In 2014/15, the first year of the Commitments period, the ACC's recalculation of traffic at 38.2m is 9.4% higher than the CAA's final proposals; while by the end of the 5 year BQ5 period, the ACC's traffic figure breaks through the 40m local authority limit of annual passengers to 41m, which is 6.5% higher than the CAA's 38.5m figure for 2018/19.

We note that easyJet has changed its traffic expectations from its slots purchased from Flybe. Originally, easyJet claimed an additional 1.6m passengers, on top of Flybe's annual figures. Gradually, easyJet has reduced these figures and most recently, an easyJet press release, published on 18 November, after publication of the ACC response, quoted only an additional 300,000 passengers[1]. This puts in doubt the final ACC position on traffic.

[1] http://corporate.easyjet.com/media/latest-news/news-year-2013/19-11-2013b-en.aspx?sc_lang=en; the press release quotes 1.3m passengers per year, which equates to 300,000 passengers in addition to the c. 1m Flybe passenger figures.

**Gatwick's reaction to the ACC's traffic expectations**
Clearly, the ACC's figures are exaggerated[2]. We have serious concerns about the CAA adopting the ACC's expectations, for the following reasons:

- Higher short term traffic reflects the advancement of forecasts, not permanently higher traffic;
- Expectations of permanently higher traffic growth are unrealistic;
- Traffic over-optimism has happened before and these mistakes should not be repeated; and
- Airline traffic declarations appear unstable.

*Higher short term traffic reflects the advancement of forecasts, not permanently higher traffic*
Gatwick acknowledges that traffic is currently higher than originally expected. As shown in the table below, 2013/14 traffic is expected to increase to 35.2m passengers, which is higher than the CAA's forecast at 34.7m; while our best estimate of 2014/15 shows an increase to 37.3m, ending close to the CAA's final proposals level for 2020/21. This short term growth reflects the advancement of the recovery in traffic by 2 years, against the CAA's final proposals forecast, which anticipated traffic at this level by 2016/17.

**Table: Short term traffic passenger expectations**

| (Passengers) | Latest Gatwick expectation | CAA final proposals | Latest ACC expectation (final proposals) |
|---|---|---|---|
| 2013/14 | 35.2m | 34.7m | 35.2m |
| 2014/15 | **37.3m** | 35.8m | 38.2m |
| 2015/16 | | 36.6m | 39.0m |
| 2016/17 | | **37.2m** | 39.6m |
| 2017/18 | | 37.9m | 40.3m |
| 2018/19 | | 38.5m | 41.0m |

Source: CAA's final proposals and ACC response to CAA's final proposals.

We believe that this advancement reflects the current optimism in the economy. Expectations of economic recovery have changed recently with recovery from the recession now expected to advance earlier than previously forecast[3]. However, with weakness in the Eurozone and USA recoveries, long term optimism beyond the current appears significantly uncertain, as reflected in the recent Bank of England analysis.

[2] Even when easyJet's downward change in stated expectations for additional traffic from its purchased Flybe slots is taken into account.

[3] Optimism from the UK's aviation market is reflected in the Bank of England's growth in GDP forecast for 2014, which was recently uplifted from 2.5% to 2.8%. We note that the Bank did not upgrade the forecast for 2015, compared with its August 2013 position, showing that the Bank expects a short term boost, rather than the economy moving to a sustained higher growth path. Bank of England. *Inflation Report.* 13 November 2013. Page 43.

We have recognised the short term advancement of traffic demand and have created extra slots through the ACDM55 project to supply this demand. This project has involved collaborative working with NSL's tower operation and Gatwick's airfield team, as well as partner airlines and ground operators. It has enabled further operational optimisation of the airfield. This long standing project has been discussed with airlines in depth over the last 2 years. The slots are being allocated through the usual ACL process, in compliance with European regulations.

To be clear, ACDM55 has not generated passenger demand – it has created supply to fulfil the demand that earlier than anticipated economic recovery has generated. Therefore, clearly this project does not add to forecast traffic as suggested by the ACC's response to the CAA's final proposals. To do so is effectively to double count the demand and the supply of capacity brought forward to fulfil it.

We can understand from an individual airline's perspective, additional slots becoming available translate into an opportunity to grow its number of flights (and therefore passengers) next year compared to this year. This micro perspective and appears to be reflected in the ACC's calculation of traffic where the effect of slots has been added to an original forecast.

Fundamentally, the airport's perspective is somewhat different. Gatwick's traffic forecasting has been based upon an aggregate assessment of passenger demand for all airlines. In this context, it is untenable to imagine the extra slots would be additive to a demand forecast and, hence, we believe that the ACC's logic is flawed.

However, Gatwick does recognise that traffic recovery has occurred earlier than anticipated and that the provision of slots has enabled this. Therefore, Gatwick has decided to respond through a volunteered reduction in the Commitments framework price, which we discuss later in this paper.

*Expectations of permanently higher traffic growth are unrealistic*

The ACC believes that traffic will increase next year and will continue to grow at a high rate until the end of the period. After 5 years of the next period, the ACC forecasts an increase of 20% on 2012/13 actual passenger figures to 41m. This figure represents a 15% increase on the 35.6m historic peak of traffic in 2007, at the height of the last economic boom.

We believe that traffic growth at this rate and to the level suggested by the ACC is not achievable at an airport with the same fundamental capacity as in 2007. Traffic at these levels would need to assume that:

- **Competition has no effect:** Such growth at Gatwick would require competitor airports to reduce or maintain their market share. This year, Gatwick will reach its 2007 peak level. Currently, Stansted has only 74% of its 2007 passenger peak levels (which were not even at peak capacity). Similarly, neither London City or Luton have recovered to peak levels. Therefore, these airports have the ability to expand at the expense of Gatwick's growth.

  Specifically, now that Stansted is separated from BAA, it has the incentive or ability to compete and grow its passenger traffic. As the CAA has reported, the contracts signed with Ryanair and easyJet imply growth commitments from those airlines to increase their passengers from 16m to over 26m, an increase of 10m passengers[4]. Even then the airport would be well below full capacity and it has capability to pursue other traffic opportunities, at the expense of Gatwick and other competitor airports;

- **Runway capacity is open-ended:** Gatwick is already the busiest single runway operation in the world, with high average load factors. It is not clear whether and how the ACC forecast traffic could be accommodated within capacity, with current airline business models. Equally, we have local planning constraints at 40m passengers, as well as night flying limits, which have been capped at current levels for at least the next 3 years. More generally, it is likely that growing traffic as these constraints increasingly bite will become ever more difficult. The slots available will be less and less attractive. All this suggests that growth will tail off and underlines what has occurred is an advancement of growth rather than an increment to it;

- **Economic growth is unbroken for 7 years:** Currently, it appears that UK economic recovery is advancing earlier than expected. A continued high rate of passenger growth at Gatwick would imply unbroken economic growth in the UK for the next 7 years. Even during periods of unbroken economic growth, year-on-year traffic growth has not been guaranteed, particularly for such long periods.

  Gatwick would also need to rely on GDP growth in destination countries from where non-UK passengers originate to grow significantly in the future. The current levels of UK recovery are not experienced in Europe or the US, with significant overall contraction of the economies of Southern Europe since 2008;

- **One-off shocks will not happen:** Since 2001, the aviation industry has suffered three of its most significant shocks, from the 9/11 terrorist attacks in 2001, SARS in 2002/03 and the Eyjafjallajökull eruption in 2010. While these events are discrete and unpredictable, it is foolhardy to assume that no such shocks will occur over the 7 years Commitments period;

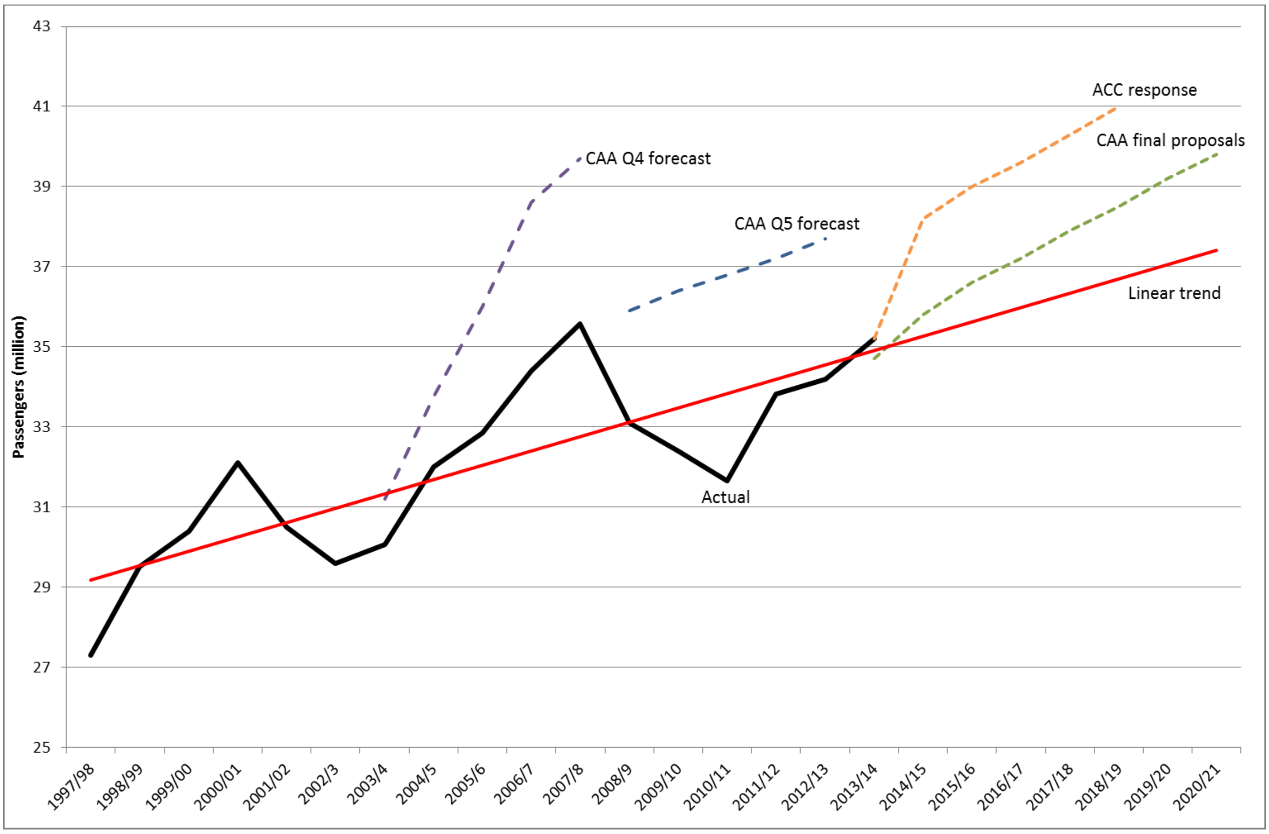
- **The industry will not change for 7 years:** The aviation market has seen significant changes in recent years, from the proliferation of European destinations to the development of different business models. Commentators offer differing views about what the future holds for the industry, but what is certain is that the industry will not remain stable. There could be turbulence amongst our airlines with unpredictable consequences for Gatwick's traffic; and

- **Specifically, airline ambitions are fulfilled and there are no adverse developments:** However, we note that some of the innovations upon which traffic growth is predicated are relatively untested – for example, low cost long haul flying. There are also risks around some larger destinations. For example, significant competition on routes like Barcelona has the effect of reducing fares in the short term and thereby encouraging passenger traffic. However, experience of other highly serviced destinations in the past suggests that this may not be sustainable and could result in exit in the medium term, with resulting increased fares and a reduction in traffic. Adverse developments appear to have been the norm.

[4] CAA. *Stansted Market Power Assessment: consultation on relevant market developments*. October 2013. Pages 16-17.

*Traffic over-optimism has happened before and these mistakes should not be repeated*
We are concerned that the CAA has been over-optimistic about traffic at the same points in the regulatory reviews for both Q4 and Q5. The figure below shows the CAA's final traffic forecasts used to set price caps in Q4 and Q5 alongside the traffic that in the event materialised.

**Figure: Comparison of forecast and actual traffic forecasts, 1997/98-2020/21**



Source: Gatwick, ACC response to CAA's final proposals, CAA.

The figure suggests that at the same points ahead of both Q4 and Q5, the CAA, faced with growing traffic, has opted to extrapolate an over-optimistic trend. On both these occasions, forecast did not materialise, a failing to which the CAA itself drew attention in its first Q6 document[5]. Therefore, it is important for the CAA to factor in the lessons from these episodes.

5 CAA. *Review of price and service quality regulation at Heathrow, Gatwick and Stansted airports: Setting the Scene for Q6.* Page 15.

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*Airline traffic declarations appear unstable*
We have particular concerns about the unstable nature of the ACC's traffic expectations. We are aware of multiple different indications of future traffic from the airlines. Specifically, we have received conflicting traffic expectations from:

- **The ACC's response to the CAA's final proposals:** The ACC appeared to be speaking with one voice in its response to the final proposals;

- **easyJet has downgraded its forecast of the benefit from Flybe slots:** During the Summer, easyJet reported to both the CAA and Gatwick that it expected to fly 1.6m extra passengers from its purchased Flybe slots. We note that this expectation was reduced in the ACC's response to the CAA's final proposals, although the quantities were not specified in the document. Most recently as noted above, easyJet has reduced these figures again through an easyJet press release published on 18 November, after publication of the ACC response, in which the airline quoted only an additional 300,000 passengers; and

- **The ACC's airlines' commercial declarations for contracting:** We have been discussing commercial contracts with the airlines. As part of these discussions, the airlines have been committing to passenger traffic projections. These figures are commercially confidential but tend to suggest that the commercial expectations of the airlines in aggregate are somewhat more modest than the forecasting conducted by the ACC would suggest. For example, by the end of the 5 year BQ5 period, the ACC reported 41m to the CAA in response to the final proposals, but commercial expectations equal 38.8m, which is similar to the CAA's final proposals level at 38.5m. While we do not necessarily agree with these figures from the airlines, this is an important figure for the CAA to take into account, as it represents the true commercial voices of the airlines, rather than numbers put together for regulatory purposes.

Finally, the CAA needs to consider 'slot jumping' risks to current expectations. In recent years, airlines have employed the tactic of declaring traffic to be used within slots, only to cancel flight schedules shortly before the start of the season. While such 'slot jumping' tactics secure slots for the airlines, it effectively discounts expected passenger numbers from forecasts. The CAA should take this into account when applying airline passenger expectations.

With such unstable figures, we do not believe that the CAA can put a lot of weight of any one of the statements in making its final determination.

*Overall conclusion on traffic*
Gatwick recognises that the immediate prospects for traffic have improved. In our view this represents an advancement of growth that would have taken place in the later years. To extrapolate from this favourable development to increase overall growth in the period would be to replicate the forecasting errors that the CAA made in the last two reviews and to ignore both the capacity constraints that will increasingly limit growth and the risks from competition and economic circumstances in the UK and Europe. In short, Gatwick faces risks on both the demand and supply sides which need to be factored into any assessment of traffic over the whole of the 7 year Commitments period. The ACC forecast, unfortunately, fails to do this.

**Cost of capital**

From discussions with the CAA, we are concerned about the ease by which the Competition Commission's provisional findings appear to be replacing the CAA's own consulted calculation. We find this odd because:

- The ranges discussed by the CC and the choice of point estimate are merely provisional and not the final decision. This means that the final outcome could be different following a CC decision and potential appeal/judicial review and it would be premature to make inferences at this stage;

- The CAA has not yet explained what was wrong with its analysis and why it is inferior to the CC's provisional findings –given that both the CC and the CAA had the same data available over the same timeframe;

- The CAA should not necessarily feel fettered by a CC decision. Future Gatwick appeal interactions would be with the CMA, rather than the CC – a new body, which is able to make up its own mind;

- The NIE provisional finding does not take into account the other points raised in the Gatwick case, relating to the cost of capital calculation. Therefore, the CC would not have relevant points raised by Gatwick to take into account, when it was making its decision in the round;

- Specifically, Ofgem's approach to the CC's NIE provisional findings is somewhat different from the CAA's automatic use of the CC's figures. Ofgem has said that they feel "*it necessary to consult before we can reach a considered evaluation of the methodology we use...*" Ofgem's main document lists at paragraph 3.45 some of the issues it will want to consider including impacts on investment incentives, the potential for greater volatility in periodic regulatory assessments, whether there might be greater regulatory uncertainty. Ofgem identifies that the CC is putting more weight on contemporary market evidence than has been traditional and that the effects of this need to be considered; and

- The CAA has alighted upon the implications of the CC report for the cost of equity but we note that there may also be implications for the treatment of embedded debt where the CC makes a 80/20 assumption of embedded to new debt. In our response to the FPs we pointed out that using the same assumption (0.7) for Heathrow and Gatwick worked against Gatwick given the lesser frequency of its access to market, and it is notable that the CC has now used a higher assumption. We do not, as we have argued on the cost of equity, expect the CAA to adopt this assumption without full consideration and consultation. But if the CC's report is to be considered at this very late stage in the CAA's process it is important that all relevant aspects are taken into account.

Therefore, we believe that the CAA should not re-open the cost of capital from the final proposals position, but if it does, then we would expect the CAA to address our responses in the other aspects of the calculation.

## Other items that the CAA needs to consider

### Introduction

In its response to the CAA's final proposals, the ACC claimed that the CAA's "fair price" was too low. Most of the factors adduced by the ACC have previously been covered by the CAA and its consultants, and as such did not provide new information to the CAA's regulatory review. As the CAA will recognise, Gatwick has been strongly critical of many of the consultant reports and the conclusions that the CAA has arrived at as a result. We do not here go over that ground. We have already dealt with new traffic information but it is incumbent on the CAA also to take account of other new information that has arisen since its final proposals.

In addition, it is necessary for the CAA to correct factual errors that it made in its final proposals. In addition, to each of the points raised against the CAA's "fair price" provided by Gatwick in its response to the final proposals, if the CAA chooses to calculate a RAB-based price cap, then it should take into account:

1) **New information:** Relevant factors that have arisen recently;

2) **CAA calculative errors in final proposals:** Mistakes made by the CAA, pointed out in our response to the final proposals; and

3) **Gatwick's traffic expectations**[6].

**Table: Breakdown of factors to be taken into account**

| | **RAB-based price cap effect on X (7 year price)** |
|---|---|
| **1) New information** | |
| 2nd runway costs (incl Airports Commission costs +£20m) | +0.26 |
| ✂ | +0.28 |
| Adding impact of CAA Aviation Security Charge | +0.08 |
| ✂ | +0.04 |
| | **+0.66** |
| **2) CAA errors in the final proposals** | |
| Error in pay rate saving (+£2m opex p.a.) | +0.16 |
| Revenue passenger elasticity (-4.5m revenue p.a.) | +0.37 |
| Commutation indexation and recovery period | +0.31 |
| Inconsistent Pension Treatment between Gatwick and Heathrow | +0.41 |
| Speed of wage cuts | +0.49 |
| | **+1.74** |

We understand from discussions with the CAA that the regulator has agreed to consider these factors, if it re-considers any area of the RAB-based price.

6 Taking into account the secondary effects on opex and commercial revenue.

*1) New Information*

*a) 2nd runway costs (incl Airport Commission costs +£20m)*

This is the combined cost of £10m in 2014/15 and £10m in 2015/16 for the purpose of the Davies Commission. This is in excess of the amounts previously discussed in Gatwick's business plans. We are happy to discuss the requirements of engaging with the Davies Commission, but the CAA should not ignore these costs.

*b)* ✂

*c) Adding impact of CAA Aviation Security Charge*

This is the approximate impact of the new CAA's aviation security charge. The details of the CAA's proposed charges were published 22 November 2013.

d) ✂

2) *CAA calculative errors in the final proposals*

a) *Error in pay rate saving (+£2m opex p.a.)*
The CAA has not accounted fully for our staff cost projection. The efficiencies have been calculated using a gross staff costs that contains headcount that is subsequently capitalised (£140.5m). This is an error. The CAA should have used the net staff costs figure (£119.6m).

£140.5 million for 2011/12 is our gross staff costs pre-capitalisation of staff and contractor costs associated with the capital investment programme. These costs are subsequently capitalised under the opex line item – 'other costs'. We have provided a table to clarify this point:

**Table: Pay rate error details**

| (2011/12 prices) | 2011/12 (£m) | Notes |
|---|---|---|
| Staff Costs <A> | 140.5 | Gross staff costs including staff and contractor costs associated with capital investment programme |
| Other Costs <B> | (20.9) | Capitalisation of staff and contractor costs, recorded as a subset of "Other Costs" |
| Net Staff Costs <A> - <B> | 119.6 | Net staff costs |

Source: Gatwick.

Net staff costs of £119.6m can be cross-referenced to our January Business Plan, where we presented a number of £126.7m in 2013/14 prices for our staff costs (page 121, Chapter 11 – Operating costs). This number can be converted to a nominal figure as follows: £126.7 * 0.944 = £119.6m.

b) *Revenue passenger elasticity (-4.5m revenue p.a.)*[7]
In taking SDG's revenue per passenger projections and adjusting for a new passenger forecast, the CAA is implicitly acknowledging that all three areas of retail, car parks and property are directly proportional to passenger numbers. Given the extent to which the CAA has raised its passenger projections above Gatwick's forecasts, this assumption is too crude and leads to a material overstatement of Gatwick's revenue. We look at each of the commercial areas in order of materiality:

- **Retail:** Retail consists of a wide range of categories and has a large set of revenue drivers. Some drivers are directly linked to terminal passenger throughput; others are indirectly linked to passenger numbers and therefore less sensitive to changes. Advertising and telecoms revenue, for example, would fall into the latter bracket. It is therefore incorrect to consider passenger-revenue elasticity at a total retail level, as the CAA has done in its Final Proposals. Another example of where this blanket assumption is inappropriate is in our bureau category. In our business plan, we argued that income would fall short of the minimum guarantee set in the new Moneycorp contract and therefore our business plan reflected this minimum income arrangement. Even with the CAA's higher passenger

[7] These are set out in detail on page 55 of our response to the final proposals.

assumption, it is likely sales would not exceed this minimum. It is therefore incorrect to project additional bureau revenue as a result of additional passenger numbers. Similarly, retail categories such as WDF and specialist shops are very sensitive to the mix of EU to non-EU sales. As well as this, car rental and taxis are sensitive to the mix of non-UK originating passengers. As the CAA has not provided the mix of those passengers incremental to Gatwick's plan, we do not believe the CAA can correctly conclude that retail revenue will rise directly in line with passengers. Overall, the adoption of this over simplistic assumption poses an £8m risk to Gatwick over the 5 year period;

- **Car Parks:** Given Gatwick's passenger projections, and the challenges of delivering a positive return within the BQ5 period due to capacity only being needed in the peak summer months, our final BQ5 car parks plan did not include any new capacity projects. It should be noted that our car parks are now essentially full over the peak summer months and as a result there is no opportunity to grow volumes. Our analysis indicates that, while it is possible to manage the mix of business to grow average yields during this period, this will only realise half the revenue growth compared to a straightforward volume growth scenario. This represents a further downside risk to Gatwick's BQ5 business plan of £3.0m over the 5 year period, which was not captured either in our business plan or the SDG report. As we have previously argued, our plan included a balanced mix of both upside and downside risk. On the basis of the CAA's passenger projection, this downside risk would continue to grow to an unacceptable level of £7.0m over the 5 year period; and

- **Property**: Both the CAA and SDG have themselves acknowledged that only an indirect relationship exists between property revenue and passengers. The CAA stated most conclusively in its own analysis on p336 of its consultation document on 'Gatwick Market Power Assessment – May 2013' that there is a zero per cent sensitivity of property revenue to passengers. SDG also acknowledge in paragraph 2.161 of their final report on the assessment of Gatwick Commercial Revenue (Stage 3) that there is a weak link between property revenue and passengers, and property revenue was presented in their report on a per-passenger basis for comparative purposes only. Gatwick would argue that for each of the individual sectors of property – offices, CIP, airfield, industrial and hotels – there are much greater forces than pure passenger numbers that drive revenue. In the example of hotel revenue, which is circa 3% of Gatwick's property revenue, revenue above the minimum guarantee level will be driven by the extent of competition within the off and on airport hotel sector. Likewise, office accommodation will be driven by external market demand, and only in a small part by new airlines, which are themselves only associated with part of the revenue growth. In the case of CIP revenue, this will be driven by airline type and customer mix. Gatwick therefore believes there is only a very limited sensitivity of property revenue to passenger volume and this tends to zero when considering impacts in the short to medium term. Therefore, the CAA should lower its property revenue assumptions by £7.5m over the aggregate BQ5 period.

*c) Commutation indexation and recovery period*

We request two changes to the accounting for the pension commutation payment:

- **Indexation:** The commutation payment included in the CAA's calculation of Gatwick's opening RAB is incorrect. The payment was made in 2010 and should be adjusted for inflation to 2011/12 prices (i.e. consistent with the methodology applied to all other elements of the RAB calculation). Therefore, the commutation payment value per Gatwick's opening RAB should be £112.5m. This will also require the depreciation allowance (see below) to be adjusted accordingly; and

- **Recovery period:** Second, the CAA's final proposals increase Gatwick's depreciation allowance by £7m for 15 years to reflect the inclusion of the commutation payment in the RAB. The CAA's justification for this 15 year period is *"…to account for the size of the payment…"*. However, scale is not an appropriate basis for a recovery policy. The airport had proposed previously that it should be allowed to recover this asset over a 10 year period from the time the payment was made. This is in line with the normal period over which a company would fund a pension deficit and is a more appropriate basis for recovery than suggested by the CAA. As part of the RAB methodology, there should also be an interest adjustment based on Gatwick's cost of capital, for amounts unrecovered since the payment date.

*d) Consistent treatment of pension between Gatwick and Heathrow:*

As we set out in our response to the final proposals, the CAA is treating pensions at Gatwick and Heathrow inconsistently without explaining the difference. This is despite both airports' pension arrangements having originated in the same legacy BAA arrangements. This inconsistency takes two parts:

- An allowance of 20% contribution rate at Gatwick compared to 24% at Heathrow without any justification of the difference; and

- Inconsistent treatment of deficit payments by not taking into account more up to date information at Gatwick while doing so at Heathrow, without explanation.

*e) Speed of wage cuts*

The speed at which the CAA has projected the cuts on wages in its final proposals limits the savings to the already very stretching scenario 1 and scenario 2 as set out on page 38 and 39 of our response to the final proposals. The speed of the cuts is not reasonable and should be reviewed, particularly in the light of the current positive ballot for union staff strike. We urge the CAA to re-consider its projection.

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**Gatwick's commercial response to higher short term traffic expectations**

We recognise the additional benefit to Gatwick from advanced short term higher traffic expectations, from charges and commercial revenue, even if tempered by higher variable opex. We would are responding to these expectations through choosing to reduce the price paid by our airline customers. The Commitments framework set out a headline price of RPI+1.5%, with a blended price profile fixed at only RPI+0.5%. We propose to reduce both prices by 0.5% points on the X, resulting in a headline price of RPI+1%, with a blended price set at RPI-0%.