Centrus Response to CAP3251 Consultation Responses

14th July 2026

CORPORATE FINANCE | DEBT ADVISORY | RISK ADVISORY & ANALYTICS

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Executive Summary

As CAA's strategic financial adviser, we has reviewed CAP3251 consultation responses and identified key financing issues, prioritising those with high materiality impact for CAA's regulatory/finance models development. In particular:

- The **3rd-party models (5b and 7b)** have generated the most responses from HAL relating to financing, with key themes including Cost of Debt, Cost of Equity, credit rating, bondholder consents and delivery timescales
- **Model 3 (longer term price review)** has also generated a lot of responses from HAL, Heathrow Reimagined (HR) and International Airlines Group (IAG) relating to WACC expansion premium and longer-term commitment

For each priority issue, this report summarises the positions taken by respondents, provides an initial response to their position, and sets out suggested next steps intended to bridge the gap between the concerns raised and a way forward. The key issues raised are as follows:

- **Cost of Debt:** HAL says under both Models 5b &7b, the Cost of Debt for the 3rd party and HAL would be 100-150bp higher and 50bp higher respectively. We believe these premiums are overstated
- **Credit rating:** HAL's assertion is that Model 7b is credit negative for its rating. We recognised the importance of credit ratings but believe it is more nuanced as it is the balance of two opposing forces.
- **Cost of Equity:** HAL has asserted under both Models 5b & 7b, the Cost of Equity would be higher at 15-20% without revealing HAL's expectations on its own Cost of Equity for the expansion.
- **Timing and Consents:** HAL asserts model 7b could add up to 10 years in delivery timing and would include the need for significant consents from the current lenders. Recognise other models have taken time, but running model development in parallel with project development can reduce the schedule impact. On consents, we recognise the significance of bondholder consents and have recommended CAA work further with HAL and any third parties to fully assess these.
- **Model 3:** IAG asserts that the benefit of a longer-term price review commitment is not expected to lower the Cost of Debt significantly and is one sided against consumers. We believe the case for a longer WACC horizon rests on giving equity investors confidence to lower their Cost of Equity rather than Cost of Debt.
- A number of other points are raised in the responses relating to governance, lessons learned from other situations in the industry, the role of the CAA in implementation and requests to cap construction costs. These will be considered further by CAA and us as the models develop.

Executive Summary Continued...

In general, the financing issues raised are not unexpected and have not resulted in us to changing our initial scoring for each model as set out in our earlier report (Centrus – Financial assessment of regulatory models for Heathrow Airport, dated 6th May 2026[1]). But with the model descriptions only at an outline stage currently, some stakeholder responses have projected their own views about how the models might work and then spelt out consequences on the back of these assumptions. We set out our indicative views on these points and can only be more definitive once the funding plans and models are developed further.

We advise CAA that the key next step is to request HAL and 3rd party produce their own funding plans. These funding plans should contain a breakdown of their shareholder commitments, Cost of Equity, Cost of Debt, Government support expectations as well as consents and timing requirements.

Finally, we note that the consultation responses and this report will not have surfaced every financing issue. As the regulatory models move from outline to detailed design, we expect further gaps and required developments to emerge – for example around governance, the form of any Government support, the interaction with HAL's existing financing arrangements and the allocation of risks not yet defined in the outline models. We recommend CAA sets certain deliverables and requests from both HAL and 3rd parties such as HWL, such that it allows for an efficient development of the regulatory models.

1. Centrus Report for CAA

1 Our Responses

Models 5b & 7b | Cost of Debt

Stakeholders' Response

HAL state model 7b would require an increase of the **WACC of c.100–150bps** on the standalone terminal, plus a potential **+50bps on HAL's own debt costs** if fragmentation weakens its revenue predictability and RAB stability (para 3.58).

The Freshfield & Santander (F&S) report commissioned by HAL highlights, additional 3rd party debt capacity does not equate to improved financeability. A 3rd party SPV with no cashflow cannot replicate HAL's cost/gearing (para 20.4).

F&S argues that the 3rd party would achieve a lower gearing compared to HAL (around **50–60%, vs. HAL's up to 85% for Class B** (paras 20.5).

HAL/F&S make similar claims in connection with 5b where they state a 3rd parties' Cost of Debt would be higher than HAL's and these higher financing costs will need to be remunerated through contractual payments paid by HAL (para 19.4, 19.5)

Centrus Response

For models 7b and 5b, HAL/Freshfields & Santander make similar claims. HAL estimates its own Cost of Debt would rise by +50bps. For context, the iBoxx GBP Utilities index implies a spread differential of roughly 15bps per rating notch - so a +50bps rise implies a two-to-three notch downgrade, which seems unlikely given:

- the airport is expanding due to excess demand; and
- construction risk is being taken on by a 3rd party, reducing HAL's own risk.

HAL estimate that 3rd party's WACC would be 100-150bps higher
Though the different factors are not quantified to assess this size of premium, this implies a materially higher Cost of Debt for a 3rd party provider. While model 7b is too early-stage to be definitive, we believe this is overstated.

From a cost-of-debt perspective, the 3rd party will need to demonstrate an achievable investment-grade rating. Lacking HAL's balance sheet may mean a lower initial rating for the 3rd party, but we must also consider:

- **New sponsors bring new debt** – we have seen in markets like offshore transmission that certain sponsors can bring new & often lower cost sources of debt (e.g. JBIC (Japan Bank of International Cooperation – Japanese export credit agency) on OFTOs and rolling stock)
- HAL also argues 3rd party models require Government support — which would improve their Cost of Debt if provided

3rd party financing has lower gearing than HAL
HAL argues it could gear up to 85%. Its established structure clearly allows higher gearing, but we'd expect HAL to moderate gearing from current levels (c.81%) when embarking on a major expansion to protect ratings. Against this, the CAA will need to weigh if higher gearing is an advantage:

- HAL's current gearing is significantly higher than other regulated sectors that are undergoing large capital investment programmes (e.g. UK water notional company is set at 55% gearing by Ofwat)
- IAG argues that financing the expansion through HAL's highly leveraged balance sheet raises material risk concerns - concentrating a programme this size within a single entity may create financeability challenges, with issues potentially affecting both BAU operations and delivery of the expansion.

Advice on Next Steps

We recommend CAA review how to weigh up Cost of Debt in the round, in particular if a 3rd party's headline Cost of Debt is initially more expensive or has lower gearing, and on what basis can this be justified? E.g. benefits of competition, capex cost, risk transfer.

We advise CAA to carry out as quickly as possible the development of models 7b/5b, including developing a roadmap that sets out further information required from HAL/3rd party in particular funding plans to allow CAA to assess scale of any Cost of Debt differences. The roadmap should aim for HAL/ 3rd party to undertake a RES/RAS from rating agencies to assess the rating of models 5b/7b ahead of DCO submission.

We recommend CAA consider what an appropriate level of gearing should be for a company that is undertaking a large expansion (and what level HAL's should be if they are undertaking it).

Any 3rd party's funding plan should address any need for Government support.

Models 7b | Credit rating

Stakeholders' Response	Centrus Response	Advice on Next Steps
HAL has raised concerns that Model 7b could weaken the credit metrics of both parties. HAL's response document states credit rating agencies **view model 7b as the most credit-negative option** (para 3.61), a view also supported by the report commissioned from F&S. F&S further argues that Model 7b would introduce direct competition into HAL's core regulated business, weakening the cashflow stability that supports HAL's investment-grade credit profile. This could **increase HAL's perceived business risk**, weaken credit metrics and increase the Cost of Debt (para 20.8).	**HAL's assertion that 7b is credit negative for rating** Rating agencies have **not publicly** stated that Model 7b is credit-negative. S&P has commented on the expansion citing competition as a ratings factor — in 'Heathrow's Expansion Could Impair Its Credit Profile' (28 April 2025, reiterated Dec 2025 and Feb 2026) — but only in the context of capacity expansion by **other airports** (Gatwick, Stansted, Luton, London City) and European hubs increasing airlines' bargaining power on tariffs. They assess HAL's business risk as **Excellent** (Dec 2025), underpinned by resilient demand at a capacity-constrained airport, and considers expansion would likely strengthen Heathrow's competitive standing. As the incumbent, HAL would be less exposed to any competition impact on its rating than a 3rd party, which would carry materially greater demand risk. S&P consistently identifies the **scale of the expansion and the debt and equity to fund it** as the principal driver of any negative rating impact, citing 'limited rating headroom'. Under 7b, a 3rd party funding and building new capacity absorbs much of that capex, construction and demand risk — transferring HAL's single largest expansion risk away from it, which all else equal should be credit-supportive and may counterbalance the competition concern as it leaves HAL with lower capex and cost-overrun risk. Reducing HAL's gearing may still be desirable to protect metrics during expansion.	The credit rating outcome of HAL directly affects each model's financing cost and therefore its overall efficiency. A key test will be whether implementing model 7b preserves HAL's credit rating through construction or if it is credit negative to HAL. We expect the competition/demand risk to be credit negative (which is limited while Heathrow remains capacity-constrained) and the transfer of capex, construction and financing risk to a 3rd party under 7b, to be credit-positive. The balance between those two will determine the overall impact on the credit rating. Establishing the net effect is important to assess the efficiency of this model. We advise CAA to open direct dialogue with the rating agencies to test 7b's rating impact and request HAL to provide any supporting rating agency evidence on the likely impact. Longer term (post DCO) a ratings RES/RAS would be useful evidence in this context.

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Models 5b | Credit rating

Stakeholders' Response	Centrus Response	Advice on Next Steps
The F&S report states where HAL makes long-term, fixed or broadly fixed payments to an SPV for a core operational asset, **agencies may treat those obligations as debt-like** (which Centrus also acknowledges), particularly where HAL is seen as ultimately responsible for delivery (para 19.6). Additionally, F&S state the SPV's credit rating would likely be rated no better than HAL, and potentially one notch below, meaning it may raise more expensive debt while still creating adverse credit implications for HAL (para 19.8). F&S are in explicit **disagreement with the CAA's conclusion that impacts on HAL's credit rating** and risk profile can be managed through appropriate contract structuring and risk transfer (para 19.9).	**Rating agency treatment of HAL's obligations under 5b** **S&P and Fitch:** treated Thames Tideway as broadly credit-neutral, excluding project debt where genuine risk is transferred — but can reflect debt/RCV in metrics if risk transfer is judged insufficient. **Moody's:** treats DPC (UU/HARP) as if self-funded under its lease methodology, grossing up the balance sheet and adding the asset to RCV (broadly offsetting), so gearing rises only modestly and scales with asset size. CAA should treat the rating impact on HAL as a key design consideration for 5b. This will require looking at which risks are being transferred to 3rd party and what impact this has on HAL's balance sheet and credit rating. If the model were treated simply as debt on HAL's balance sheet this would be credit negative, weakening the value-for-money case. On something as material as Heathrow expansion, we expect agencies to take a holistic view rather than itemising notches per component, and CAA can address any impact on HAL's metrics in the round via BAU mechanisms. Model 5b applied to a small asset, is unlikely to have a material impact on HAL's credit rating or impact Cost of Debt significantly. **3rd party vs HAL's Cost of Debt under 5b** As set out in the Cost of Debt section above, our position on HAL's Cost of Debt relative to 3rd parties under Model 7b applies to Model 5b. As with 7b's credit rating, the CAA's decision is not purely a direct ratings comparison between HAL and a new 3rd party.	We advise CAA to assess the impact of this model by weighing up the benefits of any 3rd party model needs to consider in the round the comparative cost of debt vs HAL as well as any impact on HAL's own credit rating and the impact of 3rd party SPV's credit rating potentially being lower resulting in a higher Cost of Debt. We advise CAA to develop a roadmap for model 5b, that establishes a clear position on the availability-based payment mechanism and sets out a clear position on risk allocation principals between HAL and the 3rd party. As CAA continues to develop model 5b, we advise CAA to have direct engagement with rating agencies and HAL with particular emphasis on understanding the full extent of the impact on HAL's credit rating, putting in place mitigations as appropriate. Longer term (post DCO) a ratings RES/RAS would be useful evidence in this context.

Models 5b & 7b | Cost of Equity

Stakeholders' Response	Centrus Response	Advice on Next Steps
HAL state model 5b is significantly more problematic for core assets such as terminals, where **higher 3rd party financing costs would require** unrealistic capex savings to offset (para 3.9). 3rd party capital is likely to be more expensive than HAL's RAB-based financing. HAL state for model 5b a 3rd party would target returns between 15–20%, with funding costs up to 150bps above BAU, and gearing of up to 75% (para 3.34). HAL state that model 7b would require an increase of the WACC of c.100–150bps on the standalone terminal (para 3.58). The F&S report also flags that direct competition raises HAL's Cost of Equity via greater demand risk and uncertainty over future revenues (para 20.11).	We have responded to the Cost of Debt elements of this above. On Cost of Equity, whether expansion is funded by HAL or a 3rd party, we expect competition between investors would lead to lower Cost of Equity. In principle, under a regulated monopoly, the Cost of Equity should be lower relative to a competitive merchant model.[1] HAL has not set out what its Cost of Equity would be for the expansion in its H8 proposals. For a comparable level of business risk, there is no clear evidence that HAL's shareholders would offer a lower Cost of Equity for expansion than anyone else in the market HAL's shareholders may request a premium for the risk of expansion over and above BAU, which would be required to benchmark any competitive model. Similarly, HWL has not set out their Cost of Equity proposal for expansion via model 7b (which is not unexpected given 7b's early stage of development) – nor has any other 3rd party. Arriving at an accurate view on the Cost of Equity and commitment of both HAL and the 3rd party is therefore key to developing these models.	At present, HAL's shareholders' expectations on the Cost of Equity are not clear. As the Cost of Equity is not directly observable, we advise the CAA engage with HAL to understand its shareholders' return expectations and appetite for the scale of investment. We advise CAA request HAL and the 3rd party to produce their own funding plans, each setting out clear Cost of Equity expectations. These funding plans should contain a breakdown of their shareholder commitments, Cost of Equity, Cost of Debt, Government support expectations and consents and timing requirements. This will allow the CAA to assess and compare the funding plans — including the relative Cost of Equity of HAL and any 3rd party provider — and to determine the steps to DCO submission.

1: Our understanding is that model 7b is assumed to be unregulated but could be regulated under a market power determination.

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Models 5b & 7b | Timing

Stakeholders' Response	Centrus Response	Advice on Next Steps
The F&S report supports HAL's position that Model 7b would result in delays to the timeline. HAL argue that establishing a new framework for competing operators, covering wholesale access, interface regulation, market power assessment, charging, and coordination, would introduce substantial delay and cost (para 3.3), potentially **adding around ten years** and placing the Government's schedule ambitions at risk (para 3.68). HAL state that model 5b could lead to delays to the project. HAL provide precedent project timelines show how slow this can be; • Ireland's National Broadband Plan took seven years from plan publication to contract award; • HARP aqueduct took ~three years from tender launch to preferred bidder despite being a comparatively separable greenfield project; • other PR19 DPC candidate projects did not proceed as expected (para 3.29).	We recognise HAL's concerns that 3rd party models represent new regulatory frameworks which need to be developed. We also recognise the need to develop regulatory frameworks in a timely manner such that the regulatory framework is ready to be implemented immediately after DCO approval, to avoid construction delays. For Thames Tideway Tunnel (TTT), the regulatory model was developed partially in parallel to the project was being developed to avoid extended timelines as much as possible. A similar approach can be taken by CAA here. Model 5b (DPC), has been used successfully implemented in the UK water sector, and CAA will be able to use the learnings from the HARP and Thames Tideway process to develop and implement Model 5b as efficiently as possible. Model 7b has been implemented successfully across other airports globally, including JFK. Similarly to model 5b, the CAA can use the learnings from these other airports to support the timely development of 7b. For a 3rd party to have a credible plan to finance expansion, they would need to show their path to get credit rating ahead of the DCO submission. We recommend CAA take every opportunity to streamline the timetable for model development and implementation. In particular, we recommend CAA decide on which of 5b and 7b to take forward as early as possible.	We advise CAA develop a roadmap for models 5b and 7b and to fast-track this as much as feasibly possible such that there is sufficient detail ahead of the DCO submission deadline. By developing an efficient timetable, the CAA can receive early feedback from HAL and the 3rd party, particularly from the parties' funding plan submissions, so CAA can decide which of the 3rd party models they take forward.

Models 5b & 7b | Consents

Stakeholders' Response	Centrus Response	Advice on Next Steps
The Freshfields and Santander report states, developing a core terminal within Heathrow's operational perimeter via a 3rd party SPV would require carving out the relevant land through a long lease disposal, plus leases or other contractual rights of use over connected assets, with robust separation so the SPV's assets can be secured in favour of its debt providers and give those lenders an adequate enforcement security package (para 19.17). Additionally, the report notes, each asset disposal to the 3rd party must comply with HAL's ongoing BAU financing covenants and, where relevant, be permitted to be released from the existing security granted to HAL's creditors (para 19.18). Similarly, with 7b, If a core terminal within Heathrow's operational perimeter is developed by a 3rd party, the same land carve-out, consent and security issues described at paras 19.17–19.19 apply. A directly competing terminal operator could trigger potential covenant, consent and security questions under HAL's existing financing terms depending on project scope (para 20.18).	We recognise that bondholder consents will be required for expansion under either delivery route – whether HAL delivers it directly (model 3) or it is delivered by a 3rd party (models 5b or 7b). We recognise that HAL has navigated consents of this kind before, most notably in delivering T5, providing HAL a helpful precedent to support debt raising for their expansion programme. We expect the following are some consents that HAL will need to review if a 3rd party were to deliver expansion: • Land and security carve-out to allow DPC to allow its own lenders security over it • Additional indebtedness trigger if availability-payments are treated as debt or otherwise • Procurement and RAB adjustment • Disposals and property covenants if 3rd party has rights of use By contrast we expect HAL would need less consents for its own expansion but would like confirmation on this to aid comparison between the models. Both HAL and the 3rd party would need to review consents in detail, and the costs, timing and probability of obtaining them should be factored into the evaluation of the alternative models.	We recommend CAA progress the development of the regulatory models and develop them in sufficient detail, so that a chosen model can be ready for implementation should the DCO be approved in 2029. Furthermore, we advise the CAA request that HAL as part of its funding plan sets out the consent requirements for models 3 & 5b, together with the associated cost, probability and timing, so these can be assessed and factored into the comparison of models. We also recommend CAA work with HAL and 3rd party to assess the consent requirements for 7b as we expect these to be more material and be outlined in the 3rd party's funding plan submitted to CAA.

Model 3 | IAG Comments

Stakeholders’ Response	Centrus Response	Advice on Next Steps
IAG cites Centrus's own qualification that any improvement in HAL's credit rating is expected to be only marginal and that the Cost of Debt is "not expected to reduce significantly" (Annex B, p. 54). It adds that HAL already benefits from the pass-through of its actual rather than notional Cost of Debt, so a long-term return commitment is not needed to address debt-side risk (Annex B, p. 56). IAG also note that a long-term return commitment is one-sided against consumers. Surrendering the five-year reset removes the CAA's main tool for recalibrating returns. It interacts with the financeability duty asymmetrically. HAL can lever returns up if the WACC proves too low but resist correction if it proves too high ("arms HAL on the upside and shields it on the downside"), an effect amplified by HAL's above-notional gearing and compounded over a longer period (Annex B, pp. 53–55).	As previously stated, we expect any debt-side benefit to be marginal – rating agencies assess HAL in the round (cash flows, gearing, regulatory stability). The case for a longer Expansion WACC horizon rests on giving equity investors confidence in the premium and mechanics over the construction period rather than Cost of Debt savings. To be clear, we were not proposing the Cost of Debt be set on HAL’s actual gearing – the WACC remains determined on the notional company. On the concern that commitment be one-sided, we recommended any longer Expansion WACC framework be paired with mitigations – reopeners and risk-sharing – so returns can be recalibrated to the market in both directions and not only to HAL’s benefit. Our recommendation to the CAA was that the five-year reset and the BAU WACC remain unchanged and the longer horizon to apply only to Expansion. On Cost of Debt/credit rating we believe that the horizon of the WACC matters less than reopeners, the charges/cash-flow profile and risk allocation, which have a more material impact on investors, financeability and ratings.	We recommend CAA develop Model 3 further to establish the proposed horizon (5 to 20 years for the Expansion WACC, so further details can be developed. Additionally, we advise CAA to develop the mitigations (reopeners, risk-sharing) that it would put in place to capture significant market movements, and to ensure that these can be calibrated in both directions. We recommend that CAA request HAL to demonstrate the difference in WACC that can be achieved under a 5-year WACC period vs. a longer WACC period to illustrate if a longer WACC period generates value for customers e.g. via a lower Cost of Equity, and this be set out in their funding plan submitted to the CAA.

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Model 3 | Heathrow Reimagined Comments

Stakeholders' Response	Centrus Response	Advice on Next Steps
Heathrow Reimagined (HR) note there is no demonstrated financeability problem. The CAA accepts that rating agencies have applied no negative notching for the mismatch between the regulatory period and the expansion investment horizon, and points to no instance of the existing framework failing to finance investment at Heathrow. A perceived risk the agencies themselves have not acted on is not a demonstrated financeability problem (Para 251, 252). HR further argue that a split RAB with a differentiated cost of capital cannot be cleanly maintained while HAL continues to raise debt through a single financing platform (para 270). Further to this is the risk of overcompensation migrating across the BAU/expansion boundary. The CAA's proposed move to an actual Cost of Debt allowance for BAU in H8 risks expansion-related financing costs bleeding into the BAU debt allowance, allowing overcompensation to migrate across the expansion/BAU boundary (Para 271).	Financeability for expansion is assessed against a notional structure and, more importantly, against the new capital that must be raised at scale. That requirement is a function of programme size, not of HAL's historic capital-structuring choices. As noted in our report, the agencies have specifically flagged the risk arising from the mismatch between the expansion horizon and the price control period. As noted in our report, aligning WACC certainty to the construction period is, on our scoring, a relative financeability improvement and not a full notch uplift, assuming a single RAB. We also stress that we did not recommend changing HAL's BAU position in our published report (Centrus – Financial assessment of regulatory models). We cautioned against wholesale changes to the BAU WACC or extending the BAU period to 7–10 years precisely because that creates ratings recalibration risk without clear benefit. Our framing of Model 3 is value-for-money oriented: the longer-term certainty on the WACC premium is a lever the CAA can use to lower the Cost of Equity by providing more visibility on returns The case for a longer Expansion WACC horizon rests on giving equity investors confidence over the construction period. To be clear, we were not proposing the Cost of Debt be set on HAL's actual gearing – the WACC remains determined on the notional company. As noted in our report, we recognise that the CAA would need to carefully design the separate expansion WACC through a defined asset perimeter to limit any spillover into the BAU debt allowance. With a single RAB and funding platform, cash is fungible and not ring-fenced between BAU and expansion, so this spillover risk is priced in. As such, we would expect that model 3, if taken forward, would have a lower WACC compared to other options	We advise the CAA develop model 3 further to establish the proposed horizon for the Expansion WACC and the asset perimeter. We also advise CAA to develop the mitigations (reopeners, risk-sharing) the CAA will put in place so significant market movements are captured and returns can be recalibrated. We advise CAA request HAL to demonstrate the difference in WACC that can be achieved under a 5-year WACC period vs. a longer WACC period to illustrate if a longer WACC period generates value for customers e.g. via a lower Cost of Equity, and this be set out in their funding plan submitted to the CAA.

Model 3 | HAL Comments

Stakeholders' Response	Centrus Response	Advice on Next Steps
HAL does not want the Cost of Debt fixed for the full construction period — that would constrain the financing strategy; it prefers a periodically reset, market-based debt allowance with a market-based reopener (para 2.97) In HAL's view, the most effective approach is a 15-to-20-year commitment to the real Cost of Equity for Expansion within the existing Single RAB (para 2.93) HAL note model 3.3 (cap and collar) would require greater regulatory discretion, which could undermine the predictability and certainty that rating agencies value (para 2.101)	As set out previously we see longer term certainty as less impactful on Cost of Debt than on Cost of Equity. We recognise the potential for a markets based Cost of Debt allowance with an appropriate reopener, particularly given it is likely more efficient to raise debt gradually over time. Given the size of HAL's debt requirement in this model and likely reliance on overseas debt markets, we are not aware of a ready off-the-shelf mechanism given most indices are Sterling based. This makes designing a 5 year+ mechanism very challenging. As such, it would appear logical to remain with the 5 year review cycle with potential for symmetrical market based reopeners to adjust for material over or under performance. On Cost of Equity, there is precedent for aligning the regulatory horizon with the construction period. Portsmouth Water regulatory framework for Havant Thicket Reservoir will run to 2035 in line with the end of construction. We are not aware of comparable 20-year precedent, but TTT had 15 years (tail of 5 years post construction). We understand that this was chosen by TTT to minimize Cost of Equity. If agreeing to a longer-term horizon beyond 5 years, we would expect HAL to demonstrate that this provides benefits to consumers through a lower Cost of Equity On cap-and-collar (3.3), we recognise predictability and certainty matter to the rating agencies, who assess HAL in the round. Clear, rules-based reopener triggers that can deliver two-way correction without the open-ended discretion of a cap and collar, provide more certainty. Percentage-based risk-sharing has precedent in other infrastructure schemes – for example, Portsmouth Water operates a 50:50 sharing of any over or under-performance.	As set out for Model 3 on the previous page, we recommend the CAA develop the Expansion WACC horizon and asset perimeter, define rules-based mitigations (reopeners and risk-sharing), and ask HAL to illustrate the WACC difference between a 5-year and a longer horizon. Building on those steps, we recommend the CAA request that HAL clarify what it means by a "market-based debt allowance" — particularly given HAL's significant issuance in foreign (non-Sterling) markets — to inform the design of a 5-year reset with symmetrical, market-based reopeners We recommend the CAA request HAL to demonstrate the difference in WACC that can be achieved under a 5-year WACC period vs. a longer WACC period to demonstrate how a longer WACC period generates value for customers e.g. via a lower Cost of Equity, and this be set out in their funding plan.

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Views: All of the views expressed in the Report accurately reflect the personal views of the responsible employees of the Centrus Group as at the Report Date.

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Data is sourced from various sources including Reuters, Bloomberg, and Centrus Market Data.