

Note on a Cost of Debt Indexation approach for Q6

Note prepared for British Airways¹

June 2013

Introduction

In setting the cost of debt, the CAA has four principal approaches available. The first of these is a fixed allowance for the regulatory period, as used by the CAA in previous price control periods. The second approach is to use a flexible approach, which would involve indexation, which is the method Ofgem have used in the RIIO price controls. This note will focus on these two approaches as we believe they represent the optimal choices, but there is also a semi-fixed approach possible, such as a cap and collar as used for Bord Gais,² or alternatively a hybrid model drawing upon a mix of approaches already mentioned.

It is important that any change in the regulatory regime, such as moving to cost of debt indexation, should be seen as an objective and non-opportunistic. We believe that shifting to cost of debt indexation meets these requirements because:

- it is replacing an existing less transparent process for setting the allowed cost of debt;
- the proposed range for the allowed cost of debt published by the CAA and its consultants, PwC, covers the likely starting values for a cost of debt index; and
- claims of opportunism always have to be handled carefully, but putting in place a transparent process for protecting the company and consumers against non-controllable interest rate risk should be seen as good regulatory practice and is an approach that can be taken beyond the current price control.

Assessment Criteria

In terms of choosing between options, whilst there may be trade-offs between individual criterion, we propose the following:

- Accuracy – the cost of debt allowance should reflect the cost of debt required by an efficient company, including embedded debt. This is the most important principle to uphold.
- Mechanistic – removing the possibility of manipulation by the regulator or company, and thus increasing certainty for investors.
- Link between costs and benefits – those benefiting from current flights should pay a price which is reflective of costs incurred.
- Simplicity – creating an approach that can be easily understood.
- Transparency – clarity of approach and methodology.
- Credibility – the approach must be credible and show a commitment to the approach.
- Unintended consequences – there should be limited impacts upon other areas of the regulatory package, such as the impact of efficiency incentives.

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² The regulated gas transmission and distribution business in the Republic of Ireland.

- Risk allocation – risks are allocated to parties who are able to manage the risks.

Assessment of Cost of Debt options

Before considering the different options, it is useful to state that indexation in practice can mean anything from using the daily spot rate for the cost of debt to using a historic average based upon decades of information where available. We think that a cost of debt indexation model is a better option than a fixed allowance, presuming that its formulation and application is considered and well thought out.

The foremost reason for opting for such an approach is the greater accuracy that the index can provide, given that it moves to reflect the cost of debt observed within a regulatory period, not simply data in the period preceding the price control review. This accuracy will reduce the risks faced by both airports and consumers (airlines and their customers).

As Ofgem set out in their decision to use cost of debt indexation within the RIIO price controls:

*Indexation protects the company should the cost of debt increase markedly during the price control period. Conversely, indexation ensures that consumers do not pay excessively if the cost of debt were to fall.*³

Given that the CAA has duties to protect the interests of customers and to ensure the financeability of airports, this is key. Whilst consumers will end up paying more under this approach if the cost of debt were to rise, this is a cost they would face in a competitive environment and therefore we do not see it as the same risk as a windfall gain or loss.

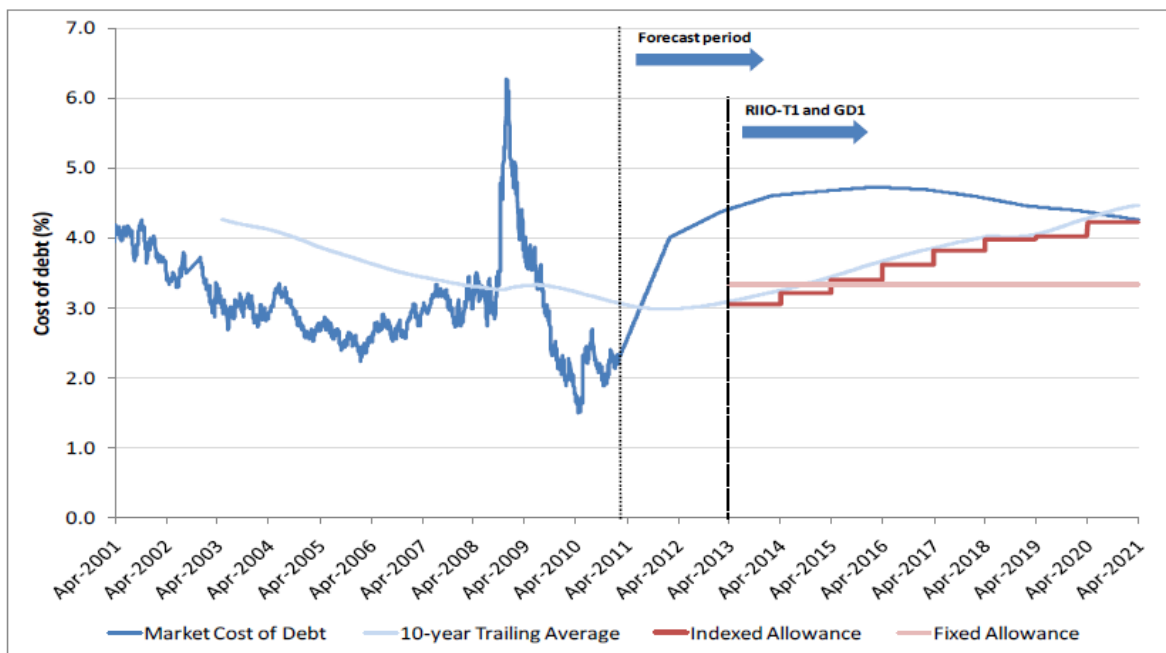
In terms of the relative benefits under the accuracy criteria, the more volatile and uncertain the cost of debt is, the greater the benefits that come from a cost of debt indexation approach. Whilst it is difficult to quantify uncertainty, the change in market expectations in the recent past would suggest that there remains a significant degree of uncertainty in domestic financial markets.

In Ofgem 2011, in recommending indexation, Ofgem stated that they ‘do not think that a fixed cost of debt allowance could be set with any confidence.’⁴ Figure 1.1 shows the cost of debt on a historic basis and what the forward curves at the time implied for the future.

³ Ofgem (2010) ‘RIIO T1 and GD1: Financial Issues,’ December 2010, p.27.

⁴ Ofgem (2011) ‘RIIO T1 and GD1: Financial Issues, Strategy decision,’ March 2011, p.20

Figure 1.1: Market views on the real cost of debt – March 2011



Source: Ofgem

We have conducted analysis based on Ofgem’s iBoxx cost of debt index and forward rates on ten year bonds (implicitly assuming that the debt premium remains constant)⁵. Forward rates suggested that the spot rate just two years ahead in April 2013 would be c.4.5%.

Figure 1.2 shows that the actual rate in April 2013 was under 1.0%, a difference to the forecast of c.350bps. Rates were forecast to be over 4.0% for the entire regulatory period, but current data suggests that rates will not reach 2.5% by the end of the price control on this basis. The change in forecasts demonstrates that there is significant uncertainty, so a cost of debt indexation approach would be very beneficial at this time.

⁵ The Ofgem chart uses a slightly different approach, but the numbers are broadly comparable.

Figure 1.2: Market views of the real cost of debt – May 2013



Source: CEPA analysis, Markit iBoxx, Bank of England

We have assumed in this analysis that the entire forward rate will be reflected in the cost of debt index. This means that when the forward curves suggest that the risk-free rate will increase by one per cent, our cost of debt index will increase by one per cent. PwC state that the uplift on the cost of debt should be smaller than the implied movement in the risk-free rate, so the increases in the cost of debt index would be less than our analysis would imply, since there would be a compensating adjustment.⁶ The greater accuracy provided by indexation should provide better price signals to consumers.

In addition to the benefits from accuracy, which we have set out above, there is also academic backing to using indexation. Brealey and Franks (2009) start by saying that a key objective of regulation is to ensure that wherever possible, public utilities mimic the behaviour of unregulated companies who operate in a competitive environment. The use of indexation should lead to more optimal investment decisions in light of a more accurate cost of debt, which would benefit both the airport and its customers.

As the regulator places greater weight on the risks of under-investment as opposed to over-investment, headroom has been included within the cost of debt index to account for unexpected rises in the index. Brealey and Franks (2009) state that the headroom for Stansted in the last price control was 73bps on the risk-free rate relative to the index. In addition, Ofgem set out that network companies had been able to issue debt at a coupons 58bps below the cost of debt on the day due to a ‘halo effect’ of underpinned asset values and guaranteed revenue streams. The exact allowance relative to the index though will be discussed in later sections on the construction of the indexation methodology.

The use of the Ofgem model has been accepted by companies and they also set out that:

‘Annual indexation of certain components of the cost of capital is a well-established practice among European regulators.’

We therefore believe that a cost of debt indexation approach should be adopted.

⁶ The proportion of the change reflected in the cost of debt is c.60% in PwC’s analysis.

Options for Cost of Debt Indexation

We have set out that indexation is the correct approach for the CAA to adopt for Q6, given that the choices around the design of the mechanism can optimise the benefits from this decision.

We believe that the decision to index the complete cost of debt rather than its component parts, has clear logic, so think that the option is made with regards to this⁷. The remaining options for designing the mechanism include:

- tenor of debt;
- averaging period and methodology;
- credit rating;
- data source; and
- deflation methodology.

Considerations for Airports

In design and implementation, it is important that the mechanism reflects the specific case of airports rather than simply adopting the Ofgem model without further analysis for simplicity.

In terms of the tenor, it is appropriate that this matches the typical tenor of debt issued by the notional efficient Heathrow and Gatwick. As there has been a fixed allowance, actual issuances should be independent of any potential gaming that might have occurred if it was known that this would be taken into account. Whilst Gatwick has issued a small number of longer term bonds, research for Heathrow showed that the average tenor at issue was c.12.5 years, with a remaining life of 9.5 years as of May 2013. The 50%/50% assumption for new and embedded debt from the CAA in previous decisions implicitly assumes that the airport finances itself over ten years. In their analysis, PwC used a benchmark for the cost of debt of ten years or similar maturity (10-15 years).⁸ This would suggest that using a 10yr+ plus index, with average maturity of close to 20 years, is inappropriate for airports⁹.

PwC's analysis considers financing for Heathrow and Gatwick against a benchmark of 10-15 years maturity, finding that both airports have been financed at or better than the benchmark yields. Since 2008, Heathrow and Gatwick bonds have been issued at 5.8% nominal compared to the yield on benchmark A and BBB indices with an average of 6.8%¹⁰.

A further issue for consideration is whether to use the same indices for both Heathrow and Gatwick. The use of the notionally efficient airport would suggest a similar approach should be used, though the actual blended yield for Heathrow debt is 3.6% compared to Gatwick's 4.4%. Heathrow has also issued debt in larger issuance sizes and has a higher credit rating for senior debt compared to Gatwick¹¹. Gatwick has already carried out most of its required financing for Q6, issuing a total of four £300m bonds in March 2011 and January 2012. This was due to requirements related to transaction financing following its sale, but again the use of the notional would not ascribe reflecting this within the allowance.

⁷ See Ofgem (2011) and associated consultant reports for the rationale behind adopting such an approach.

⁸ Using the 10-15 year iBoxx series would give an average asset life of c.12.6 years. We think that this is appropriate. Our proposed approach gives an average asset life of 12.4 years, so is similar to the PwC approach.

⁹ Ofgem found that the average life of network assets for utilities was 18.5 years, so the 10yr+ index matched this tenor.

¹⁰ Mid-point of 6.3-7.0%

¹¹ For example, a £900m issue in August 2008.

Straw Man model

In this section, we will go through the options set out in Section 4 regarding the choice of options for the model.

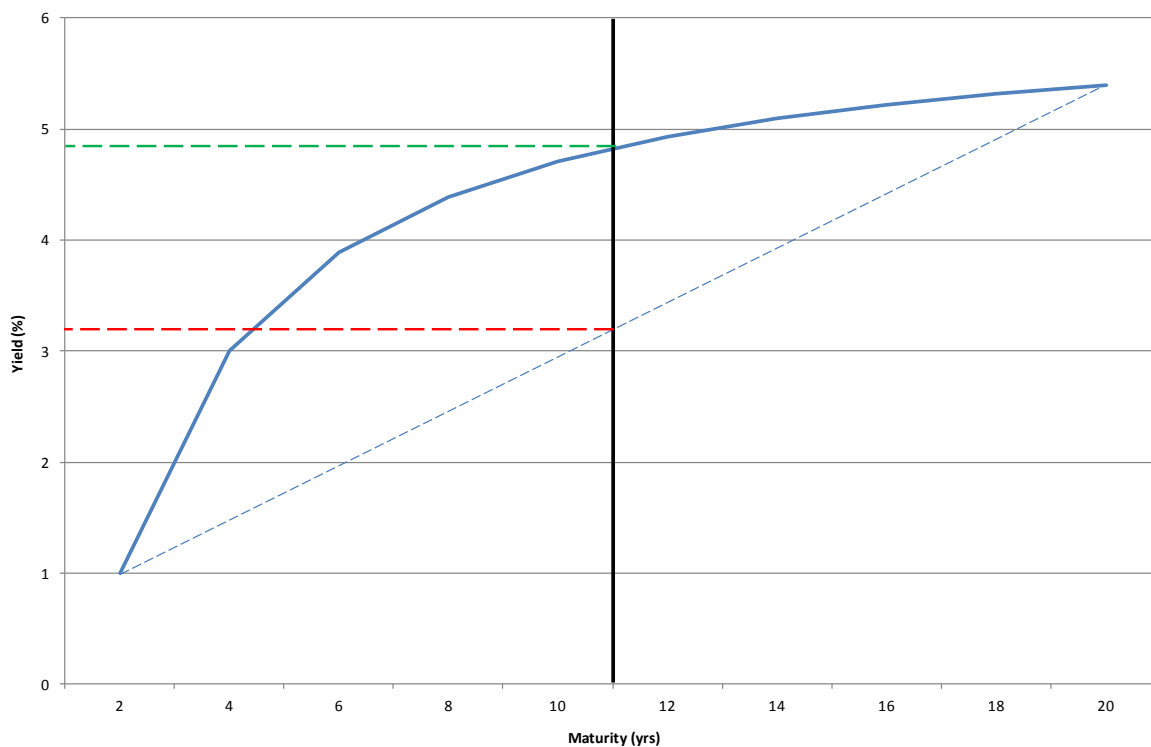
Tenor

In the previous section, we have set out that the 10yr+ index would appear to have a maturity which exceeds the airports' debt profiles. We therefore believe that a 10 year or 10-15 year index would be more appropriate. This has the benefit of being relatively simple and transparent.

Using an average for maturity may not reflect the situation faced in the debt markets by companies. If for example a firm was issuing five year and fifteen year debt in equal proportion, the allowance should reflect 50% of the yield from the five year index and 50% of the yield from the fifteen year index. The issue with a simple approach using an average of maturities rather than average of yields is shown in Figure 1.3.

The chart illustrates a case where the yield curve is not linear and assumes that the company has taken equal proportions of debt with two year maturity and 20 year maturity. This means that the average maturity at that time is 11 years. The green line takes the cost of debt that would be assumed if you took the yield on the 11 year debt, but the red line is the average cost of debt that the company has achieved¹².

Figure 1.3: Illustrative case of debt allowances based on different approaches



Source: CEPA analysis

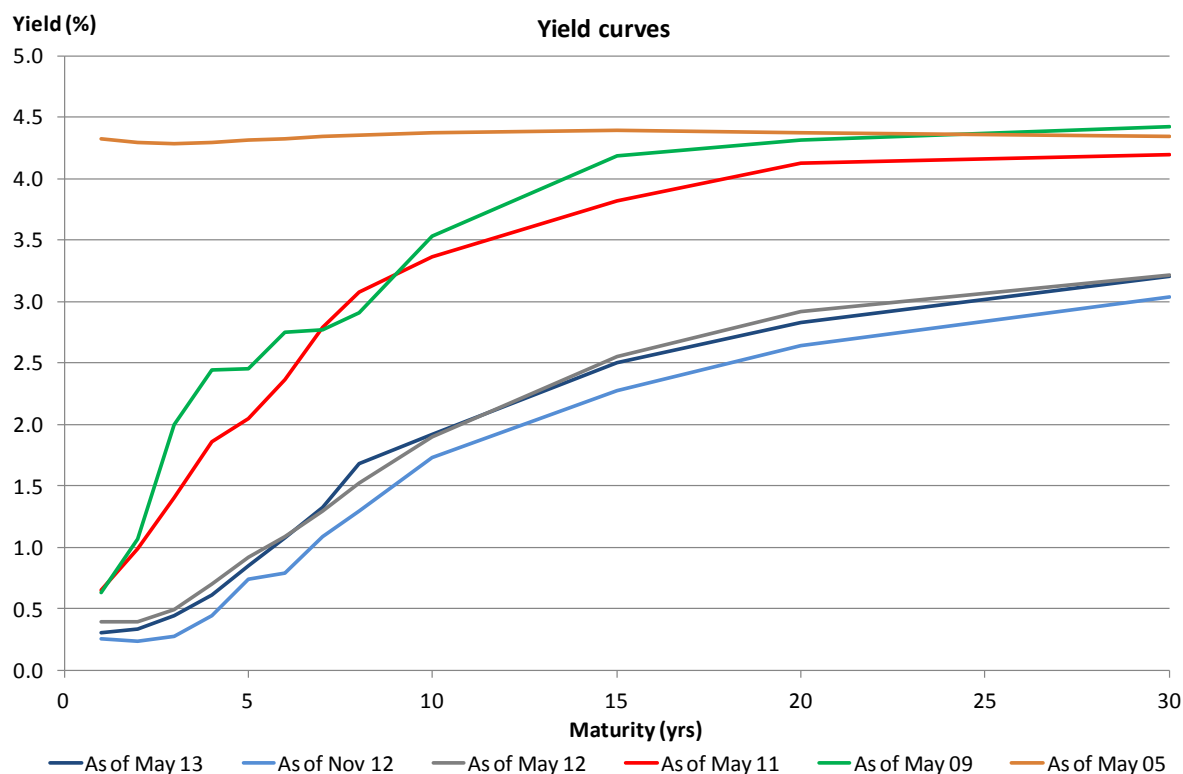
Using this logic, an alternative approach which could be used and that would improve the accuracy of the index would be to use separate maturity 'buckets' which would then be averaged to reflect the difference in rates across the yield curve. Figure 1.4 shows that since the initial curve in May 2005, the yields on longer maturity debt hardly fell in the following six years, but then fell by approximately 100bps since that

¹² Taken by the average of yields on two year and 20 year debt.

point. At the shortest end of the curve, the rate has fallen by 350bps since May 2005, although in the last two years it has not fallen by the same proportion as the mid- and longer- maturity debt.

Adopting an approach where the yields are averaged rather than the maturity averaged to come up with a corresponding yield removes risk from airports and customers that are derived from the shape of the yield curve. The shifting shape of the yield curve is shown in Figure 1.4 below.

Figure 1.4: Recent movements in the yield curve



Source: Bloomberg, Bank of England

Our proposed approach would therefore be to use a shorter-term bucket, medium-term bucket and longer-term bucket. From the Bloomberg indices, this could be equally weighted 5yr, 10yr and 20yr buckets. For iBoxx, this could be equally weighted 3-5yr, 7-10yr and 15yr+ buckets.

Averaging period and methodology

In selecting the averaging period, this period should reflect the time in which debt was taken out. For consistency with the CAA's previous approach to include 50% embedded and 50% new debt and Ofgem's methodology, a ten year averaging period would appear appropriate. This strikes a balance between including not only recent debt issuance in the allowance, but also not including historic debt which had matured into the allowance.

In terms of an averaging methodology, we would favour a simple average i.e. mean, given that the investment profile does not appear to be lumpy and that such an approach has benefits from simplicity and transparency perspectives. It would also reduce the scope for any potential gaming from airports.

One reason for applying a different averaging period would be if a company had a large proportion of floating rate debt. If this were the case, it would be appropriate to place a greater emphasis on more recent data and weightings could be done on such a basis e.g. the floating rate debt proportion could be given the one-year average rate, whilst the remaining fixed rate proportion is averaged across the full ten

year rate, with a blended allowance used for the overall cost of debt. Although the use of swaps from floating to fixed should be considered to ensure that the debt is actually floating.

Credit rating

The CAA sets out that it is targeting a solid investment grade credit rating of BBB+ to A-. Therefore we propose to take a simple average between the BBB+ index and A- index where possible. For iBoxx, data is presented in broad BBB and broad A ratings only, so as per Ofgem’s approach, we would propose using these indices as opposed to those provided by Bloomberg.

Data source

Ofgem set out in their decision paper that the reason for using iBoxx rather than Bloomberg indices were that there were more utilities included in the iBoxx indices, iBoxx indices contained a greater number of bonds and that the weighted asset life of network assets of 18.6 years closely matched iBoxx’s 10yr+ index.

Our proposed approach would be to use iBoxx indices given that a greater number of bonds is likely to ensure more stability of the index and that the broader selection of indices could be useful if choosing our proposed approach for tenor, though we note that they generally provide higher estimates than the equivalent Bloomberg series.

Deflation methodology

Whilst it is possible to use a long-term RPI forecast, we agree with Ofgem that the ten year breakeven inflation figures from the Bank of England are the best deflator to use for the index. Although the maturity on the bonds is longer than ten years, as Ofgem notes,¹³ yields on long-term ILGs are depressed due to the Minimum Funding Requirement on pension schemes and because they are reflective of inflation expectations. The Competition Commission had set out that ten year Index Linked Gilts (ILGs) were free from distortions and therefore that the ten year breakeven inflation measure is reflective of expectations on long-dated bonds. We would expect that the average maturity would be around ten years whether using an average of one tenor or multiple tenors, so this should match our approach relatively closely.

CEPA proposed approach

Given these parameters, Table 1.1 sets out what the current cost of debt would be for our proposed approach.

Table 1.1: Cost of debt estimates from proposed approach

Source	Proposal
Tenor of debt	3-5yr/7-10yr/15yr+
Averaging period	10yrs
Credit rating	Broad A/ Broad BBB
Data source	iBoxx
Deflation	10yr breakeven inflation
Current real cost of debt	2.50%
<i>Current average life of assets</i>	<i>12.4yrs</i>

Source: CEPA

¹³ ¹³ Ofgem (2011) ‘RIIO T1 and GD1: Financial Issues, Strategy decision,’ March 2011, p.24

The CAA has set out that they would expect the initial figure used in cost of debt indexation to be within PwC’s range of 2.3-3.0%. Our proposed approaches set out above achieve this and therefore we think this approach would be appropriate for the Q6 price control. On the current life of assets, we think that a figure of around 12 years is appropriate and if this was greater, this would be equivalent to further increasing headroom.¹⁴

Application of Straw man model

There are many ways in which cost of debt indexation can be implemented. The decision to index the cost of debt is just the first step and inevitably must raise three questions:

- How is the index formulated?
- How is the index updated?
- How are revenue adjustments made?

This section explores each question turn.

Index formulation

Ofgem’s cost of debt indexation, implemented for the first time in the RIIO price controls that came into force in April 2013, provides a useful point of reference for any potential indexation scheme in the Airport sector. Table 1.2 below provides details on the main features of the Ofgem scheme.

Table 1.2: RIIO cost of debt indexation

Feature	Viable option based on Ofgem
Approach	
Scope	Full cost of debt, not individual components
Index values used	10 year trailing average
Nominal index	
Data provider	iBoxx
Sectors excluded from sample	Financials
Credit rating	“broad A” and “broad BBB”
Maturity	10 years +
Explicit Adjustments	
Debt issuance fee	No
Liquidity management fee	No
New issue premium	No
Inflation risk premium	No
Inflation adjustment	
Deflation methodology	Deflate the indices with Bank of England 10-year breakeven inflation data

The Ofgem index has been tailored to reflect how they have traditionally set the cost of debt and their assumptions of how regulated energy networks finance themselves. Therefore, there is scope to vary

¹⁴ The iBoxx 10-15 year indices have an average life of 12.6 years, but such an approach would include headroom due to the shape of the yield curve, as discussed previously.

particular parameters for the Airport industry where a change in the appropriate maturity, credit rating or length of trailing average would result in a more representative value.

However, the Ofgem index has also been designed with data availability in mind, has been consulted on in the industry and has been accepted as part of price controls. Therefore, the Ofgem index already has a valuable level of credibility on which an Airport methodology could build. Therefore, a scheme in the Airport sector could do well to take the Ofgem index as a starting point on which to build airport specific factors.

Anchoring an Airport debt index similar to Ofgem's, not only allows CAA to build upon the work done in that sector, but can also help to secure buy-in from investors for what is already a reasonable increase in the complexity of a core element of the price control.

Update methodology

Implementation of cost of debt indexation in line with regulatory principles should not only result in an appropriate cost of debt value for the companies (reflecting an appropriate maturity, credit rating etc) it is applied to, but should also be:

- replicable – such that the methodology can be unambiguously followed years out into the future in a way that does not introduce risk or interpretation; and
- robust – such that the underlying data will be available in the future or that contingencies are in place.

Ofgem have set out the detail of this process in a series of documents:

- a recipe for calculating the description of the process to select and calculate the index values, published in Price Control Handbooks;¹⁵
- an excel file providing the calculations; and
- their price control to handle the subsequent revenue adjustments.

This process should enable Ofgem, or indeed anyone to “turn the handle” and unambiguously reach the same answer. This gives investors confidence that the regulator cannot influence the cost of debt once the price control has started and limits risk of appeal should the indexation be inappropriately applied or open to interpretation.

As a guide to the level of detail required, the cost of debt sections of the working draft Ofgem handbooks available broadly perform the following functions:

- definition of data sources and statement that they will open consultations if they are not available;
- definition of when the processes will be performed; and
- instructions for calculation of the cost of debt.

The instructions are provided in five steps that include calculation of the:

1. number of trading days in each period;
2. daily yields on the nominal debt indices used;
3. inflation values to deflate the nominal debt values;

¹⁵ Working draft versions are available on the Ofgem website for the Transmission and Gas Distribution sectors. See pp 36-40 <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/RIIO%20ET1%20Price%20Control%20Financial%20Handbook.pdf>

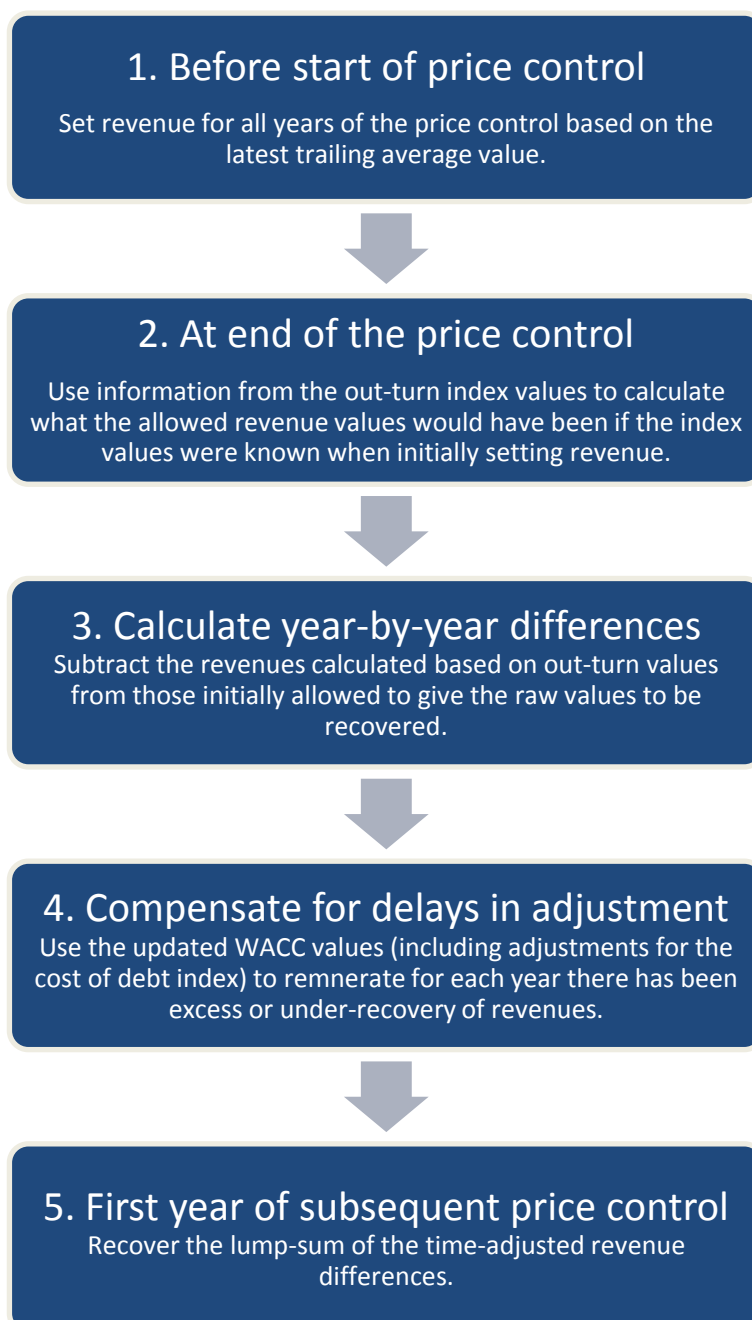
4. calculation of the real cost of debt; and
5. calculation of the average value across the trading days included.

While these steps are not difficult to define, this must be done in a clear way.

Revenue impacts

An important decision in setting up the mechanism is whether to deviate from Ofgem's approach, in such a way that revenue adjustments arising from the indexation mechanism could be made at the start of the following price control period, rather than each year within it. Figure 1.5 sets out an alternative proposal below.

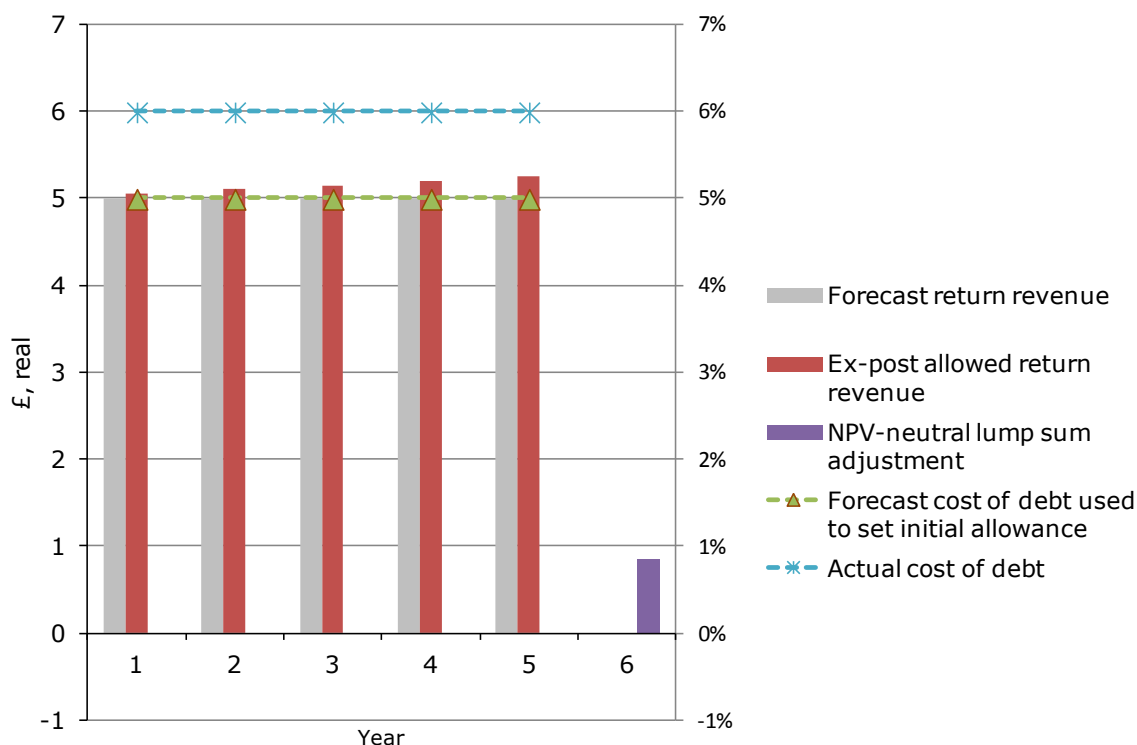
Figure 1.5: Revenue adjustment proposal



Adjustment at the start of the subsequent price control reflects the likely materiality of the adjustments and allows the adjustment to feed into other adjustments that may be made at the start of the price control.

Figure 1.6 provides a simplified illustration of how revenue adjustments might be made.

Figure 1.6: Revenue adjustment illustration¹⁶



The illustration above in Figure 1.6 shows how a 100bp jump in the cost of debt (relative to its forecast level used to set the initial revenues) for the price control would feed through into revenue received. The effect on ex-post allowed revenue is particularly muted at the start of the price control as the historic trailing average maintains a large influence on the cost of debt value. The sustained under-compensation during the price control (years 1-5) is compensated at the start of the subsequent price control (year 6). This value is larger than the sum of individual deviations to compensate the company for financing the difference at the cost of capital, such that they would be indifferent between receiving the adjustment at that time or as they happened.

Whilst this approach may reduce the complexity for the regulator, we would recommend that the CAA mimic the approach taken by Ofgem in making annual updates. The reason for this is the change in the customer base and that ultimately it is the customer who will be paying for services and whilst there might be an argument that airlines may stay relatively similar at each airport, the customer base is likely to change between price control periods.

Addressing Stakeholder Concerns

For the approach to possess credibility, it is important to address any existing stakeholder concerns of which we are aware. The CAA have set out concerns from parties, including Heathrow, regarding indexation.

Heathrow have put forward the following concerns:

¹⁶ Assumes the application of a ten year trailing average index, 5% real cost of equity, 50% gearing, 5% real cost of debt index value in the preceding ten years, a constant real RAB of £100.

- the mechanism should not only be applied when rates are expected to fall or rise;
- airports are better placed than airlines to absorb risk; and
- there is an unintended bias towards debt finance.

Looking at each of these in turn, on the first of these concerns, the greatest credibility and commitment to indexation will be in ensuring that its design is optimal and that revisiting the parameter options is not required at the next price control review. The fact that this is a criticism should highlight that the system of fixed allowances create winners and losers, whilst an indexation mechanism reduces interest risk for both companies and consumers.

Ofgem research highlighted that there would be no greater risk from the indexation approach compared to the existing approach. Brealey and Franks (2009) set out arguments against this risk concern. Their opposition stems from prices being more closely aligned with costs, so more efficient consumption decisions are made and the lack of concern around RPI indexation or the existence of fixed elements such as VAT.

With respect to a potential bias towards debt finance, we do not foresee this being an issue and note that the current fixed allowance approach has seen the gearing level increase. The notional gearing level in Q4 was just 25% and in other sectors which have used fixed allowances, gearing has also significantly increased e.g. the water sector. The choice of financial strategy remains with the airport itself and they are incentivised to procure financing as efficiently as possible, both for equity and debt. As the exact yield on their embedded debt is not included in the indexation approach,¹⁷ there is limited room for gaming and we do not foresee bias stemming from this approach.

Further points have been noted around the relative transaction costs and additions to the index that should be included. In Ofgem's 2010 paper, they set out that networks issued debt at 30bps below the index, so there is implicit headroom built in for such costs (in addition to the implicit headroom which we note is included within the calculation methodology for the index).

In terms of the Competition Commission setting forward their views, indexation is appropriate for regulated companies who finance long-life assets by issuing fixed rate debt with long-term maturities and where yields tend to revert to long-run averages. Indexation is able to handle the use of floating debt in a significant proportion. As noted earlier, one possible approach is to increase the weighting on the most recent data. The assumption from the CAA is for 35% floating rate debt compared to Ofgem's assumption of 25%, so it would not be inappropriate for different weightings. Company management may look to enter into swaps to convert floating rate debt into fixed rate debt, so by a similar treatment of floating and fixed rate debt, it does not create incentives on management to decide upon a certain path. We do not think that this debt should receive any different treatment especially given that it is a parameter interested parties could try to influence, but there is always the potential for such a method should the CAA think that is a prudent approach to adopt. If parties have made decisions and have entered into agreements that are not compatible with the indexation approach, there should be an opportunity for the airports to justify why they should receive an upwards adjustment to the index.

A further concern might be that indexation reduces discretion, but we feel that a rules-based framework leads to lower regulatory risk and there is still room for discretion within the cost of equity and gearing if that is required.

¹⁷ Although at the current credit rating, both Heathrow and Gatwick will have bonds included in the iBoxx non-financial indices should the tenor be at least ten years.

Conclusion

We favour the indexation of the cost of debt allowance for Q6. There is still a large degree of uncertainty within financial markets and an indexation approach can provide greater accuracy and greater benefits in such a situation. This accuracy should remove the risk of under or over investment and costs are more closely reflected in prices, leading to more efficient consumption decisions. An outcome of this is that there is no longer the room for headroom in the allowance.

The impact of this for consumers is significant. The degree of headroom included with the allowances are noted within the academic literature on cost of capital determinations. Looking at the risk-free rate element of the cost of debt, Brealey and Franks (2009) found that the risk-free rate comprised a large proportion of allowed revenues (17% for Heathrow and 11% for Gatwick). This analysis also found that the difference in setting the risk free rate on spot rates over the regulatory period and the choices made, averaged 0.8% from 1993-2009 based on decisions by the Competition Commission, Ofcom, Ofgem, Ofwat, Postcomm and the CAA. If a risk free rate of 2.0% contains headroom of 0.8%, this would imply that it was equivalent to 6.8% of allowed revenues at Heathrow and 4.4% at Gatwick.

While the long-term impact could be significant, it is also important to understand the immediate impact on the businesses. Table 1.3 summarises the possible situation. As can be seen, the approach discussed in this note lies within the ranges proposed for the two airports which helps address any concerns about opportunistic behaviour.

Table 1.3: Impact of shifting to cost of debt indexation

Airport	PwC range	iBoxx illustrative rate (June 2013)	iBoxx illustrative rate (January 2016)*	Comment
Heathrow	2.3 – 3.0%	2.47%	2.12%	Both values are within the PwC range.
Gatwick	2.35 – 3.05%	2.47	2.12	Both values are within the PwC range.

*Note: using inflation expectations of 2.9% and using forwards on the risk free rate to adjust the indices.

Source: *Markit iBoxx, CEPA analysis*

Compared to the implied rates given the percentile positions adopted by the CAA, the savings with the latest rate would be¹⁸:

- For Heathrow –34 basis points. Each basis point is worth about £0.75m per annum during Q6 given 60% gearing of a £13 billion RAB.
- For Gatwick –35 basis points. Each basis point is worth about £0.13m per annum during Q6 given 55% gearing of a £2.3 billion RAB.

Further savings for consumers would be possible given the lower expected rates in January 2016.

¹⁸ For June 17th 2013