



By email

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Dear Douglas

Ofwat Price Redeterminations - Heathrow Airport Limited Submissions

We are writing on behalf of Heathrow Airport Limited (*HAL*) in response to the CMA's invitation to provide submissions relevant to its redetermination of Ofwat's "PR19" price control decisions for the period 1 April 2020 to 31 March 2025 in respect of four licensed water companies.

As the CMA will be aware, the CMA is currently engaged in a parallel price control re-determination process for NATS En-route Limited (*NATS*) following a reference made to it by the Civil Aviation Authority (*CAA*) on 19 November 2019 (the *RP3 Redetermination*). In the RP3 Redetermination, HAL has made a number of submissions and attended a hearing with the CMA.

HAL notes that each of the water companies whose price control is now subject to re-determination by the CMA have raised various issues relevant to the appropriate method and data for setting the cost of capital in the relevant price control period. Similar issues are under consideration by the CMA in the RP3 Redetermination and a substantial part of HAL's written and oral submissions and evidence have addressed these issues.

In that context, and following a specific invitation from the CMA in an email to me from Judith Ross on 6 May 2020, we enclose the submissions and supporting documents submitted by HAL in the RP3 Redetermination which are directly relevant to the issues being considered by the CMA in the current PR19 water redetermination.

Accordingly, enclosed with this letter are the following:

- a) HAL's initial submission in the RP3 Redetermination dated 24 December 2019 and associated annexes relevant to cost of capital:¹
 - i. Annex A: NERA, Review of UKRN recommendations on the Real TMR
 - ii. Annex B: NERA, Cost of Equity for HAL at H7
 - iii. Annex D: Oxera, Estimating RPI-adjusted equity returns
 - iv. Annex E: Oxera, Assessment of future TMR
 - v. Annex F: Heathrow, Draft Initial Business Plan, Chapter on WACC
 - vi. Annex G: Economic Insight, Local large cap vs Euro indices for beta estimation
- b) HAL's response to the CMA Provisional Findings in the RP3 Redetermination dated 17 April 2020 and associated annexes relevant to cost of capital:
 - i. Annex A: Oxera, Response to the CMA on estimating RPI-adjusted equity market returns
 - ii. Annex B: Oxera, Is aiming up on the WACC beneficial to customers?
 - iii. Annex C: Heathrow, Effect of Gearing on WACC
 - iv. Annex D: Oxera, Corporate bond spreads

For the avoidance of doubt, these enclosed submissions and supporting documents, some of which have previously been published on the CMA's website, do not contain confidential information.

Each of the above contain submissions and evidence relevant to the methodology and data relevant to the cost of capital, including approaches adopted in recent publications of the UK Regulators Network (*UKRN*) which are also relevant to Ofwat's PR19 decisions. In order to facilitate the CMA's efficient review of information most relevant to the water redeterminations, and in particular the assessment of cost of capital, we have greyed out passages which deal with issues which are specific to NERL or the RP3 Redetermination and therefore appear to be less relevant to the issues which have been raised in the water company submissions to date.

We would be happy to assist should the CMA have any questions.

Yours sincerely


James Aitken

¹ This excludes Annex C which focuses on HAL specific issues regarding the cost benefit analysis of measures to improve delays.