



5th March 2021

Civil Aviation Authority

Dear Sirs,

Re: Economic Regulation of Heathrow Airport Limited (HAL): HAL's request for a Covid -19 related Regulatory Asset Base (RAB) adjustment (CAP 2098)

We would like to thank you for the opportunity to express our views to the consultation CAP 2098.

Our view is that HAL's request for the Civil Aviation Authority (CAA) to change its approach to the calculation of HAL's RAB to take into account the impact of the Covid-19 is not in the consumer's interest, justified or reasonable and should be rejected in its entirety. Consideration of this change in policy will not impact on service quality standards in 2021 and we totally agree with the CAA assessment contained in CAP 2098.

Whilst we fully acknowledge and recognize the CAA's statutory duties to consider HAL's financeability, we do feel that HAL is leaning towards regulation and consumer funding to bail them out is not acceptable, especially given that HAL has "£3.2 billion in liquidity, sufficient to maintain the business at least over the next 12 months, even with no passenger" (HAL Q1 2020 results) : " HAL's management took quick action to conserve cash and reduce costs by around 30%, through cutting management pay, renegotiating all contracts and consolidating operations (HAL Q1 2020 results). HAL has also stated in their press release of 23rd February 2021 for their year-end results that "We ended the year with £3.9bn liquidity, enough to see us through until 2023"

Our view (Royal Brunei Airlines) together with other airlines is that there should be a significant injection of true equity to the HAL business from its shareholders who are sitting on healthy dividends. We do acknowledge that the CAA has considered some of these points with the focus on the notional company (risks are above the market average, higher than utility companies; Gearing set at 60%, with shock factor built in), however HAL's request for £2.8 billion is well above any headroom before the H7 intervention.

Below is some further reasoning on our views:

1. HAL's proposition to reopen the RAB is a disservice to consumers

HAL has stated" The mechanism we proposed would avoid the need for material changes to the risk premium, which would translate to higher consumer prices"

During the Q6 price control, we understood that HAL was paid to hold all passenger risk in the form of a WACC that incorporated that risk. Therefore is any intervention in the form of the increment on the

RAB, would result in the consumer paying twice for a risk that was already included in determining the underlying Q6 WACC since 2014.



2. Contrasting views RAB adjustment versus Framework

HAL is relegating on the volume risk it agreed to, but HAL is happy to continue applying the current framework on items that are advantageous to them. As an example HAL were happy to increase the Other Regulated Charges (ORC) to recover the £150m under recovery which airlines are paying towards through the R1 tax. This reflects that airlines are willing to honour the risks they face in this uncertain time, and airlines also expect that regulatory decisions are honoured by HAL.

3. HAL Investor Debt

Though HAL has argued that the cost of capital does not take account of pandemics and there is no equivalent historical event to reference, our (Royal Brunei Airlines) view is that HAL investors should have built in risk factors before Covid-19. The airline industry has suffered other events in the past such as the 2008 financial crash, 9/11 and SARS.

4. Is there an additional need for CAPEX?

You will know that the UK aviation sector has been hit extremely hard by the Covid-19 outbreak and as the CAA has quite rightly acknowledged in the updated consultation documentation and the significantly reduced passenger levels forecast for 2021 (as published in HAL's Q3 financial results, the passenger forecast for 2021 has been reviewed and now is 37.1m) and the whole of H7 period, the need for additional CAPEX is limited and adequately covered by the existing Capex governance process. Furthermore HAL cut Capex by £650 million at the end of 31 March 2020 ((HAL Q1 2020 results).

5. CAA proposal for an assessment Framework

We evaluated all 4 options presented by the CAA and of all the 4 options proposed by the CAA we would support: *Package 1 – No intervention before H7, but consider interventions at H7.*

It clearly makes sense to consider the impact of the pandemic on risk and also on the ability to reliably forecast passenger numbers over the H7 period. If volume risk is removed in H7 it would be appropriate that the agreed WACC must fall substantially to reflect that.

We do not support all other packages because there are no immediate issues that need to be addressed that would require the CAA to intervene within 2021. We are united as an industry in vigorously opposing any CAA intervention now and we trust you will give our feedback full consideration. We remain available to you and your officials to further discuss.

Yours sincerely
For **Royal Brunei Airlines Sdn. Bhd.**

Adiel Mambara

Country Manager UK