

Stewart Carter  
Civil Aviation Authority  
CAA House, Kingsway  
London

Sent by email to: [economicregulation@caa.co.uk](mailto:economicregulation@caa.co.uk)

April 2019

**Re: Working paper on the cost of capital: the implications of the RP3 draft performance plan for Heathrow Airport Limited (HAL) CAP1762**

Dear Stewart,

Virgin Atlantic Airways welcomes the further work on the cost of capital commissioned by the CAA and produced by PwC<sup>1</sup>. We have consistently stated in previous consultation responses that a significant reduction is expected for H7, as evidenced by changed market conditions and the decisions of other regulators. We are pleased that the report by PwC recognises the need for a significantly lower WACC for an 'as is' 2R Heathrow.

We are concerned that the work programme set out by the CAA in CAP 1762 means that an estimate for WACC will not be published until October 2019. This assumes that the 'substantial programme of work...on WACC and related issues' is not delayed. The WACC is a significant factor in modelling the affordability of expansion at Heathrow and is essential to the critical M5 and M5a gateway process. It is important that we have sufficient time to complete a full review of affordability and therefore necessary that the CAA produces a reasonable WACC range as soon as possible. In our view the WACC estimate should be produced at least two months before the M5a gateway.

We welcome any further discussion of the points made in this letter.

Yours Sincerely,

Claire Lambert

Regulatory Affairs  
Virgin Atlantic Airways

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<sup>1</sup> Estimating the cost of capital for H7 – Response to Stakeholder Views (February 2019)