



Room 2044, D'Albiac House  
Cromer Road  
Heathrow Airport  
TW6 1SD  
Tel: +44 (0) 20 8757 3936  
Email: [lavers@iata.org](mailto:lavers@iata.org)



Heathrow AOC Limited  
Room 2040-2042, D'Albiac House,  
Cromer Road  
Heathrow Airport  
TW6 1SD  
Tel: +44 (0) 20 8745 4242  
Email: [Gensec@aoc-lhr.co.uk](mailto:Gensec@aoc-lhr.co.uk)

Civil Aviation Authority

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

15<sup>th</sup> January 2025

## Response to FTI WACC Report for H8 and Related Financial Matters – CAP3044a

Thank you for the opportunity to respond to the above report (the “Consultation”).

This submission addresses the FTI Consulting report produced for the CAA which reviewed the methodology for determining the weighted average cost of capital (WACC) for H8 and was published alongside the wider draft methodology guidance for H8 set out in CAP3044. It is made jointly by the London (Heathrow) Airline Consultative Committee (“LACC”) on behalf of IATA, and Heathrow Airline Operators Committee (“AOC”), collectively referred to as (the “Airline Community”) and builds on, and should be read in conjunction with, our response to CAP3044<sup>1</sup>.

In support of this response, IATA appointed CEPA LLP to provide a full review and comment on the Consultation to which we attach their report as Annex I. The CEPA report raises a number of important matters and observations including several recommended next steps the CAA should take. These are fully endorsed by the Airline Community and commended to the CAA.

Whilst full details are set out within the CEPA report, we note that moving into H8, new evidence, changes to relative risk and changes to the regulatory regime mean the CAA should not assume that a H7 roll-over is the optimal approach. We therefore agree with the sentiment of FTI that the H7 approach should be reviewed for H8. The CMA’s review of the CAA’s H7 determination is not suitable for this purpose. It had a specific objective – to assess whether the CAA’s determination contained any errors, rather than to assess its optimality – and was made at a time when the evidence on the impact of the pandemic (including on financial parameters such as beta) was still developing. Furthermore, there were issues around timing in the last review as the CAA at H7 did not consider relative risk until beta estimates were well established. There is a risk that these issues are being repeated at H8 and that key parameters will be missed, as set out further in the CEPA report.

In support of the above we agree therefore that the CAA should:

- Undertake a full and thorough assessment of relative risk for comparator airports and estimating what is driving differences in estimates between comparators.
- Provide a workbook (on a confidential basis if required) to the airlines covering Heathrow’s cost of debt, including all relevant debt instruments and derivatives.

---

<sup>1</sup> Airline Community “Response to H8 Draft Method Guidance and Business Plan - CAP3044”, dated 13<sup>th</sup> December 2024

- Estimate an asset beta (and other revenue allowances) under the assumption that all traffic risk is allocated to airlines. If the CAA retains its H7 position, it should justify why the asset beta for Heathrow bearing no traffic risk would be notably higher than for a regulated utility network with no demand risk.
- Improve the quality of the price control financial model for H8, ensuring that the resultant workbook is transparent, can be used to project potential charges for future price controls and can be understood by stakeholders.

We note the CEPA comments on missed steps in the overall approach<sup>2</sup> and fully agree with the observation that the less time that is available to carry out thorough analysis, the more difficult it is to reach a high-quality determination, which in turn increases the likelihood of the CAA adopting the status quo without transparent discussion of its relevance or suitability. It is important therefore that the CAA ensures the process considers and addresses the points raised.

Alongside the above comments on the approach to the WACC, the Airline Community have significant concerns on two broader issues which we strongly believe the CAA's policy and approach should seek to address:

Firstly, the imbalance of the current incentive arrangements for a 'fair bet', including the calibration of TRS and demand risk more generally, and the inclusion of the asymmetric risk allowance and passenger forecasting shock factor. Further evidence of these issues is included within the CEPA report and we strongly encourage that the CAA addresses these points in the process. We also agree with the comments within the CEPA report that the allocation of inflation risk to airlines and customers is reflected in beta and indexation, when assessing against other airports such as AENA.

Secondly, in our response to CAP3044 we highlighted the importance and consideration required of both the short and long-term affordability and cost efficiency of Heathrow. Whilst the focus is on the H8 period, the CAA must ensure it is having due regard to the longer-term level of charge, particularly given the emerging investment proposals from Constructive Engagement to date. As set out in the Airline Community Constructive Engagement presentation on Affordability, it is critical given the growth of the RAB and level of charge over recent economic control periods, and the significant investment being proposed during and beyond H8 that, as set out in the CEPA report, this is given due consideration in the process and policy. We agree that this includes full transparency on the CAA's preferred approach to depreciation being required, given that this will be a major determinant of charges and affordability over multiple regulatory determinations.

Given the critical importance of all these matters to the economic price control regulation of Heathrow, and therefore the outcome of H8, we strongly welcome the opportunity to further engage in a timely manner on these matters with the CAA.

---

<sup>2</sup> Section 1 – Overview of the CEPA Report

## [Annex I: CEPA Report on CAP3044a](#)



### **CEPA Response to CAP3044a\_FTI H8 W,**

---

Attached and submitted separately to the CAA alongside this response.