
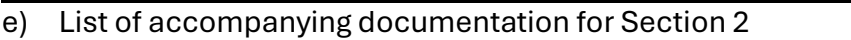


# ECONOMIC REGULATION OF HEATHROW AIRPORT FOR H8: HEATHROW'S RESPONSE TO THE CAA'S INITIAL PROPOSALS (CAP 3232)

29<sup>th</sup> May 2026



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# EXECUTIVE SUMMARY

## EXECUTIVE SUMMARY

### 1. Context and priorities

Heathrow has been a UK regulatory and consumer success story. In the decade to 2014, the delivery of Terminals 5 and 2, on-time and on-budget, was central to addressing past performance issues and transforming Heathrow into one of the top-rated and best-connected airports in the world. In the 12 years since 2014, regulatory determinations for levels of investment have been far lower, focusing instead on asset replacement, including the likes of security lanes, runways and the T2 baggage system.

Whilst the combination of geopolitics and the pace of technological change create a different context, the fundamental challenges for UK Government and regulators remain the same. The Government's top priority is growth. Heathrow is now once again full, ageing and needs to become progressively more sustainable.

At the same time, emerging and emerged economies – from China to India, Turkey, the Gulf States, France, Germany and the Netherlands – have all enjoyed a significant advantage over the UK of growth in hub airport capacity, and have continued to invest to cement those advantages and the knock-on impacts on capital flows of trade and inward investment. This approach is also out of step with other UK regulated sectors – where regulators are now recognising the need to reverse years of short-term approaches to cost and ensure there is an environment that fosters long term investments to benefit consumers.

Consumers, airlines, businesses, employees, the CAA and Heathrow all have the same set of priorities for the next five years – better capacity, better resilience, better passenger experience, better sustainability and value for money.

The CAA's Initial Proposals (IP) however do not deliver on these priorities. Not because there is a difference in view on the priorities, but because, in our view, the IP has been inconsistent in reflecting these priorities in its decisions on capital, cost of capital and operating costs. Indeed, despite the extensive evidence presented in our H8 Business Plan (H8BP), the CAA has erred on the side of caution in its IP to the detriment of consumers. Consequently, the IP does not yet deliver a settlement that is fully aligned with the CAA's statutory duties, public law duties or Government priorities, and instead creates a systemic risk to long-term passenger outcomes.

In our response we show that the IP has a capital envelope that is too small given Heathrow's context and the outcomes that are desired, and that without substantial correction it would lead to not only consumers losing out through a poor outcome in H8 but also a greater issue to fix in H9, at a higher cost. In particular, we set out concerns that a short-term focus on H8 affordability would lead to an imbalance between the interests of current and future consumers. Heathrow's view is that these

issues are addressable. With a series of targeted, evidence-based refinements, the settlement can be strengthened to become both ambitious and deliverable, supporting better outcomes for consumers and the wider UK economy. We set out how the IP could be adjusted and how that leads to significantly better outcomes for passengers.

In addition, we address changes that need to be made to have a Weighted Average Cost of Capital (WACC) that is fair and investable, an operating cost allowance and commercial revenue allowance that is challenging but fair, and other changes that need to be made to ensure the IP will deliver the outcomes consumers are looking for.

Through this response, Heathrow is seeking to work with the CAA to build on the IP to ensure that the final settlement ensures those outcomes can be delivered in practice. We have focused on areas where adjustments would improve alignment between ambition, investment and delivery, strengthening the overall settlement.

For each area, we make specific asks of the CAA, setting out clearly: where the current approach creates misalignment or limits deliverability; the evidence supporting targeted adjustments; and how those changes would improve outcomes for consumers, resilience and growth.

Taken together, these asks provide a focused, evidence-based route to a settlement that better delivers on our shared objectives.

### 1.1. Summary of areas where we ask the CAA to make adjustments ahead of the Final Proposals:

1. **Capital envelope:** The CAA have assessed that our portfolio of costed capital projects is efficient, and yet the significantly reduced IP capital envelope of £5.9bn is not aligned with enabling Heathrow to invest in the outcomes our passengers, airlines and cargo users tell us that they prioritise. We ask the CAA to update their capex methodology and envelope to reflect additional evidence.
2. **An investable outcome:** The proposed WACC does not support an investable settlement, creating a direct risk to the delivery of service improvements, resilience and long-term consumer outcomes. We ask the CAA to reassess the WACC and financeability framework to reflect additional evidence and updated market data.
3. **Operating costs and efficiency:** The level of opex included in the IP is too low, driven by an excessive challenge to the 2024 baseline costs, particularly for security, and insufficient allowance for specific opex increases. We ask the CAA to set opex allowances and efficiency expectations that are deliverable and consistent

with the service outcomes that consumers value.

4. **Commercial revenue:** The assumption of commercial revenues within the IP is too high, driven by an inappropriate challenge to baseline revenues for retail and rail, and not taking into account mode share changes for surface access revenue. We ask the CAA to reassess commercial revenue stretch to reflect Heathrow's unique circumstances and correct for assumptions on key revenue generating lines.

## 2. Capital envelope and scope needed to deliver the priorities

The misalignment between consumer priorities and IP decision making is most evident in the development of the CAA's capex envelope. In addressing consumer priorities, there are four important areas of context that need to be considered for H8. 1. The evolution of capacity and demand. 2. The state of the asset base of Heathrow. 3. Sustainability and net zero. 4. Cargo facilities and property development via a hybrid till.

### 2.1 Capacity and Demand Context

Over the last 25 years, Heathrow can be considered as having two capacity phases: one of growth between 2003 and 2013; followed by a period since then of capacity stasis. Between 2003 and 2013 capacity was increased from 67m to 82m passengers by the addition of T5, replacement and construction of a new T2 and closure of T1. During this period investment averaged around £2bn per annum (2024p). Since then, capacity remained constant until small increases in 2025 and 2026 to 83.5m and 85m respectively. Over the time since 2013, passenger numbers have increased from 72m to 85m utilising all available capacity. Investment over this latter period was much lower at around £0.9bn per annum, largely focused on maintaining and replacing existing infrastructure.

In parallel to H8, Heathrow is bringing forward plans to expand Heathrow. However, this will not deliver additional capacity until late H9 or beyond. This means that demand in H8 and H9 must be met by capacity added in H8.

During H8, passenger numbers are forecast to increase further to 90m (unshocked) in 2031. This represents an increase of 17m since 2013 – equivalent to adding another airport of the same capacity as Luton Airport to Heathrow. The CAA's IP implies that Heathrow should achieve this without adding new infrastructure to serve it. For resilient operations and a regulatory passenger forecast to be a fair bet, there should be capacity headroom above forecast demand. The additional demand forecast for H8 cannot be met without the significant extensions to capacity as planned during H8, and we will

have to face the unpalatable trade-off between accommodating growth and capping demand to ensure a safe operating environment that protects passenger experience. Our H8BP includes 9.5m additional capacity by 2032, delivered by an investment plan at a level of £1.9bn pa, essentially similar to that observed during the previous development phases.

In contrast, the IP requires and assumes significant growth to be delivered at a level of investment that is consistent with capacity stasis rather than development. The CAA's IP proposes a capital investment envelope capped at £5.9bn. It is presented that this efficient envelope *"represents a significant uplift from H7 and Q6"*. The cap itself has been set using two criteria: firstly, the mid-point of the average annual capex of the last 25 years excluding the higher decade when T5 and T2 were built, and the average of the last 25 years as a whole. Secondly, a "max deliverable" ceiling has been applied based on recent years of investment. The use of the stasis periods of H7 and Q6 as the reference points for envelope-setting undermines the IP's ability to deliver its top priority of capacity for growth. Moreover, regulatory application of a stasis "max deliverable" ceiling is difficult to reconcile with the priority of growth and subsequent far higher levels of investment required for the expansion of Heathrow.

## 2.2 Heathrow Asset Base Context

Heathrow has 650,000 assets that need to be maintained and refurbished or replaced at the end of their lives to keep the airport operational. As the airport ages, for example T5 will pass 20 years of age during H8, the need for replacement will increase. By the end of H8, the average age of Heathrow's four terminals will be 39 years old. If an asset has exceeded its design life, its risk of failure will likely increase until it is eventually replaced or refurbished. Heathrow refers to the replacement value of assets that have exceeded their design life as maintenance debt. The levels of historic investment during H7 and Q6 mean that Heathrow is carrying £3.5bn of maintenance debt into H8. This level of debt is increasingly costly and detrimental to the consumer experience. Recent examples include asset failures of T4 short stay car park and BA crew car parks resulting in ongoing partial closures, disruption and lost revenues. Airbridges are also on a downward trend of performance availability, with low residual asset life.

The IP results in higher levels of degradation (assets exceeding their design life) during H8, that is not addressed by the levels of maintenance included in the IP. Unaddressed, the consequence would have similarities to the water sector, with a large increase in maintenance debt by the end of H8 with an associated significant impact on service risk. This would need to be addressed by a significantly larger maintenance programme in H9 that might not be deliverable without impacting capacity or service.

## 2.3 Sustainability Context

An additional key context for Heathrow is sustainability and the requirement for the UK to achieve net zero by 2050. The importance of this is shared by Heathrow and the CAA, illustrated by the CAA chair's view that "sustainability is the greatest challenge aviation has ever had"<sup>1</sup>. We also welcome the CAA's clarification on the heightened status of sustainability within the H8 method statement. Immediate requirements for H8 included in our plan are investing in electric vehicle (EV) charging ahead of the phase out of new petrol and diesel vehicles by 2030 and making progress in heat decarbonisation ahead of 2050.

The IP does not, in our view, recognise this challenge. None of the investment in EV charging is included in the capex envelope and only a small proportion of heat decarbonisation is incorporated.

Investment in noise insulation for the most impacted local households is integral to our social licence to operate, with significant indirect benefits to passengers and airline customers. Failure to achieve the targets adopted within the Noise Action Plan leaves Heathrow open to significant operational and capacity restrictions imposed through DfT, government policy, or legal challenge from community groups. This kind of intervention has already been witnessed at other Hub Airports across Europe and is highly damaging to the interests of air transport users. The IP disallows 88% of planned noise insulation investment, despite this being a target in our statutory Noise Action Plan approved by the Government. Relatively speaking, this would be a small investment to address highly localised concerns, but with an inordinately large benefit to the wider UK economy and pursuit of growth.

## 2.4 Cargo Facilities and Commercial Property via a Hybrid Till

One of the targeted outcomes of our H8BP is investing in our cargo facilities to enable global cargo trade through Heathrow to the value of £252bn p.a., an increase of ~£5bnB p.a. vs 2023, enabled by a 20% increase in cargo facility capacity. In Steer's assessment of H8 Consumer Priorities they identified cargo as a key area of focus, which we agree with.

Whilst the Government is signing wide ranging new trade deals with countries around the world, the CAA's IP again excludes investment in property development, including cargo capacity. Over the last 20 years there has been no significant investment in commercial property development. In the H7 determination, the CAA applied a 5 year pay back threshold for commercial projects, which excluded property projects from the

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<sup>1</sup> Sir Stephen Hillier interview with the Scotsman, 20 May 2023

portfolio. The CAA's IP for H8 has not supported a hybrid model, which means that all commercial property investment has been excluded from H8.

The lack of investment by Heathrow in properties around our perimeter is contrasted with significant investment made by third parties (taking advantage of the high value of land as a result of Heathrow's success) and the examples of investments made across our competitor hubs in Europe and around the world. It is our view that the approach to property development adopted by the CAA over recent decades is damaging for passengers and airlines today, who end up paying more for Heathrow than would be the case if the Heathrow regulatory till was benefiting from attractive property contributions. Inherently this policy approach makes Heathrow an uncompetitive outlier, as it enables others to extract the value that the airport creates whilst preventing the airport from access to that value.

We welcome the CAA's statement in the IP that "*we remain open to further representations on these matters.*" We will continue to engage and ask that the CAA decides on how to appropriately regulate an arena that is fundamental to unblocking the UK's largest port by value.

### **3. The £5.9bn envelope is too small, lacks ambition, and cannot deliver the outcomes consumers want**

The £5.9bn envelope would lead to a compliant, ageing airport, but not a better, bigger airport. The CAA have assessed that our portfolio of costed capital projects is efficient, and yet the significantly reduced capital envelope is not aligned with enabling Heathrow to invest in the outcomes that our consumers, airlines and cargo users tell us that they prioritise. Regardless of the scale of the capital envelope, Heathrow is focused on driving continuous improvement into the delivery of capital projects, as reflected by our plans to drive 5% (£500m) savings across our proposed capital portfolio for H8.

If Heathrow is held to a £5.9bn envelope in H8, Heathrow would need to prioritise essential legal, compliance, safety and resilience requirements that we estimate will cost £5.6bn. This therefore leaves insufficient allowance to deliver additional capacity, meet sustainability requirements or meet consumer priorities. A settlement intended to deliver better outcomes should have a sufficient budget envelope to meet those priorities. Not only does the current package not meet that test, but it will also lead to significantly greater investment being required in H9 to address the shortfall of H8, again reflecting similarities with the water sector. It is almost always cheaper and more straightforward to fix the roof while the sun shines, particularly in a world of rising raw material, commodity and labour input prices.

A settlement driven primarily by a short-term affordability lens will not deliver better value for consumers in practice. It will deliver a more constrained airport, more limited room for improvement and a growing risk that service quality falls behind demand. The risk is that passengers, and therefore airlines, turn their custom to other airports that provide newer and better gateways to Europe – such as Paris Charles De Gaulle, Istanbul or Madrid.

In addition to creating a worse outcome for H8, the IP cap does not deliver efficiency. Unmet capacity, asset replacement and sustainability requirements will need to be addressed in H9. Passenger numbers will be lower in H9 because of lower capacity. Moreover, lower commercial investment in H8 will lead to lower revenue in H9, and lower digital investment in H8 will lead to higher opex in H9. The overall consequence of the low capex allowance for H8 would therefore lead to significantly higher prices in H9 than needs to be the case.

The Final Proposals should address this imbalance by recognising that value for money is not achieved by reducing investment to the point where, after meeting core obligations, almost no investment remains for consumer benefit. We recommend that the CAA instead adopts a forward looking, needs based approach to determining the capital envelope at a level that both delivers the priorities and addresses Heathrow's maintenance debt.

#### **4. Modernising Heathrow a programme to replace and grow some of Heathrow's 2R capacity, is excluded from H8**

The CAA has excluded most of the Modernising Heathrow programme from H8 that Heathrow considers should be included in H8. T5 Optimisation is required to deliver additional capacity irrespective of Expansion. British Airways have written to us setting out their view that *“the Optimisation Program is not expansion. It is the sensible, overdue optimisation of existing airfield and terminal assets, expected of any competent airport operator and entirely independent of wider runway or expansion debates”*.<sup>2</sup> It delivers an additional 6m capacity by summer 2032. T5 was the envy of the world when it was opened by the late HM Queen Elizabeth II in 2008. By the end of H8 in 2031, it will be nearly 25 years old. The danger is that a lack of ambition and foresight will risk sustained decline of a national economic asset.

The IP's exclusion of Modernising Heathrow investments from H8 is therefore in our view inconsistent with the CAA's statutory duties. We wrote to the CAA on 20 May 2026 to lay out why exclusion would not be in either current or future consumers' interests and would harm UK growth contrary to the Government's priorities for the CAA. Classifying

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<sup>2</sup> Letter from Sean Doyle to Thomas Woldbye, 11/5/26

these works as Expansion would lead to uncertainty and delay in their delivery until the framework for Expansion is finalised. The Modernising Heathrow programme is independent of 3R expansion, but if not undertaken during H8 it would impede expansion.

It is important to note that a DCO in 2029 for the Expansion of Heathrow will likely bring with it permission for 'Early Growth' of an additional 25,000 aircraft movements (5% increase), off the existing two runways. If there is the pre-existing Terminal capacity headroom to serve these additional flights it could be possible to operate them in the early 2030s. This growth would be hugely attractive for Government, connectivity, the economy and air transport users. The exclusion of Modernising Heathrow and associated capacity uplift from H8 investment would block this path to early growth.

## 5. Asset health and resilience

It is our assessment that the level of maintenance the CAA has included in their IP is too low and would lead to maintenance debt increasing significantly, lower resilience, more frequent disruption and consequent higher reactive maintenance costs. Heathrow serves three times as many passengers per square meter as comparators. This unparalleled utilisation and density of Heathrow generates higher maintenance requirements and bigger impacts from asset failures.

A key driver of the reduction in maintenance is that the methodology adopted by the CAA is based on the asset risk scores at the start of H8 rather than the end of H8. As such it ignores the degradation occurring during H8. We recommend that the CAA should change its methodology to take account of risk scores at the end of H8.

Another fundamental issue is that the assessment has failed to take account of the criticality of many assets. For example, replacement of various critical assets has been excluded by the IP e.g.: aeronautical ground lighting, Foreign Object Debris (FOD) radar, pollution protection, asset management system, master airport operations database, and rail tunnels water & fire compliance. We suggest that the CAA should take account of the potential consequences of asset failure in its approach. In reality, if the CAA retained the proposed £5.9bn envelope, Heathrow would need to undertake these types of critical asset renewals and would need to remove substantial other scope from the envelope.

## 6. Consumer outcomes and sustainability not adequately reflected

On the one hand, the IP recognises all passenger experience programme projects as having “a clear direct impact on passenger experience”, and the report by Steer stating “Overall, the Passenger Experience programme presents a strong strategic case built on rising demand, evolving passenger expectations, and identified service gaps.”

On the other hand, the CAA do not see a needs case for 79% of our proposed passenger experience investment, 63% of our carbon and sustainability programmes (excluding noise) or any investments that benefit the Cargo community. As an example, the CAA have removed investment projects to deliver seating and wayfinding, yet the IP raises the concern that these passenger issues were not explicitly reflected in our plan.

It is our view that the CAA approach to assessing consumer outcomes from capex projects does not consistently reflect consumer priorities or statutory duties and has limited alignment with consumer research and airline priorities. We propose an adjustment to the scoring approach that allows consumer priorities to be better reflected in the CAA assessment approach.

In addition, the approach to less mature environmental and community investments underestimates their likelihood and does not take account of the legislative and policy environment within which they are required. We have provided additional information to make this environment clear.

Of wider note is that airline engagement on H8 investments is leading to further addition of desired scope as opposed to a reduction in scope. Examples include greater investment in Terminal 3 and One Stop Security – requiring [REDACTED] to transition a successful pilot into a permanent capability, enabled by over a decade of collaboration between the UK and US Governments, representing a landmark bilateral agreement and unique competitive advantage. Over 210,000 passengers have already benefitted from the pilot that removes the need for qualifying transfer passengers to be rescreened at transfer security.

## 7. Commercial revenue investment

The IP only includes 26% of the new commercial scope proposed in our H8BP.

A key driver of this outcome is the CAA’s approach to scoring schemes that only have commercial benefit results with a maximum score of 9, which is below the cut-off score of 11 that the CAA has used for including schemes within the capex envelope. Without further expansion, there are very few non-aero forms of revenue that an airport operator can grow, and commercial/retail revenue is one of those. This in turn takes some pressure off the need to increase the regulatory price settlement. This is clearly a contradictory outcome as it automatically rules out commercial investment

irrespective of its impact on revenue or aero-charges. Heathrow is not being incentivised under this approach to be better, more innovative and more entrepreneurial to the benefit of the passenger experience. We propose an adjustment to the approach to the threshold that addresses this issue.

Failure to invest in commercial opportunities will lead to lower commercial revenue in future periods and higher charges for airlines.

## 8. An investible outcome

The proposed Weighted Average Cost of Capital (WACC) does not support an investible settlement, creating a direct risk to the delivery of service improvements, resilience and long-term consumer outcomes.

Our shareholder base represents rational, global, sophisticated long-term investors who have consistently demonstrated their commitment to the UK and its critical national infrastructure, Heathrow included. However, they in turn have fiduciary duties to their own shareholders and stakeholders – and if they are unable to make a continued investment case, the result will be capital flight, to the detriment of both Heathrow and UK plc. This is not a threat, simply a rational statement of fact.

The IP sets a WACC of c.5.86% (pre-tax real), around 0.9 percentage points below Heathrow's submission (6.76%), driven primarily by a lower cost of equity due to the CAA applying a Traffic Risk Sharing (TRS) adjustment. It is inconsistent to materially adjust WACC downwards in the current global context of uncertainty.

The TRS adjustment is based on a CAA judgement that the risk of Heathrow is much closer to that of water companies than the comparator airports used to calculate airport asset beta. The CAA judgement is inconsistent with the prior assessment provided by the CAA's specialist consultants FTI.

The adjustment is based on assumptions that are not supported by economic theory or any empirical evidence. The CAA should remove this adjustment to recognise: Heathrow has demonstrably higher revenue volatility than comparator airports and the TRS adjustment makes its revenue volatility equivalent; and the TRS adjustment is similar in nature to an insurance policy. It does not affect systematic risk and therefore should have no impact on asset beta.

In this submission we also provide updated evidence on asset beta estimates for airports, the cost of new debt and the impact of updating market conditions. An objective, well-evidenced and considered assessment of H8 WACC is particularly important given the CAA's draft proposal for a WACC on the Early Costs for Expansion that is below Heathrow's current cost of debt.

Without revision, the low WACC will reduce investor appetite to invest leading to deferred or forgone investment and higher long-term risk for passengers. In addition, it would undermine the investment case for Expansion, and the wider reputation of UK plc as a place to invest and do business.

### 9. Opex assumptions must be deliverable and aligned with service outcomes

The level of opex included in the IP is too low, driven by an excessive challenge to the 2024 baseline costs, particularly for security, and insufficient allowance for specific opex increases.

The H8BP already embeds significant efficiency improvements. Independent passenger survey results and third-party industry assessments in 2025 and 2026 indicate that Heathrow has delivered measurable improvements in passenger satisfaction, whilst delivering a downwards trend in operating cost per passenger.

In the IP the CAA apply a reduction of £22m pa based on the potential benefits of next generation security. This is the equivalent to a 10.3% [REDACTED], reduction in Security Officer headcount. This is much greater than the [REDACTED] pa that Heathrow agreed with the airline community at G3 of the Heathrow Gateway Lifecycle and we included in our plan. The CAA adjustment is based on benchmarking that does not reflect the service level, resilience and passenger mix required by airlines at Heathrow. We suggest that the reduction is replaced with that agreed at G3. Security processing at Heathrow is now highly regarded by passengers, recently rated as 3<sup>rd</sup> best in the world by Skytrax. Cutting security resourcing by the proposed 10% from January 2027 would risk extensive queuing, mass congestion and delays. Sadly, we have experienced these circumstances before in 2010 with staffing cuts to the UK Border Agency, and know that this would not only have a detrimental impact on the reputation of Heathrow, but also a post-Brexit Britain and UK plc.

The CAA also set out an expectation that the renewal of particular contracts would lead to savings. We show that costs for Passengers with Reduced Mobility (PRM) and cleaning, the latest competitively tendered contracts have not achieved the savings assumed by the CAA. The combination of rises in national insurance, living wage inflation and service standards have all contributed. In addition, the CAA apply baseline savings to other areas of cost, such as non-operational employment costs, with no evidence to support the adjustment. We recommend that the CAA should remove un evidenced adjustments.

In their IP, the CAA excludes overlays for operational resilience, digital investment, and technology renewal. We set out more evidence for why these costs are additional, important and efficient. We show that the digital investment and technology renewal overlays are based on costs we are incurring in 2026 that we did not have in

2024 and therefore should be recognised. We note that British Airways has recently announced digital investment of £250m p.a. over 3 years, whilst the CAA's IP for Heathrow removes our digital and technology overlays (opex) and excludes two thirds of the proposed digital transformation projects (capex), thereby only including £30mp.a.. Digitisation is critical to achieving the productivity and service level that we, the CAA and all our stakeholders would like Heathrow to drive.

Finally, we note that the outlook for energy costs is now very different from that at the time the CAA determined their IP, and that there is currently a high level of uncertainty about the future direction of costs. We will provide the CAA with an updated energy price forecast later this year.

Correcting these issues will lead to a more robust, yet still challenging opex assumption. Setting the opex assumption too low creates a risk of reductions in service and resilience as a consequence of cost reductions that remove efficient costs rather than challenge inefficiency.

## **10. Commercial revenue assumptions must be realistic to protect consumer outcomes**

Heathrow continues to deliver levels of commercial income per passenger that benchmark really well, in an environment that is distinctly space constrained. Heathrow has recently been recognised by passengers as offering the Best Airport Shopping in the world (Skytrax). However, the assumption of commercial revenues within the IP is too high, driven by an inappropriate challenge to baseline revenues for retail and rail, and not taking into account mode share changes for surface access revenue.

The IP applies an upwards baseline adjustment to commercial revenues based on inaccurate evidence. Heathrow's Retail and Food & Beverage performance is already strong relative to global peers, as evidenced by ACI benchmarking, despite structural headwinds such as the removal of VAT-free shopping and estate constraints. It is our view that there is no potential for additional revenue for Heathrow Express (HEX) from discounted online sales, as this has been tested. Based on 2023 data, the top-down modelling does not support an adjustment to baseline revenue. We ask that these adjustments are removed by the CAA.

The increased number of passengers using the Elizabeth Line leads to reductions in parking and HEX travel that should be taken into account. We suggest that the CAA adjusts its approach to include adjustments for mode share changes.

The elasticity assumed by the CAA of 1.0 for retail revenues is not supported by either Heathrow's evidence or its own consultant evidence. Nor is it consistent with the

evolution of revenues over the last few years. We suggest the use of an elasticity of 0.8, consistent with the advice from CAA consultants.

In addition, the removal of £512m of Commercial revenue capex substantively limits Heathrow's ability to deliver the non-aero revenue growth assumed by the IP. The IP takes no account of this. Removal of all these projects leaves us unable to meet passenger expectations and will have a detrimental impact on future revenue growth, making charges higher in H9.

## 11. The overall package must align with statutory duties and Government priorities

Taken together, the IP does not in our view yet deliver a settlement that is aligned with the CAA's statutory duties or Government priorities, creating a systemic risk to long-term consumer outcomes.

Across the four preceding themes of capital, WACC, opex and commercial revenues, the current approach results in a consistent pattern: investment required to deliver consumer outcomes is constrained; evidence and consumer insight are not always fully reflected in key decisions; assumptions across the package are misaligned with deliverability.

Heathrow's view is that these issues are addressable. Throughout this response to the IP, we suggest the appropriate actions to address these issues.

## 12. Conclusion

The shared priorities for H8 position us well. The Final Proposals need to provide the appropriate tools and stretch to deliver those priorities. The disconnect between consumer priorities and key elements of the CAA's H8 IP implies that the CAA may have given relatively greater priority to a perception of short-term affordability and continuity with H7 pricing. *"The CAA have proposed the average charge over H8 to be £28.80, c. 1% higher compared to average charges over H7 of £28.40."*

The IP removes ~£4bn of investment from Heathrow's plan but makes no associated adjustment to the benefits associated with that investment: capacity, revenue or sustainability. Whilst the higher level of investment in Heathrow's own plan would lead to a higher charge than the £28.80, it would also lead to a relatively lower charge in H9 and beyond. In contrast, the CAA's IP £5.9bn plan, corrected for reduced passenger numbers (6.4m fewer in H8) and lower revenue, would lead to a much higher charge than the £28.80 proposed and a higher charge again in H9. We ask that the CAA increases investment to a level consistent with the delivery of stated priorities as

correcting the IP for the reduced passenger numbers and benefits would be inconsistent with the interests of passengers and government priorities.

Without the sharp increase to Business Rates and the removal of Tax-Free Shopping, Heathrow's charges would be ~£3 per passenger lower in H8. Adjusting for this reality shows Heathrow delivering a very strong multi-year real terms position for consumers, far below that of airfares. Our charges on average represent 9% of airfares at Heathrow, consistent with the average of comparators. We are concerned that the CAA's initial benchmarking of Heathrow charges may be influencing the proposed level of the H8 charge. We will separately respond to the CAA's consultation on future regulatory models, specifically the work on charges benchmarking.

Heathrow's response is designed to support the CAA in reaching Final Proposals that deliver value for money whilst maintaining the outcomes consumers expect: a reliable, safe and accessible airport, with continued improvement and the capacity to support growth. We will continue to engage constructively with the CAA, airline community and wider stakeholders in pursuit of these outcomes. The evidence and proposals set out in this response seek to demonstrate the targeted refinements to the IP that are required to achieve this.

With these adjustments, the Final Proposals can deliver: consistent, high-quality passenger outcomes; a resilient and reliable operation; a credible and investable plan to support UK connectivity and growth; and therefore a better Heathrow that passengers, airlines and UK plc can ultimately continue to be proud of.

We appreciate the constructive and professional engagement of the CAA team throughout this process, and we remain committed to working with them to support a final settlement that is both robust and deliverable.

## OTHER ISSUES, AND ASKS OF THE CAA

### 13. Other issues to be addressed

There are a number of changes that have occurred since our H8BP submission, and the IP applies a different treatment to some areas, such as Business Rates, which lead to requirements that were not included in our plan. We address these in our response.

In particular:

- The passenger demand forecast needs to be updated to reflect latest market conditions and operational trends. Specifically, the impact of the Middle East conflict on jet fuel, and the changing densification models being adopted by airlines that is driving a reduction in seats per movement.
- The CAA set appropriate targets for MTIs, consistent with consumer research, but the opex and capex adjustments made by the CAA do not support Heathrow's ability to meet these targets. In addition, the IP needs to go further in driving the right end-to-end operating model for Team Heathrow through introducing eligibility criteria for airlines at key parts of the passenger journey.
- There is considerable uncertainty over the level of Business Rates from 2029 onwards. Based on the current valuation, costs could increase by £250m pa. Therefore, we propose an adjustment mechanism is included in the Final Proposals that manages this uncertainty.
- HMRC has set out its view that Heathrow should charge VAT on Passenger Departure and PRM charges. It is possible that this would be applied retrospectively with interest costs. An adjustment mechanism may be required to reflect any net costs borne by Heathrow as a result of this change.
- If Noise and Vortex (N&V) costs are to be treated as opex, then we consider that they are best included in Other Regulated Charges (ORCs). This will allow enhanced airline oversight compared to general opex, and will help ensure that the amount recovered from airlines is not greater than the spend incurred.
- If fixed costs are to be included in ORCs, both airline and non-airline fixed costs should be included to ensure the right allocation between them in a single pricing approach.
- The CAA's response on commercial property lacks ambition to consider different ways of improving outcomes for consumers, and the CAA should more fully consider how a hybrid mechanism could be introduced in H8.

- Given the CAA's assessment criteria, we believe we have demonstrated that our plan is of high quality and urge the CAA to recognise this in their Final Proposals.
- We propose that the holding charge for 2027 is based on the mid-point of the H8 range rather than using a stepped-flat approach. This is to recognise that the Final Decision would not impact 2027 revenue and therefore the mid-point of the IP is more appropriate for 2027.
- The approach taken by the CAA on asymmetric risk needs adjustment in the early years to ensure that the adjustment fully reflects the risk.

Further details on all of the above are set out in Section 3.

#### **14. Responding to specific asks within the CAA's IP:**

Throughout their IP, the CAA have asked Heathrow to specifically comment on certain points made; we have addressed these in our response. Appendix B summarises the CAA's questions asked in their IP and signposts the relevant sections within our response that address them.

In addition, we have addressed the CAA's asks of proposed license modifications in Sections 3.4 and 3.9.

#### **15. Summary of asks of the CAA before Final Proposals**

Throughout this document we make a series of asks to the CAA – with the intent to build on the IP and attain a better outcome in the Final Proposals.

In summary, we ask the CAA to:

- Confirm the statutory duties-led framework for H8 decisions, with explicit assessment of consumer priorities, resilience, accessibility and long-term growth impacts across the whole package (see Section 1).
- Update the capex methodology and envelope to reflect additional evidence (see Section 2.1).
- Reassess the WACC and financeability framework to reflect additional evidence and updated market data (see Section 2.2 and Section 3.7).
- Set opex allowances and efficiency expectations that are deliverable and consistent with the service outcomes that consumers value (see Section 2.3 and Section 3.2).

- Reassess commercial revenue stretch to reflect Heathrow’s unique circumstances and correct for assumptions on key revenue generating lines (see Sections 2.4 and 3.5).
- Consider our updated evidence and positioning on the other areas set out in our response to the IP to ensure the settlement is robust to uncertainty (e.g. demand, Business rates, Noise and ortex treatment) with proportionate adjustment mechanisms that protect consumers and delivery of our plan (see Section 3).

**SECTION 1:  
CONSUMER IMPLICATIONS OF THE  
CAA'S APPROACH, AND  
ALIGNMENT WITH STATUTORY  
DUTIES.**

## SECTION 1.1 – LONG TERM IMPLICATIONS / DUTIES TO CONSUMERS

### 16. Introduction

The approach reflected in the IP gives rise to a real risk that the CAA has failed to properly apply its statutory and public law duties.

In discharging its primary duty, the CAA must have regard to guidance issued by the Secretary of State (among other matters). In a letter dated 20 April 2026, the Secretary of State issued guidance on the “Civil Aviation Authority (CAA) priorities for 2026/27” which include:

- Growth and innovation (which includes the CAA’s work on expansion at Heathrow and other airports);
- Economic regulation of aviation;
- Airspace modernisation;
- Decarbonisation of aviation;
- Modernising the CAA’s focus on aviation’s passenger and freight consumers so as to put the consumer first; and
- Efficiency, effectiveness and resilience.

In this section we will set out that:

1. The approach adopted by the CAA is inconsistent and doesn’t appear to be fully supported by the underlying evidence.
2. The CAA has failed to properly apply its primary statutory duty to further the interests of air transport users regarding the range, availability, continuity, cost and quality of airport services.
3. The CAA must have regard to the Secretary of State’s guidance on the CAA’s priorities for 2026/27 in applying its statutory duties.
4. The CAA’s approach is deficient in other material respects as it ignores key learnings from recent reviews and the work of other economic regulators and does not provide sufficient clarity on the treatment of projects that span both Expansion and H8 frameworks.

### 17. The approach adopted by the CAA is inconsistent and doesn’t appear to be fully supported by the underlying evidence

Heathrow has identified a number of legal issues in the IP, the key aspects of which are outlined below.

First, Heathrow is concerned that the approach taken by the CAA to the IP does not always give proper effect to its legal duties. The CAA’s approach to its statutory duties is

uneven and falls short in some important respects. The CAA lists its legal duties in Appendix B of the IP (which spans only just over a page). However, simply summarising its duties is not enough. The CAA’s duties must be applied to the proposals at a level of practical detail. To fail to do so leaves the CAA’s proposals open to challenge. By way of example: the CAA’s disallowance of key aspects of Heathrow’s capital programme (to increase capacity in existing terminal facilities) is not consistent with the statutory framework. Other specific errors are discussed further in the following sections of this response.

[REDACTED]

Third, in some important areas the IP falls short in relations to the CAA’s public law duties and their statutory equivalents. [REDACTED]

[REDACTED]

Fourth, [REDACTED]

More information on the legal issues Heathrow has identified in the IP is available in the Legal Annex [REDACTED] which we ask that the CAA read in full; alongside our response on individual chapters.

## **18. The CAA has failed to give effect to its primary statutory duty to further the interests of airport transport users**

### **18.1. In interpreting its primary duty, the CAA has not adequately balanced long term and short-term consumer interest**

At Heathrow, around 90,000 people work for more than 300 different businesses, collectively supporting over 84 million passengers each year.

The airport's close proximity to densely populated communities mean there are a wide range of important stakeholders who influence how we operate today and how we deliver future growth. Balancing these diverse – and often competing – needs is a core part of Heathrow's day-to-day responsibility.

However, the IP in their current form risk the CAA focusing more on short term airline interests over the conditions required to facilitate long term, sustainable growth.

Heathrow's ambitious capital plan, stretching efficiency targets, and proposed changes to the regulatory framework – covering the need for certainty for vital noise insulation costs, to innovating the way we deliver commercial property investments – has not been sufficiently recognised. The airlines' overarching position of keeping airport charges low, driven by an unspecified and unevidenced position on the capital envelope and the priorities within it – has seemingly been given more weight leading to perverse outcomes.

Heathrow submitted a comprehensive H8BP, with an extensive range of supporting evidence, information, data and forecasts including detailed consumer research. The airline community submitted a short and high level "Airline Alternative Plan", which contained very limited research or insight into what consumers need, want or expect at the UK's hub airport. We also understand the airline community undertook a capital prioritisation exercise, but this has not been shared through any round of Constructive Engagement (CE) or since the H8BP has been published, even though Heathrow has repeatedly asked for visibility of this to promote collaborative discussion and agreement.

Despite the clear disparity between Heathrow's comprehensive, evidence-based business plan and the significantly less developed airline submission, in its decision-making documents and during CE Round 4 presentations, the CAA appears to treat the two sets of submissions as equivalent in terms of the weight that should be awarded to each, which cannot be correct.

In addition, a critical piece of the long-term growth and capacity solutions for Heathrow, T5 optimisation has been reduced and re-scoped in the CAA's capital assessment process. This has also been done without regard to, or understanding of, the impact on the current two runway airport.

The airline community is a vital part of the Heathrow Airport eco-system, and their input, insight and information are critical to the success of that eco-system. However,

the airline community cannot be defined as a “full” proxy for the consumer. The price control regulatory process risks incentivising short-term airline commercial objectives and priorities, ahead of long-term operational and consumer considerations – and stand in contrast to views sourced from groups such as the HPF, whose representations made to the CAA at the end of Round 3 also appear to have been largely excluded from the IP.

### **18.2 The CAA has not afforded sufficient weight to the interests of users of air transport services**

Heathrow submitted a business plan to the CAA grounded in extensive consumer evidence aimed at delivering what consumers (i.e. users of air transport services) want. In our H8BP, we identify five priorities – better resilience, better passenger experience, better use of new and existing capacity, better sustainability, and value for money. Our H8BP, and the ambitious capital investment plan within it, is strongly focused on consumer.

While the CAA recognised the value and strength of Heathrow’s consumer engagement, the CAA decided not to support key investments necessary to deliver what consumers wanted. Most notably, the IP excludes consumer priority investment areas, including safety, security and experience.

Heathrow views these investments as fundamental for consumers, and we can either assume that (a) the CAA has failed to understand the positive value that these investments generate or (b) decided to prioritise short-term, in particular affordability considerations, over long-term value for consumers. Both options indicate a failure by the CAA to give effect to its primary duty to further the interests of users of air transport services. These options are also inconsistent with the Secretary of State’s guidance on the CAA’s 2026/7 priorities, which states that the CAA’s focus must be on putting consumers first: the CAA must have regard to this guidance in performing its statutory duty and reflect that in its proposals.

### **18.3 Current risk of the CAA failing to balance the subparts of its primary duty**

Heathrow’s engagement with customers makes it is clear that sustainability matters:

- The Heathrow Passenger Forum (HPF) has stated that climate adaptation and noise mitigation are important to them.

[REDACTED]

[REDACTED]

[REDACTED]

Importantly, our engagement shows that passengers expect Heathrow to take a leadership role in improving sustainability in aviation, with 67% of passengers believing

that Heathrow can lead the aviation industry in becoming more sustainable (Savanta Sustainability Perceptions Research, 2025).

There is a rising willingness among customers to pay to support sustainability, with 39% of passengers now willing to pay more for flights that reduce environmental or noise impacts, up from 22% in 2017 (CAA Consumer Survey, 2021).

However, in the IP, the CAA have set out that they do not see the needs case for investment on 63% of the proposed capex in the Carbon and Sustainability programmes, removing zero waste, heat decarbonisation, electrification and noise mitigation investments to name a few. We are concerned that the CAA has erred in balancing short-term and long-term considerations in its decisions about capital investment, and that disallowing environmental related investment undermines Heathrow's ability to deliver for consumers in the long term under its licence to operate.

For these reasons the CAA's approach to investment in sustainability falls short of the legal obligation that it must have regard to the need to secure that Heathrow is able to take reasonable measures to reduce, control or mitigate the adverse environmental effects of the airport, facilities used or intended to be used in connection with that airport and aircraft using that airport.

Further, in applying its primary duty, the CAA must apply its constituent elements, including the need to secure that Heathrow is able to finance its provision of airport operation services. We are concerned that various aspects of the IP, including the CAA's approach to operating costs, do not reflect a proper or proportionate balancing of these elements.

## **19. The CAA must have regard to the Secretary of State's guidance on the CAA's priorities for 2026/27 in performing its statutory duties**

### **19.1. The Secretary of State's guidance on CAA's 2026/7 priorities includes Growth**

The Secretary of State's guidance outlined that a core priority for the CAA in 2026/7 is economic growth.

This is consistent with priorities outlined by the airline community.<sup>3</sup> Infrastructure and Capacity is among the five priorities outlined by airlines, with specific reference to:

- *“Facilitating growth with capacity and decongestion”*
- *“Optimis[ing] existing demand and capacity through Terminal Occupancy review delivery”*
- *“Unlock[ing] satellite and pier potential through innovative commercial propositions and enabling projects”*

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<sup>3</sup> Airline Community Alternative H8 Business Plan\_CE Response – 2025.10.23 – Final\_Shared HAL

Although the CAA has included Occupancy investment in the capital envelope, the majority of the Modernising Heathrow investment has been deprioritised. This includes:

- Terminal 5 Optimisation Phase 2 – which once completed, will add 6mppa of capacity decongesting the International Departure Lounge, and unlocking satellite and pier potential.
- Development Consent Order (DCO) – noting that ancillary and enabling works start the journey for similar improvements to Terminal 2 and the Central Terminal Area (CTA).

Without this investment, the airport cannot grow capacity at a rate sufficient to meet passenger demand, which could result in capping capacity in H8 (without the T5 Optimisation Phase 2 programme) and in H9 (without having done the necessary groundwork for adding capacity to the CTA). This investment is all within the two-runway footprint and is critical to meet growth ambitions at Heathrow.

In its decisions about capital investment, we are concerned that the CAA has erred in balancing short-term and long-term considerations. Specifically, in our view, there is no cogent economic rationale for disallowing capacity related investment (in T5 and T3), which enables passenger growth and therefore the delivery of incremental benefits.

The CAA must have regard to the Secretary of State’s guidance in performing its statutory duties, and take it into account in its decision-making prior to the publication of the Final Proposal.

### **19.2. The Secretary of State’s guidance on CAA’s 2026/7 priorities includes the Decarbonisation of Aviation**

The Secretary of State’s guidance on CAA priorities for 2026/27 includes the Decarbonisation of Aviation as a core priority for the CAA in 2026/7. The guidance also clearly sets out that:

- *“The CAA has a vital role supporting and monitoring the aviation sector’s work to achieve net zero carbon emissions by 2050”;*
- *“The CAA can help the UK develop new low- and zero-carbon aviation technologies”;*  
*and*
- *“Assessing and managing the industry’s noise impacts is a vital consideration in airspace modernisation and Heathrow expansion.”*

The CAA must have regard to this guidance in performing its statutory duties and take it into account in its decision-making prior to the publication of the Final Proposal.

### 19.3. The capital portfolio for H8 set out in the IP is inconsistent with the CAA's statutory duties around putting consumers first

We welcome the CAA's conclusions that our research programme "*is broadly robust and sufficiently comprehensive for the purposes of developing the H8 Business Plan.*"

This demonstrates that our plan:

- Identified clear consumer priorities, drawing on our consumer research together with wider insight encompassing analysis of complaints, social media and stakeholder views;
- Set out our comprehensive proposals for the necessary efficient capital and operating activities to deliver them; and
- Additionally, set out a refined MTI strategy to measure, target and further incentivise ongoing performance in consumers' interests.

We also welcome the CAA's support for retaining our six consumer outcomes. However, in the IP, the CAA have set out that they do not see the needs case for investment on 79% of the proposed capex in the passenger experience programme – removing consumer priority benefits including enhanced border experience, improved signage and seating, and maintenance of basic passenger expectations for cleaning and washrooms.

Whilst we welcome the CAA's aims of developing a pragmatic approach to capital expenditure needs assessment in order to set the H8 capital envelope, we are concerned that in its aim for simplicity, the CAA's approach has the unintended consequence of misaligning with consumer priorities, disallowing projects that deliver consumer priorities including passenger-focused, environmental and commercial projects, and so does not drive a balanced set of outcomes that deliver in the consumer interest.

It is difficult to see a line of sight through the IP to how the CAA has balanced the components of its statutory duty in determining the capital envelope. In particular, the capital envelope threshold does not appear to have been set with any reference to Heathrow's robust evidence of consumer willingness to pay for improvements<sup>4</sup> or consumer acceptability of our proposed H8 plan.<sup>5</sup> Further, the IP capital investment disallowance would appear to be contrary to growth, innovation and net zero.

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<sup>4</sup> Over 70% of passengers indicated they would be prepared to pay £5 or more to fund a package of service improvements linked to their priority areas, including punctuality, security, baggage and passenger experience factors. ICS Consulting, H8 Quantitative Priorities Research, 2025

<sup>5</sup> 74% of passengers found ticket prices based on an H8 PSC acceptable after learning about our H8 Business Plan. Savanta, Acceptability and Affordability Testing, 2025

**20. The CAA’s approach is deficient in other material respects**

**20.1. The CAA’s approach appears to be inconsistent with key learnings from recent reviews and the direction of travel of other economic regulators**

The CAA must also take account of regulatory precedent and key learnings from other sectors that have direct application to the H8 price control and its proposals. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**20.2. Expansion and H8 are becoming increasingly inseparable, and clarity is needed now on treatment for projects deemed to be spanning multiple frameworks.**

Heathrow’s proposed inclusion of T5O and the required early enabling works in H8, form a clear and important part of both our two-runway (2R) and three-runway (3R) growth plans. These investments are seen as “no regrets” – critical capacity investments to support the need to meet passenger demand and help smooth charges, before the building and delivery of a third runway.

The CAA’s decision to remove the elements of the Modernising Heathrow programme referred to as Phase 2 of T5O and early enabling works, is based on a view that it is due to “significant capacity expansion of terminals” and is stated to be consistent with the position set out before the H8BP plan was submitted.

However, not only has the definition of “significant” not been defined in the IP nor within follow up discussions during CE, Heathrow also disagrees with the CAA that they have been clear and consistent on how these investments should be treated.

In a letter from Selina Chadha – Director of Consumers and Markets – in March 2025, the CAA set out the following:

*“Large investment programmes related to the significant expansion of the airport included within the Modernising Heathrow programme should be considered as part of our wider work on capacity expansion....”*

However, this statement was superseded by an apparent openness in the same letter, not only to how Modernising Heathrow is dealt with during H8, but an explicit call out of elements of the T5O programme to be considered within Heathrow’s H8BP (in contrast to the Terminal 2 investment programme that relates to much higher terminal investment/capacity increase, and is outside of the H8 period):

*“...there is some flexibility on exactly which expenditure and projects will form part of our review of capacity expansion. For example, it may be that some or all of the projects to expand the capacity of Terminal 5 within the H8 period should be best dealt with as part of H8”*

Subsequently, there was no further clarification from the CAA or sharing of their thinking on Modernising Heathrow between March 2025 and the release of the IP in March 2026. This creates significant concern that without re-instatement, a year of further planning, engagement and consideration for both 2R and 3R plans, will be lost.

Alongside this, it is also important to note that the IP provides concerning signals in relation to the future delivery of Heathrow Expansion, which the CAA must address in their Final Proposals.

- The CAA’s approach to the cost of equity, which includes an arbitrary reduction compared to market data due to an unsubstantiated assessment that Heathrow has lower risk, would make Expansion un-investable.
- Basing the 2027 aero-charge on a stepped-flat profile prejudices the outcome of the consultation on the IP and results in a charge for 2027 that is below the building block level, making investment in Expansion during 2027 more difficult to finance.

Taken together, it is important that the CAA consider how H8 decisions interact with the delivery of Expansion – both the process of decision making and the consequences of decisions made (as set out above), alongside its legal duties, as outlined elsewhere in this response.

Heathrow has made it clear that the framework and investment plans of our H8BP deliver “no regrets” 2R investment benefits. The CAA’s failure to understand or consider the impacts of H8 capex projects of this type will impact on investment and delivery of a 3<sup>rd</sup> runway, would be a regulatory oversight.

## **21. Conclusion**

The CAA must reevaluate its legal duties and the applicable guidance and adapt its approach. Without necessary changes in the Final Proposals, the CAA risks failing to properly give effect to its statutory and public law duties.

## SECTION 1.2 – CONSUMER ENGAGEMENT AND INTEREST

### 22. Introduction

In this section we will set out that:

1. The CAA’s recognition of the quality of our consumer insight is welcomed.
2. We believe that the Steer-identified priority consumer themes should be expanded to more fully reflect the consumer interest and evidence base.
3. The CAA’s IP do not demonstrate a clear line of sight to consumer interest.
4. The CAA’s expenditure decisions do not reflect consumer interest.

### 23. We welcome the CAA’s recognition of the quality of our consumer insight

We welcome the CAA’s conclusions that *“HAL’s research has generally been found to be robust and conducted in line with good market research principles”*. Our Engagement Strategy, appended to our H8BP, is designed to ensure we are equipped with a robust and representative understanding of consumer views and behaviours on which to base our decisions. It represents an improvement from H7, as we have sought to learn from best practice in other regulated sectors and innovations in techniques – and we are pleased to see this continuous improvement reflected in the CAA’s IP: *“We consider that HAL’s approach to consumer engagement used for the H8 Business Plan represents continued and welcome progress from that used in the H7 price control review.”*

As outlined in our H8BP and our Engagement Strategy, our thinking has been shaped by a combination of structured research projects and wider engagement with our customers and stakeholders. We note that the CAA uses the terms ‘research’ and ‘engagement’ interchangeably in its IP, although the underpinning review by Steer has focused exclusively on a subset of our research. In order to fully reflect the consumer interest, it is vital to recognise the importance of engagement and indirect insight sources, which includes ongoing conversations with stakeholders and cargo owners, and powerful data analysis of complaints, social media and other large-scale datasets. In-line with best practice, we synthesise insights from our research with these indirect engagement sources to create a holistic view of consumer wants and needs, which also takes account of third-party research from the CAA, the wider industry and further afield.

### 24. The Steer-identified priority consumer themes should be expanded to more fully reflect the consumer interest and evidence base.

We recognise that the CAA, informed by Steer, have alighted on a set of six consumer priorities which have emerged from a review of our research. We welcome the drive to determine a set of areas which collectively cover where consumers would like us to focus our investment in H8. We also appreciate that to some extent the exact definition of each priority area is arbitrary, and that they will inevitably be interlinked, so that

investment in one area may bring about a benefit in another. We therefore think it would be unproductive for us to critique or challenge the definitions of the areas, except where the evidence meaningfully contradicts it. Instead, we have focused on ensuring the areas collectively cover all consumers’ most pressing priorities, which is a necessity to bring the consumer voice meaningfully into this process.

**Figure 1.2 Six key themes identified by Steer**



Source: CAA presentation of six key themes identified in Steer’s H8 H8 Consumer Research Review Summary Report

*Figure 1.2.1 – Six key themes identified by Steer in their H8 Summary Report*

As referenced above, the review exclusively focused on research to the detriment of engagement and analysis of indirect sources. Additionally, the review was based on only a subset of our research evidence base. It is therefore unsurprising that while it does cover the majority of consumer priorities we have identified, it neglects two which we would urge the CAA to incorporate in its Final Proposals:

**24.1 Environmentally-friendly travel**

As outlined in our H8BP, evidence from our own research, as well as research conducted by the CAA and wider industry insight from our stakeholders including BA, highlights that positive sustainability performance is now seen as a core expectation by passengers, particularly from leading hub airports like Heathrow. Consumers have a concern for the environmental impact of flying and it is an expectation for them that Heathrow take a leadership role.<sup>6</sup> The HPF, who provided the CAA with a response to the

<sup>6</sup> Savanta, Sustainability Perceptions Research, 2025

H8BP which we have not seen fully considered within the IP, also reported that they saw sustainability as a high priority area.

## 24.2. Consistent basic comforts

Our evidence base clearly demonstrates that providing the basics is a key priority for consumers, including: seating; cleaning; wayfinding; charging; customer service; food and beverage options.<sup>7</sup> Although three of the priorities from Steer’s research review are mapped to the consumer need ‘basic comforts’, these important elements of passenger experience are not explicitly referenced in any of the six. Despite this, they are referred to as priorities elsewhere in Steer’s review and by the CAA in its IP. Adding this priority to the list addresses the CAA’s IP expectation of “*HAL to respond on whether, and how, wayfinding and seating are incorporated in its priorities for the H8 period.*”

In addition to addressing these two gaps, we recommend two adjustments to the six priorities:

## 24.3. Renaming ‘Affordability’ to ‘Value for Money’

While affordability is important to consumers, the evidence shows that the key priority relating to air fares is that they represent value for money. Our long-term passenger priorities research showed that passengers rank the price of the flight as the second most important factor as to why they choose Heathrow, only surpassed by the range of the destinations.<sup>8</sup> However, a better deal does not just mean lowest cost – the majority of passengers care more about finding a good value option that meets their needs, than simply the lowest price.<sup>9</sup> Stepping back and looking at the current state of play within the sector, the most recent wave of the CAA’s consumer research tracker shows that while cost is a concern, “overall satisfaction with value for money is high (76%) and has returned to levels last seen before 2022”.<sup>10</sup>

Reflecting on how to best articulate the consumer voice, we recommend renaming this priority from ‘Affordability’ to ‘Value for Money’, to demonstrate that consumers want good value in the balance between cost and the service they receive. The name affordability risks encouraging a worse outcome for consumers, in which they receive a poorer service in the name of keeping costs as low as possible.

## 24.4. Broadening the ‘Baggage reclaim’ priority to encompass all aspects of baggage.

Baggage is undoubtedly an important and emotive topic for consumers: it is the most frequently discussed topic in our and airlines social media mentions, 37% of which are

<sup>7</sup> Blue Marble, Synthesis of Consumer Insights: review and validation of consumer needs, 2026

<sup>8</sup> Accent, Long term priorities research, 2025

<sup>9</sup> Blue Marble, Synthesis of Consumer Insights: review and validation of consumer needs, 2026

<sup>10</sup> CAA/Savanta, Flying in 2025 and beyond, Wave 14 of the CAA’s UK Aviation Consumer Survey (2025)

negative, 20% positive and 43% neutral<sup>11</sup> as well as on our airline partners. Our changing mix of passengers, with more leisure passengers compared to business, means that we are forecast to see more bags overall, including more hand luggage in our departure areas. The evidence shows the importance of the entire end-to-end baggage journey, including ensuring that bags travel with departing passengers.<sup>12</sup> We have seen how concerns in this area have influenced passenger behaviour in the past, with passengers arriving at airports earlier and taking their baggage as hand baggage so that they could keep an eye on it.<sup>13</sup>

We agree with the remaining four consumer priorities for H8 as identified by Steer.

#### **24.5. Heathrow has strong engagement and understanding of the wants and needs of our cargo community.**

We welcome the inclusion of cargo as investing in our operation and expanding capacity is one of our H8 objectives. We note that the CAA has stated that *“additional research could be beneficial in supporting the understanding of the consumer interest”* relating to cargo, particularly in understanding *“the needs and wants of the cargo community and its relative priorities for improvements”*.

Our evidence base on the needs and wants of our cargo community is both comprehensive and influential in our decision making. In addition to the biannual research we conduct, the most recent wave of which informed our H8 business planning and was included in Steer’s research review, we gain regular insight into the cargo community from two engagement channels:

1. Engagement through direct relationships and trade associations – we regularly meet with a diverse range of stakeholders from the cargo community to understand their priorities, including quarterly meetings with the senior leadership of our key customers and regular engagement with trade associations which bring together important segments from across the cargo community.
2. Ongoing structured governance and engagement – in 2024, we established the Cargo Community Steering Committee (CCSC), which meets regularly and includes a representative from each of our main cargo stakeholder groups, including airlines, property companies, transit shed operators (handlers), freight forwarders and hauliers. Regulators are also invited to attend on an adhoc basis, depending on the discussion agenda for each meeting. These discussions are invaluable in enabling Heathrow to discuss issues, understand the community’s wants and needs, and collectively agree priorities for the future.

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<sup>11</sup> Sprinkl, Social Media insights, 2025

<sup>12</sup> Blue Marble, Synthesis of Consumer Insights: review and validation of consumer needs, 2026

<sup>13</sup> International Airport Review, Trend Report, 2024

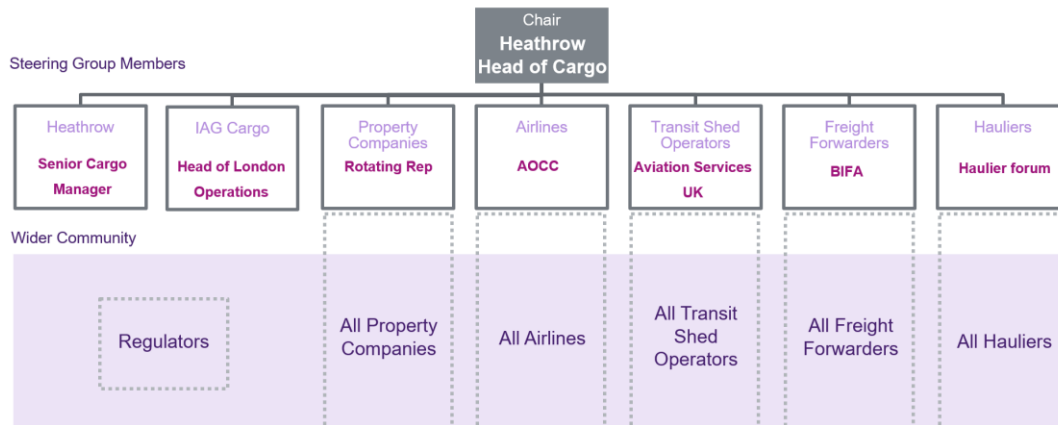


Figure 1.2.2 – Organisation chart for the CCSC

Collectively these regular engagement activities equip us with insight into our cargo community’s wants and needs, and facilitate a collaborative approach to resolving issues and planning future investments. They sit alongside our biannual research, which provides additional value through an independent and more structured approach to sampling and questioning.

In addition to cargo, we would challenge Steer and the CAA’s conclusion that Heathrow needs to improve coverage of its consumer research in relation to **surface access**. Our independent insight synthesis includes over 100 reports focused specifically on this topic, providing us with a robust and comprehensive understanding of consumers wants and needs. It has shown that surface access is an area in which Heathrow is generally seen to be performing strongly, and therefore it has not been prominent in our articulation of consumers’ priorities for investment in H8. However, it remains an important area for us to engage consumers on in the longer term and will likely be a key focus in bringing the consumer voice into expansion decision making.

**25. We strongly recommend that the CAA adopts eight consumer priorities in its H8 decision-making.**

For the reasons outlined above, we strongly recommend the CAA adopts eight consumer priorities in its decision-making going forwards. They represent a consolidated list which responds to the call from the CAA for “a simpler and more consistent articulation of consumers’ needs [which] may help to make clearer to stakeholders how activities are linked to consumer needs”. These eight consumer priorities build on Steer’s independent review of a subset of our research insight and supplementing this with our wider evidence base, including indirect data sources and our wider engagement with stakeholders and customers. To provide a high-level line of sight between where consumers want us to improve and our H8BP, we have mapped these eight consumer priorities against our 15 H8 objectives.

Proposed Updated H8 Consumer Priority	Steer Priority	HAL H8 Objectives
<b>Value for Money</b>	Affordability	Value for Money
<b>Baggage</b>	Baggage reclaim	Baggage
<b>PRS/PRM and accessibility</b>	PRS/PRM and accessibility	Passengers requiring support
<b>Delays and disruption</b>	Delays and disruption	Punctuality
<b>Congestion and queuing</b>	Congestion and queuing	Security Creating space Unlocking growth
<b>Cargo</b>	Cargo	Trade
<b>Environmentally friendly travel</b>	n/a	Renewable energy Decarbonisation Reducing waste Quieter neighbour Giving back
<b>Consistent basic comforts</b>	n/a	Safety Passenger experience

Figure 1.2.3 – Table of comparison of consumer priorities and objectives

Consumers' priorities do not stand still. The comprehensive evidence base shows that these eight priorities cover the areas that matter most to today's consumers, but we must be cognizant to the fact that expectations, needs and behaviours will shift over time.

We are already seeing this in passenger experience. To truly be an extraordinary airport, we know we must go beyond functionality to create an experience that passengers actively enjoy and is unique to Heathrow. This is an area where we are behind competitor hub airports around the world.<sup>14</sup> We recognise that this is not yet a core consumer priority and that providing a 'competitive passenger experience' currently goes beyond the CAA's duty to 'further the interests of users of air transport services'. However, over time it is likely to become both a core consumer priority and expectation from a hub airport, therefore an area in which Heathrow may be required to invest in H9 and beyond in order to compete internationally.

## 26. The CAA's Initial Proposals do not demonstrate a clear line of sight to consumer interest.

In the final method statement for H8, the CAA included guidance that "*the business plan should take account of, and demonstrate, a deep understanding of consumer preferences based on a wide range of engagement and research*". We therefore

<sup>14</sup> Skytrax, Heathrow Airport Audit, 2026

welcome the statement in the CAA's IP concluding that *"it is evident that HAL has developed and used a substantial body of research to inform its H8 Business Plan, building on its approach for the H7 period. Informed by our own review, and supported by Steer's findings, we concluded that no further consumer research by us or HAL was necessary for us to develop these initial proposals."* We are pleased to see the CAA recognise both the extensiveness of our consumer evidence base and the role it has played in constructing our H8BP.

However, in reviewing the IP, we are unable to see how the consumer evidence has played a leading role in the CAA's decision making (contrary to the CAA's public law duties as set out in the Legal Annex), and that they will therefore meet the CAA's stated priority of "enabling efficient investment that benefits consumers". Notwithstanding our challenges on the focus and completeness of the six consumer priorities identified by Steer, there is no discernible line of sight between the IP and those six priorities.

This lack of alignment between consumer priorities and decision making is most evident in the development of the CAA's capex envelope. The CAA do not see a needs case for 79% of our proposed passenger experience investment, 63% of the carbon and sustainability programmes or investments that benefit the Cargo Community. As an example, the CAA have removed investment projects to deliver seating and wayfinding, yet the IP raises the concern that these passenger issues were not explicitly reflected in our plan. It is also unclear how the CAA have incorporated the airline community's three consumer priorities for the H8 capex programme of: a smooth, seamless, predictable, punctual and stress-free end to end consumer journey; delivering consistency of experience across all terminals and touchpoints; and decongested and elevated terminal spaces with core service fundamentals: cleanliness, comfort, accessibility and reliable facilities.

The CAA's IP sets out proposed service quality targets, demonstrating broad continuity with our current performance target levels. Our consumer research demonstrates that these targets are appropriate. However, they are not deliverable within the IP expenditure allowances, making it difficult to see the line of sight between decisions on the MTI targets and decisions on capex and opex set out in the IP. In addition to removal of projects from the capex envelope that are vital to delivering our MTI performance, the CAA has removed three opex overlays that are also required to enable the delivery of the IP service quality targets. Our response to these issues is set out in more detail in Sections 2.1; 2.3 and 3.2 of our response.

The removal of these projects implies the 'affordability' consumer priority has been treated as a higher order of importance when compared to the other five which Steer identified. However, the body of consumer evidence clearly demonstrates that passengers are prepared to pay for and support the H8BP. It is therefore difficult to identify a line of sight between the CAA's decisions on the capex envelope and the underpinning needs assessment threshold, and the consumer evidence.

As noted in the Legal Annex, the CAA has a duty to balance the subparts of its primary duty, without placing undue prominence on the ‘cost’ element. It is also required – by virtue of its public law duties – to make and publish decisions transparently, including by providing sufficient explanation and reasoning for its proposals. We would recommend the CAA gives further consideration to its legal duties, the balancing of its duties, and how best to enable efficient investment that benefits consumers and addresses their priorities. The reframing of the affordability priority to one that is more focused on providing consumers with value for money, as discussed earlier in our response, would facilitate this.

### **Section 1.2 summary - asks of the CAA:**

Heathrow asks that the CAA reflect the following in their Final Proposals:

- Review the six consumer priorities identified by Steer and adopt the eight priorities set out above; namely: value for money; baggage; PRS/PRM and accessibility; delays and disruption; congestion and queueing; cargo; environmentally friendly travel; consistent basic comforts.
- Revisit its decisions surrounding the capex and opex envelope, ensuring that they more closely reflect CAA’s primary duty to further the interests of users of air transport services regarding the range, availability, continuity, cost and quality of airport operation services. This includes reconsidering the definition of the threshold to transparently balance the components of the CAA’s primary and secondary duties and provide adequate funding for efficient delivery of the proposed MTI targets.
- Reconsider the removal of the three opex overlays in order to efficiently deliver the service that consumers want and is reflected in the CAA’s IP MTI targets, in light of the additional evidence provided in this response.

## SECTION 1.3 IMPLICATIONS OF THE £5.9BN CAPITAL ENVELOPE ON CONSUMERS

In setting the capital envelope at £5.9bn (2024 prices, CPI), the CAA have failed to properly assess the impact and consequences to consumers. Our specific concerns and suggested builds on the needs assessment methodology are set out in Section 2.1. This section sets out the explicit consumer implications of the current £5.9bn envelope.

### 27. The envelope does not actually allow for reprioritisation

The CAA have said that the £5.9bn capital is an envelope, and that Heathrow has the ability to prioritise investment within that. The reality is that there is minimal room to actually do this, with £5.55bn being the absolute ‘do minimum’ plan for Heathrow.

**Heathrow needs to do £5.55bn** of essential asset replacement to stay safe and compliant, across our foundations (the non-negotiable fundamentals that underpin our business) and beacons (designed to deliver benefits to customers and align with the CAA’s duties, particularly in terms of improving service quality, efficiency and resilience). This consists of:

- £5.35bn to service our critical foundations and which is theoretically our absolute minimum investment; and
- £0.20bn to replace existing retail and PCA assets to maintain the current performance of our existing asset base.

This leaves £0.3bn of ‘choice’ for Heathrow and the airline community.

### 28. Heathrow’s ‘do minimum’

There are a number of critical and compliant asset maintenance projects missing from the needs assessment that Heathrow would prioritise in the £5.9bn envelope. In the needs assessment carried out by Steer, there were two main issues which means critical projects were missing the correct benefit rating of 3:

- Firstly, the risk assumptions reflect the asset condition at the start of H8 rather than end-of-period deterioration, understating the true renewal need by five years.
- Secondly, a lack of understanding of the implication of the failure of critical assets (e.g. surface movement radar, aeronautical ground lighting, landside roads) that would directly disrupt operations and increase reactive maintenance costs.

The ‘do minimum’ of £5.55bn is not a choice. It is what we need to do to keep the airport safe, secure and compliant, and meet our regulatory obligations; however, alongside growing passenger volumes, this will result in a deterioration in passenger experience and a risk to the delivery of our agreed consumer outcomes.

Heathrow’s assessment of the investment necessary to deliver essential asset replacement investment at this point in time is £8.9bn, of which £5.55bn falls in H8 and the remainder in H9 and beyond.

Summary of non-discretionary investments included in Heathrow's H8 Business Plan					
Lead Strategic objective	Regulatory class	H8 Business Case	Investment	Total H8 - 2024 Prices	H8 Demand phased into H9+
Service & Operations	H7 In Flight	H7 AMC	In Flight asset replacement risk score +16 (272 projects)	£1,567m	
Service & Operations	New H8	H8 asset renewal	New Physical Asset renewals	£675m	
Service & Operations	New H8	Electrical network	Electricity Network resilience and capacity	£568m	
Service & Operations	New H8	H8 asset renewal	New Technology Asset renewals	£500m	
Service & Operations	H7 In Flight	H7 AMC	T3 Pier 7 external rehabilitation	£444m	
Service & Operations	H7 In Flight	MSPC4	T4 - Multi Storey Car Park 4 replacement	£316m	
Service & Operations	H7 In Flight	H7 AMC	Tunnel improvements (ART, SAR, NAR)	£103m	
Service & Operations	H7 In Flight	T3 HBS	T3 Hold Baggage Screening replacement	£92m	
Service & Operations	H7 In Flight	H7 AMC	T4 Hold Baggage Screening replacement	£23m	
Safety, Security & Compliance	H7 In Flight	H7 AMC	H7 In Flight- Safety Scope	£14m	
Service & Operations	New H8	H8 asset renewal	Property: T3 Interior	£10m	
<b>Total Asset Management - Asset scores provided in this spreadsheet</b>				<b>£4,313m</b>	
Service & Operations	H7 In Flight	T2 Baggage	T2 Baggage System	£493m	
Safety, Security & Compliance	H7 In Flight	Security	Security Compliance - Terminals and Campus CTIX machines	£250m	
People & Planet	H7 In Flight	C&S inflight	H7 Pre-Conditioned Air (PCA) replacement	£126m	
Service & Operations	H7 In Flight	Efficient airports	In Flight Efficient Airport initiatives	£119m	
Safety, Security & Compliance	H7 In Flight	Security	Digitised asset management, OAA South	£98m	
Value for Customers	New H8	H8 Commercial	Retail New Scope - Shell & Core fit outs	£90m	
Service & Operations	H7 In Flight	Efficient airports	Baggage Efficiency Enhancements	£43m	
Service & Operations	H7 In Flight	Efficient airports	Energy Demand Management	£17m	
<b>Other asset management investments</b>				<b>£1,238m</b>	
<b>Total asset replacement investment</b>				<b>£5,550m</b>	

Figure 1.3.1 – Table of non-discretionary investments included in Heathrow’s H8BP

The colour-coding in the above table demonstrates how the numbers reconcile with information provided in our H8BP last summer: Table 90 - Capital spend for safety, security and compliance, page 277, and Table 91 - Capital spend for services and operations, page 278, in the H8BP.

Table 90 - Safety, Security & Compliance	£361m
Table 91 - Services & Operations	£4,972m
Other Asset Replacement in the H8 plan	£216m
<b>Total</b>	<b>£5,550m</b>

Figure 1.3.2 – Table reconciling numbers to Heathrow’s H8BP

## 29. Choices for the remaining £0.3bn

There is already £0.7bn of investment relating to our foundations and beacons that is in-flight. While this is theoretically a choice and could be stopped, this would be to the detriment of the intended outcomes of these investments already progressed through airline governance.

Lead Strategic objective	Regulatory class	Discretionary/Non	Investment	Total H8 - 2024 Prices
Service & Operations	H7 In Flight	CHOICE	In Flight Efficient Airport initiatives	£119m
Service & Operations	H7 In Flight	CHOICE	Baggage Efficiency Enhancements	£43m
<b>Service &amp; Operations Total</b>				<b>£163m</b>
Creating Capacity	H7 In Flight	CHOICE	Cargo Southside Transformation Enabling works	£59m
<b>Creating Capacity Total</b>				<b>£59m</b>
Value for Customers	H7 In Flight	CHOICE	In Flight including VIP Enhancements & T5C Lounge	£105m
<b>Value for Customers Total</b>				<b>£105m</b>
People & Planet	H7 In Flight	CHOICE	Airspace Modernisation – Easterly Alternation Infrastructure	£144m
People & Planet	H7 In Flight	CHOICE	H7 De-carbonising Heat pilot	£47m
People & Planet	H7 In Flight	CHOICE	In Flight Carbon reduction initiatives	£39m
People & Planet	H7 In Flight	CHOICE	In Flight Surface Access carbon reduction initiatives	£35m
People & Planet	H7 In Flight	CHOICE	In Flight ebus and active travel investments	£25m
<b>People &amp; Planet Total</b>				<b>£289m</b>
Digital Future	H7 In Flight	CHOICE	Passenger Flow Monitoring	£30m
Digital Future	H7 In Flight	CHOICE	5G Network upgrade	£25m
<b>Digital Future Total</b>				<b>£55m</b>
<b>Grand Total</b>				<b>£671m</b>

Figure 1.3.3 – Table of in-flight projects relating to Heathrow’s foundations and beacons

There is then the further £4.5bn of investment proposed in our H8BP, designed to meet the priorities and consumer outcomes that we are aligned on with our airline community – better resilience, better passenger experience, better use of new and existing capacity, better sustainability, and value for money. Under the current envelope, none of this will happen.

As a result, the CAA have effectively set the envelope at a level that has detrimental consequences for consumers over the next five years. This is an outcome which clearly does not align with the CAA’s primary duty to further the interests of users in relation to the range, availability, continuity, cost and quality of airport operation services.

### 30. The impact to Consumers of the £5.9bn envelope

The table summarises the impact of the £5.9bn to consumers.

	Area	Impact
Building block	Passenger numbers	<ul style="list-style-type: none"> <li>Capped at the terminal limit of 86.5mppa, lower than the CAA forecast (base, shocked) for 2028 onwards, and reducing the passenger forecast by 6.4m passengers over H8 and by over 25m in H9.</li> </ul>
	Operating costs	<ul style="list-style-type: none"> <li>Higher maintenance costs needed to maintain assets not being replaced through AMC capex.</li> <li>Inability to meet MTIs.</li> </ul>
	Commercial revenues	<ul style="list-style-type: none"> <li>[REDACTED]</li> </ul>
Consumer outcomes	Resilience	<ul style="list-style-type: none"> <li>Degraded asset health increasing likelihood of failure and disruption. Asset debt by the end of H8 of increasing to up to £5.7bn</li> </ul>

	<p>Passenger experience</p>	<ul style="list-style-type: none"> <li>• Crowded IDLs and longer queue times driving a reduction of 0.06 in the QSM measure for departures satisfaction, taking us back down to levels last seen before T2 opened in 2014.</li> <li>• Digital and operational capability would not keep pace with growing system complexity and passenger demand, placing additional pressure on already constrained parts of the journey and limiting Heathrow’s ability to deliver a modern, integrated experience</li> </ul>
	<p>Capacity</p>	<ul style="list-style-type: none"> <li>• Occupancy, and the associated 3.5mppa capacity uplift is not achievable within the £5.9 billion envelope</li> <li>• T5 Optimisation, and the associated 2mppa capacity uplift in H8 won’t go ahead.</li> <li>• Missed opportunity to deliver upside for airlines, through reducing the aero charge by £0.74 per passenger on average, [REDACTED] – both dependent on on-time delivery.</li> </ul>
	<p>Sustainability</p>	<ul style="list-style-type: none"> <li>• Noise insulation will take well over 50 years complete the scheme; rather than the current plan of 15 years.</li> <li>• At the investment levels for decarbonisation included in the £5.9bn, it would take until c. 2080 to switch off gas heating and would cost up to 60% more.</li> <li>• The transition to customer-facing electric vehicle infrastructure and operations would be materially delayed</li> </ul>

Figure 1.3.4 – Table summarising impact of £5.9bn capital envelope on consumers

**30.1 Inability to add capacity will result in capping passenger demand to protect passenger experience.**

**30.1.1. Demand will exceed capacity from 2028**

With the completion of the ‘Efficient use of existing assets’ programme, terminal capacity at Heathrow will be 86.5m passengers per annum from 2027; however, this is still insufficient to meet increasing passenger demand without additional capacity.

The CAA’s base forecast – which should be a fair bet forecast, i.e. equal opportunity to underperform and overperform - exceeds the capacity limits in all but the first year, unless further capacity can be added through occupancy and T5 Optimisation. In a £5.9bn capital envelop scenario, it is unlikely that these investments could be prioritised over necessary asset maintenance. This leaves 6.4m unfulfilled passenger demand in H8.

Passengers (m)	2027	2028	2029	2030	2031	H8
CAA Base (shocked)	85.9	86.7	87.7	88.6	89.4	438.3
LHR Capacity	86.5m	86.5m	86.5m	86.5m	86.5m	
Unfulfilled demand	0	0.2m	1.2m	2.1m	2.9m	<b>6.4m</b>

Figure 1.3.5 – Table showing passenger forecasts, capacity and unfulfilled demand.

### 30.1.2. Occupancy (£0.4bn)

This was identified as a priority project in the needs assessment, due to the additional capacity of 3.5 million passengers per annum (mppa) it created within the existing footprint, taking our overall terminal capacity to 90mppa from 2028. Without this investment, our terminal capacity will remain at 86.5mppa, and as set out above, the CAA's base forecast exceeds this in 2028. Our H8BP shocked forecast, which was lower than the airline and CAA forecasts, exceeds this from 2029 onwards.

Heathrow would therefore need to make a choice between allowing airline growth, but to the detriment of passengers facing a worse passenger experience in congestion and queues (already expected to decline from 4.26 in 2024 to 4.14 in 2031, as set out in Appendix 03-08 of the H8BP); or protecting passenger experience through capping airline growth.

### 30.1.3. T5 Optimisation (T5O) Phases 1 and 2 (REDACTED)

The airline community have been clear with us that T5O is a priority to enable growth at the airport, but there is an aspiration from some airlines that this huge programme can be accommodated within the £5.9bn envelope. As set out above, this clearly cannot be done. No investment in the T5 Optimisation work is included in the do-minimum £5.55bn above.

For consumers, there are multiple implications of the T5O programme not proceeding.

#### Capacity & Demand

The demand forecast for Terminal 5 (T5) alone is expected to reach REDACTED by 2032, significantly exceeding current terminal limits of 35mppa. The programme was intended to deliver an additional 6mppa (+2m from Phase 1, +4m from Phase 2). Again, without this, Heathrow and the airline community would need to make an unpalatable choice between allowing airline growth and protecting passenger experience.

BA have committed to a fleet and network growth strategy, including confirmed IAG wide-bodied aircraft orders through H8, yet our infrastructure will not be able to meet the requirements of this new fleet without delivering T5O. Any inability to accommodate any of our airlines' growth as a result of infrastructure constraints would have consequences for the UK's aviation connectivity and competitiveness for passengers and trade.

### Passenger Experience & Resilience

T5 already has the lowest customer satisfaction scores across Heathrow and is congested at peak times; without Phase 2, T5 departures satisfaction is forecast to fall a further 0.08 points by 2031 leaving it behind Heathrow's European Hub Competitor airports.

T5 is approaching 20 years old with many original assets at or beyond design life; the baggage system is operating beyond capacity and requires renewal. H8 scope for investment includes departure lounge improvements to aid decongestion, additional lounges to support BA's premium proposition, border automation to improve immigration experience and plans to increase baggage capacity. The combined scope protects passenger experience, and addresses live operational constraints.

Splitting Phases 1 and 2 across regulatory mechanisms increases delivery risk, cost and delay. Specifically, it will require teams to revisit the same passenger touchpoints twice, increasing the amount of disruption for passengers during the period.

### Financial Impact

On-time delivery of T5O is forecast to reduce the aero charge by [REDACTED] per passenger on average, [REDACTED]

Delaying the completion of the programme to 2036 would reduce the programme internal rate of return to [REDACTED].

### **30.2 Inability to invest in passenger experience results in declining passenger satisfaction.**

The CAA recognising all passenger experience programme projects as having 'a clear direct impact on passenger experience', and the report by Steer stating 'Overall, the Passenger Experience programme presents a strong strategic case built on rising demand, evolving passenger expectations, and identified service gaps.' In the £5.9bn envelope, the implications of not investing in any passenger experience initiatives are:

- A decline in Departures passenger satisfaction at Heathrow Total level by 2031 of -0.06 compared to 2024, returning Heathrow to levels of Departures satisfaction not seen since before the opening on Terminal 2 in 2014.

- The exclusion of projects improving accessibility: e-gates, sensory spaces, mobility equipment. This area has been supported throughout the proposition need identification and development by the Heathrow Accessibility Advisory Group (who are also represented on the Heathrow Passenger Forum), and airline subject matter experts.
- Border Experience: The UK Home Office plans for a fully contactless UK border by 2031, greatly improving the experience of those passengers currently having to queue for a manned desk. But currently Heathrow wouldn't be able to fund the enabling works to allow this to happen significant Home Office upgrade to occur.
- Safety enhancements and congestion reduction measures proven in the Summer 2025 initiative, a piece of work endorsed by airlines to protect passenger experience in Terminal 3 and elevate it in T5.
- Heathrow will not be able to meet evolving passenger expectations (e.g. digital wayfinding).

In addition, the reduced asset renewal funding increases the risk of operating with degraded or failing infrastructure across c.650,000 assets, and has a direct impact on baggage, delays and congestion, which are three of the six H8 consumer priorities areas agreed on by the CAA.

### **30.3. Missed commercial revenue and associated impact on reducing the aero-charge.**

There are currently £0.5bn of commercial revenue investments in Heathrow's portfolio. In the £5.9bn envelope, the implications of not investing in this area, is not only missed opportunity to improve passenger experience, but fails to bring in incremental revenue to the single till and therefore reduce the aero-charge.

The estimated H8 EBITDA impact for these projects no longer going ahead is around [REDACTED], covering both protecting existing revenue and additional upside; resulting in a [REDACTED] increase to the aero charge.

### **30.4 Sustainability**

The CAA have recognised sustainability as aviation's greatest challenge; and yet we cannot invest to the necessary levels to meet Heathrow's environmental targets and statutory obligations.

Climate change and noise create significant risks to the availability, continuity and cost of airport operations services. The IP materially undermine our ability to manage those risks. This approach is clearly inconsistent with the CAA's statutory duty to further the interests of users of air transport services, and to have regard to the need to secure that Heathrow is able to take reasonable measures to reduce, control or mitigate the

adverse environmental effects of the airport, facilities used or intended to be used in connection with that airport and aircraft using that airport (REDACTED).

The statutory “Climate Financial Disclosure” statement in our annual accounts quantifies the risks of climate change to consumers. In a scenario with significant temperature rises and associated negative impacts on the global economy, Heathrow demand starts to fall from around 2040. There are also risks from more restrictive Government policies, changing consumer sentiment and more expensive financing. Investing in a planned way to decarbonise and manage those risks is manifestly in the consumer interest.

### 30.5. Cargo

Heathrow Airport is the UK’s largest cargo port. One of the outcomes of our H8BP is investing in our cargo operation, to facilitate global cargo trade value of £252bn, and to kickstart a 20% increase in cargo capacity. In Steer’s assessment of H8 Consumer Priorities they identified cargo as a key area of focus, which we agree with.

95% of Heathrow cargo is belly hold; without investment to increase our cargo-handling capacity and efficiency, the impact to consumers is:

- Airlines will not be maximising the value of each flight;
- There is a missed opportunity for increased cargo handling revenue to contribute to the single till and keep passenger fares lower.

It is also detrimental to the UK economy, through hampering our ability to facilitate global cargo trade value of £252bn by 2031, up from £198.5bn in 2023 (source: UK Government).

### 31. Conclusion

The response will detail further the implications for consumers of the IP, and our recommendations for building on these to get to an improved position in the Final Proposals.

# **SECTION 2:**

# **PRIORITY FOCUS AREAS**

## SECTION 2.1 CAPITAL INVESTMENT

### 32. Executive summary

Heathrow supports the CAA's objective of delivering high-quality, consumer-focused outcomes in H8.

Our H8BP sets out an investment programme aligned to passenger and airline priorities, structured to deliver improvements in resilience, service, capacity, sustainability and value for money. The central issue is whether the proposed capital envelope is sufficient to enable delivery of these outcomes.

Heathrow considers that the CAA's proposed £5.9bn capital envelope is derived from a flawed methodology. The approach anchors investment to historical capex and adjusts for perceived deliverability prior to a full assessment of consumer and asset requirements over H8. This introduces an ex ante constraint that is not responsive to evidenced needs, and risks understating the level of efficient investment required, with consequent impacts on service, resilience and capacity.

By contrast, Heathrow's proposed ~£9.5bn envelope is based on the investment required to deliver defined consumer and airline outcomes, and is supported by an assessment of deliverability. It reflects Heathrow's demonstrated ability to deliver sustained investment at scale, including over £2bn per annum during Q4 and Q5 in which higher levels of investment were required to deliver material capacity at the airport. It also provides for the maintenance of asset health and operational resilience.

Heathrow therefore considers that an approach based on identified needs, consumer outcomes and deliverability evidence provides a more appropriate basis for determining efficient investment for H8 than one derived from historical expenditure benchmarks.

#### 32.1 The CAA's £5.9bn capital envelope

The Initial Proposals reduce the capital investment portfolio to c.£5.9bn (c.£3.7bn / 39% below Heathrow's plan), through removing:

- £1.5bn of Modernising Heathrow (including T5 Optimisation Phase 2)
- £0.2bn of noise and vortex costs
- £1.9bn of projects deemed to have insufficient need

The CAA's approach to setting a lower envelope, and forcing trade-offs within the portfolio, results in critical programmes being fragmented, delayed or removed altogether. Specific examples of the impact of the proposed capital envelope materially reducing investment in core infrastructure, creating a direct risk to resilience and passenger experience outcomes, are shown below.

We have identified a number of areas, discussed in more detail below, that fall under the capital section of the IP where further careful consideration by the CAA will be needed if the proposals are to be compliant with its statutory framework. In Heathrow's

view, the CAA fails properly to apply its legal duties with respect to certain proposals, and in other aspects fails to apply them consistently. This is especially notable in respect of the artificial constraint created by the CAA on terminal capacity for the two-runway airport, its failure to approve investment in resilience and updating of end of life assets and its refusal to approve investment in cargo facilities.

As a result, in a number of areas the IP would be contrary to the interests of the users of air transport services if put into effect.

### 32.1.1 T5 Optimisation Phase 2

The exclusion of T5 Optimisation Phase 2 is a clear example where the current approach leads to worse outcomes:

- T5 Optimisation is not expansion; it delivers capacity and service improvements within the existing footprint;
- Removing Phase 2 splits a single programme across regulatory mechanisms, increasing delivery risk, inefficiency cost and delay;
- It directly constrains capacity (+2m passengers by 2028 and a further +4m by early H9), while leaving existing congestion unresolved.

Outcome for consumers: Reduced capacity, poorer experience and higher long-term cost.

### 32.1.2 Asset health and resilience

Reductions in asset renewal increase the risk of arising from operating with degraded or failed infrastructure:

- The CAA's risk assumptions reflect asset condition at the start of H8, not the end, ignoring five years of deterioration.
- Failure of critical assets (e.g. Surface Movement Radar, aeronautical ground lighting, landside roads) would directly disrupt operations.
- There is no allowance for reactive opex spend.

Outcome for consumers: More frequent disruption, reduced reliability, increasing reliance on reactive maintenance and higher long-term costs.

### 32.1.3 Consumer outcomes not adequately reflected

The needs assessment approach does not consistently reflect consumer priorities or statutory duties:

- Limited alignment with consumer research and airline priorities.

- Bias against later-period and environmental/community investments.
- Key projects improving congestion, accessibility and passenger experience excluded.

#### **32.1.4 Sustainability risk management and compliance materially undermined**

The disallowance of 63% of proposed investment to improve sustainability outcomes:

- Materially undermines our ability to manage strategic climate and noise risks.
- Fails to recognise clear “compliance” drivers – notably for EVs, noise, heat and waste.
- Does not give adequate weight to wider benefits – particularly resilience and opex saving.

#### **32.2 Deliverability assessment challenge**

- Deliverability should be a cross-check, not a constraint, with greater focus on forward-looking capability and plans (such as supply chain flexibility);
- We have strengthened delivery capacity through targeted initiatives, with evidence suggesting the proposed ‘cap’ understates true capability.

#### **32.3 Capital governance evolution**

- We support incremental, proportionate improvements within the existing framework to address concerns which the CAA recognise, while maintaining collaboration with airlines;
- We propose targeted refinements to support efficient delivery of a larger H8 portfolio (e.g. higher Delivery Obligations (DOs) thresholds; reduced schedule constraints). This will cut complexity, improve agility, and focus governance on strategic investments.

### **33. Structure of this section**

Our response to the CAA’s IP for capital is structured as follows:

- We summarise our original H8 capital business plan and its overarching objectives.
- We summarise the CAA’s IP for capital.
- We respond to scope adjustments and explain why both phases of T5 Optimisation and T2 stands should be included in the H8 framework.
- We set out the implications for consumer outcomes of the capital envelope in the CAA’s IP and provide further evidence to support investments. We are submitting 48 project needs cases which have been updated to reflect greater project maturity, in

light of the latest capital needs assessment guidance (October 2025). In addition, we are submitting further evidence to support investment in asset renewals.

- We identify opportunities to improve Steer’s needs-based methodology for a more balanced portfolio of investment.
- We identify areas for reconsideration of the CAA’s assessment of the maximum deliverable capital limit.
- We look for the CAA’s support in driving ongoing improvements to the capital governance process.

### 34. Summary of our original H8 capital business plan and its overarching objectives

**In the first round of Constructive Engagement, we set out a £16bn hopper for potential capital investment for H8. Based on feedback and alignment with airline priorities, we reduced this to £10bn in our H8BP submission, further offset by £0.5bn of efficiency.**

Our H8BP sets out an ambitious five-year investment programme. It was developed based on an alignment with passenger and airline priorities, balanced to deliver across resilience, experience, growth, sustainability and value for money. We are confident in delivering an investment plan of this size, and have proven historically that we can do this – in regulatory periods Q4 and Q5 we delivered at over £2bn in a year, for multiple years, to invest in significant additional capacity at the airport.

Our £9.5bn (2024 CPI) investment programme, for the period 2027–2031 is comprised of:

- £5.5bn investment in sustaining our current asset base and delivering programmes in train in H7;
- £4.5bn of new strategic investments to unlock capacity, and improve resilience, service and sustainability
- offset by £0.5bn of capital efficiencies, giving a net £9.5bn capital plan.

Our plan set out how this capital portfolio is vital to deliver our 15 better customer-focused objectives aligned to our strategic foundations and beacons, and will deliver:

- Improved operational resilience and reduce disruption;
- Enhanced passenger experience and service quality;
- Better use of existing capacity and unlock near-term capacity;
- Progress sustainability and People and Planet commitments;
- Deliver value for money through efficiency and performance improvements.

The plan will also deliver incremental non-aeronautical revenue or opex reduction benefits of c.£0.4bn across H8 and a total of £1.1bn, ensuring that the passenger charge represents value for money.

### 35. Summary of the CAA initial proposals for capital

In its H8 IP (March 2026), the CAA proposed a materially lower capital envelope of £5.9bn (2024 CPI) for H8. Part of the reason for this is that the CAA misdirected itself in its Method Statement of March 2025.

The CAA’s IP apply a series of scope-based adjustments to Heathrow’s H8BP, reflecting its interpretation of a “two runway airport, business as usual” baseline and its assessment of the maturity of need cases at the time of submission. This included reductions of:

- £1.5bn of Modernising Heathrow (including T5 Optimisation Phase 2)
- £0.2bn of noise and vortex costs
- £1.9bn of projects deemed to have insufficient need

The CAA attempts to justify the extreme constraint that the IP places on Heathrow’s H8 capital spending this approach in part by reference to its Method Statement. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

#### 35.1. The position of the IP on capital spend is contrary to the CAA’s statutory duties

The CAA’s application of its statutory and public law duties is inconsistent in its approach to Capex assessment. Part of the CAA’s primary duty is to further the interests of users (of air transport services) regarding the **availability** and **quality** of airport operation services. Additionally, and most pertinently in the current context, in performing its duties the CAA **must** have regard to the need to secure that reasonable demands for airport operation services are met<sup>16</sup> (see Appendix C).

The CAA’s intention to exclude four of the five Modernising Heathrow projects, including T5 Optimisation phase 2, flies directly in the face of those duties. Indeed, the CAA’s

<sup>15</sup> [REDACTED]

<sup>16</sup> CAA12 s.1(1) and 1(3)(b). Other factors, less relevant here, are: Any relevant guidance issued to the CAA by the Secretary of State; and any international obligation of the UK notified to the CAA by the Secretary of State.

treatment of capex projects seeking to expand existing capacity within terminals, alongside the inevitable passenger growth expected, will force unnecessary trade-offs for investment to the detriment of user.

As touched on above, the CAA has pointed to the language used in its Method Statement of March 2025 in its response to Heathrow’s proposals for H8 capital expenditure. The Method Statement says that “*significant terminal expansion and the development of a third runway ... is best dealt with separately from the resetting of HAL’s ‘business as usual’ price control*”<sup>17</sup>. This is applied blindly in the IP to block or defer decisions on proposals for terminal expansion that “*increases the footprint of a terminal*”<sup>18</sup>.

This approach threatens to block projects that would get more passengers moving through the existing terminals (improving “availability” in the wording of the primary duty) and give them a better experience in doing so (so improving “quality”). There is no proper justification provided in the IP for this approach other than the sweeping application of a rule created by the CAA itself.

Passenger forecast growth under the two-runway model is not disputed; the CAA’s own forecasts confirm that passenger numbers at Heathrow will grow throughout the H8 period. If the CAA is treating passenger growth as “business as usual” (in its words) then the investment needed to facilitate the extra passengers through the necessary terminal expansion must be treated in the same way.

During H8 passenger numbers are forecast to increase further to 89m in 2031. This represents an increase of 17m since 2013 – equivalent to adding Luton Airport to Heathrow. This additional demand cannot be met without significant additions to capacity during H8. Our plan included 9.5m additional capacity by 2032, delivered by an investment plan at a level of £1.9bn pa, essentially similar to that observed during the previous development phase.

In contrast, the IP require significant growth to be delivered at a level of investment that is consistent with stasis rather than development.

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<sup>17</sup> CAA: CAP3083, H8 method statement and business plan guidance, 27 March 2025, para 5.47.

<sup>18</sup> IP, Section 2, para 6.36.

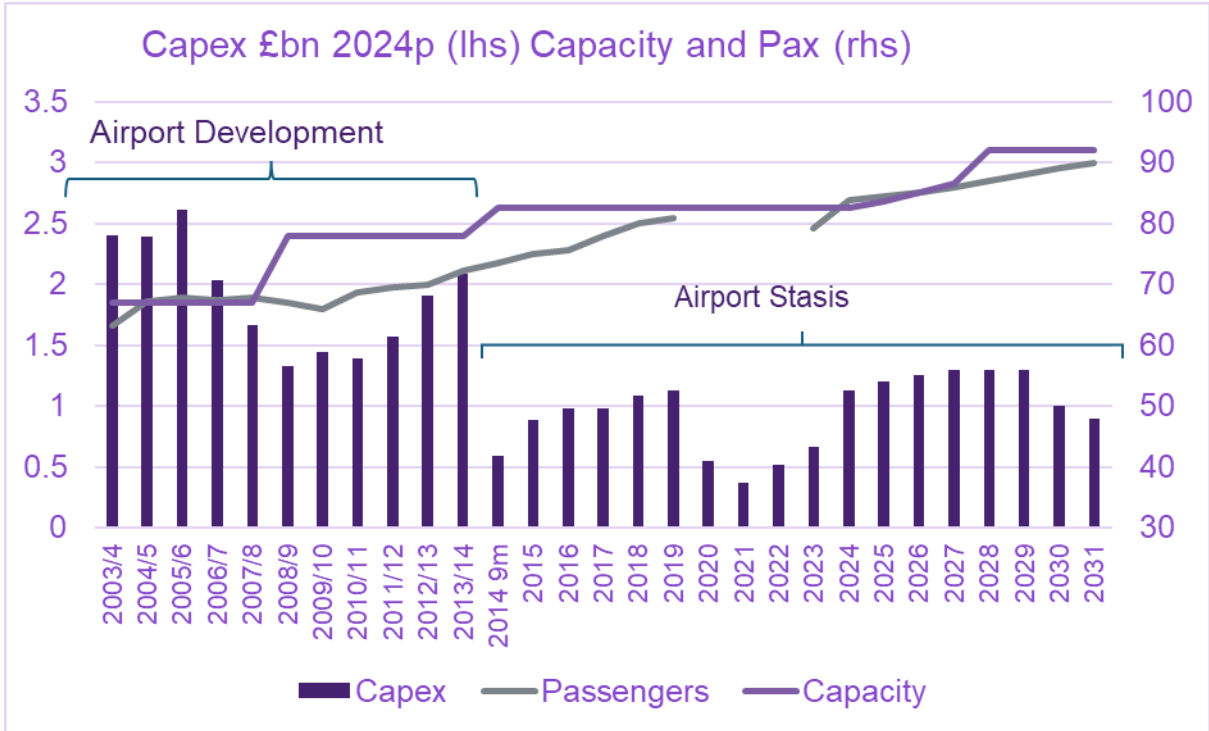


Figure 2.1.1 – Chart showing Development of Heathrow Capex, Capacity and Demand

The CAA has also not explained how its approach is compatible with its statutory duty to have regard to the need to secure that all reasonable demands for airport services are met. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

### 36. Scope adjustments – Modernising Heathrow - Focus on T5 Optimisation (Phases 1 and 2, and T2 Stands), and Noise and Vortex

If expansion was not on the cards, the Modernising Heathrow programme would have gone ahead on its own merits, given the significant value it provides to consumers. Deciding to remove it is simply incorrect, as it does not engage with the merits of the programme but with the existence of an alternative regulatory approach.

The following table summarises the breakdown of the Modernising Heathrow components and which are appropriate to include as part of the H8 settlement.

Scheme	Cost in H8 £m	Included in IP	Required in H8	Cost in H8 £m	Programmes
Programme Costs		No	No		
Development Consent Order		No	No		
T5 Capacity Optimisation Phase 1		Yes	Yes		T5 Optimisation
T5 Capacity Optimisation Phase 2		No	Yes		
Enabling MH		No	Yes		T2 Stands T1 Demolition
Ancillary Projects		No	Yes		
Total	1,782.9	229.4		1490.4	

Figure 2.1.2 - Table showing Elements of Modernising Heathrow Programme that need to be retained in H8.

#### 36.1 T5 Optimisation

T5 Optimisation Phase 1 and Phase 2 should be included in the H8 capital portfolio because it is required to operate an efficient, resilient two-runway airport and to protect passenger experience in Terminal 5 as demand grows.

- BAU (two-runway) capacity need and airline growth alignment:** Our H8BP included two tranches for T5 (Optimisation Phase 1 and Phase 2) to align with airline demand in a two-runway scenario. The programme supports BA's growth forecast and fleet strategy assumptions that we will have sufficient terminal and stand infrastructure to stay ahead of demand from 2027, where modelling indicates that T5 demand could reach c.43mppa. This is significantly higher than the terminal limits today. The T5 Optimisation programme is designed to deliver an extra 6mppa capacity, (c.2mppa from Phase 1 and 4mppa from Phase 2). Delaying Phase 2 risks having to cap demand at Heathrow and / or delaying the intended passenger improvements around decongestion and flow.
- Resilience, asset condition and passenger experience are the primary drivers (not optional expansion):** T5 is approaching 20 years old, with many original assets at, or beyond, design life. Over the last six years, T5 has slipped to become the worst-performing terminal for passenger experience and has experienced more frequent resilience issues. Adding capacity without addressing underlying service

and resilience constraints would worsen customer experience (including QSM impacts), undermining consumer outcomes and Heathrow's service proposition.

- **Phase 1 and 2 are operationally and commercially inseparable and should be treated as a single integrated programme:** As the work has matured, we have identified that integrating all works under a single T5 Optimisation umbrella improves design integration, construction efficiency, and stakeholder monitoring. It also avoids inefficient and disruptive rework across passenger touchpoints (e.g., delivering a small number of improvements in Phase 1 and then returning later to re-open the same areas for Phase 2).
- **Planning/consent position has evolved (reducing the case for deferral):** T5 Optimisation was originally split, partly because Phase 2 was thought likely to require a DCO. Further work and engagement since indicates that the majority of the programme can be delivered under existing planning consent, with any remaining approvals better managed within the BAU H8 framework than left uncertain and deferred.
- **Satellite extensions address service and resilience issues that will otherwise worsen as demand increases:** The satellite extensions (B and C) are presented as critical to resolving current operational inefficiencies through improving pier service (including reducing reliance on remote stands and improving connectivity); and strengthening baggage and operational resilience to protect against aging assets and increasing throughput.
- **Material downside risks if Phase 2 is reclassified into the Expansion Work Programme:** Deferring Phase 2 introduces uncertainty on scope, phasing and approvals, increasing timing and delivery risk. It also risks misalignment with (or disruption to) future expansion sequencing, and could create adverse financial impacts (e.g., higher H9 aero charges) by shifting investment that delivers positive cashflows and near-term consumer benefits out of H8.
- **CAA's objection is classification rather than substance – and the classification should be revisited:** The CAA indicated it views Phase 2 as “significant capacity expansion” because it increases terminal footprint, and therefore better aligned to the Expansion Work Programme. Our position is that the primary objective of T5 Optimisation (including Phase 2) is to address resilience and service constraints in an existing terminal to meet BAU demand, and that this is required and time-critical rather than discretionary, growth-driven expansion.

### 36.2 Enabling works

Two out of the 3 elements of scope in the enabling works scope should also be included in the H8 capital portfolio because it is required to operate an efficient, resilient two-runway airport and to protect passenger experience.

The CAA’s objection is classification rather than substance – and the classification should be revisited: The CAA indicated it views “This project includes enabling works for the construction of T2C satellite. It is an enabler for a *“significant capacity expansion of terminals”*. Our position is that T2 stands and T1 demolition scope addresses stand capacity and resilience constraints in the Central Terminal Area and is necessary to remove the risk of old aged infrastructure from Heathrow’s estate, addressing resilience and service constraints. T2 stands also serve as an enabler for T5O.

### 36.3 T2 Stands

- Since the submission of the H8BP, the creation of new stands at T2 has become a priority for both airlines and Heathrow in a two-runway airport, and we therefore re-present this as a standalone project that should be included in the H8 capital portfolio (see Appendix D).

### 36.4 T1 Demolition

- Optimisation of the T2 Baggage programme due to the assumption of T1 ceasing operation and being demolished in 2030 reduced capital expenditure by circ. £70M. Not including T1 demolition into H8 will impact airport resilience, increase Health and Safety risks and will mean investing in T1 to keep is safe and secure will occur in H8. The demolition of T1 will occur in a two-runway airport and is not directly linked to expansion. Further, more efficiencies in capital expenditure and schedule have been identified since the submission of our H8BP (see Appendix D).

### 36.5 West Base Asset Replacement

For the avoidance of doubt, Heathrow has now removed the West Base Asset Replacement scope of works from the H8 proposal, in which it is included in Expansion.

### 36.6 Noise and vortex

Noise also creates risks to airport operations. The health impacts of aircraft noise are well-documented and the latest evidence shows that those impacts start at lower levels of exposure. The UK Government is undertaking a major review of its policy and there is precedent at other major European hubs for limiting capacity to limit noise. Investment in noise insulation is a far more cost-effective way of tackling noise impacts than capping flights.

The CAA’s IP set out that Noise and Vortex costs should be classified as opex (see Section 2.3). We agree with the proposal that these costs should follow the statutory accounting treatment, but they should be applied consistently across all projects:

- Ongoing **Noise Mitigation Scheme (S01)** £241m classified by the CAA as opex.

- Noise & Vortex costs relating to **Easterly Alternation Infrastructure (T04)** £38m incorrectly classified by the CAA as opex but capitalisable as core part of planning permission granted for this project as set out in Appendix D.
- Noise & Vortex costs relating to **Airspace Change (T030)** £24m correctly classified by the CAA as capital costs and included in the capital envelope.

We recommend also that any opex costs are treated as ORC charges, as set out in the opex and ORC sections of our response (see Sections 2.3 and 3.4).

### 37. Implications for consumer outcomes and presenting matured needs cases

The CAA's IP risks underfunding core operational infrastructure, such as the Surface Movement Radar, that directly enable consumer focussed outcomes, particularly resilience, service quality, passenger experience and sustainability. The proposed H8 capital envelope is too constrained to support a balanced and resilient portfolio, materially limiting Heathrow's ability to respond to asset condition, operational and strategic risk and evolving consumer expectations. Permitting degradation of service resilience would be likely to be contrary to the CAA's primary duty to further the interests of users of air transport services regarding, most directly, the **continuity** and **quality** of airport operation services.

The envelope is predominantly set based on 'must-do' projects, leaving minimal headroom for unanticipated or currently immature investment. A limited envelope concentrates investment on minimum compliance and deferral rather than preventative renewal, which will disrupt service and drive poorer passenger experience and higher long-term costs. For several sustainability projects the CAA has also not given sufficient weight to the compliance and policy drivers Heathrow is seeking to respond to. Projects have therefore been classified as "discretionary" which are "must do".

Our H8BP submission was based on available information at the time; the CAA's Needs Assessment guidance was published on 13 June 2025, limiting our ability to incorporate the revised requirements, and we welcome the CAA revisiting its assessments ahead of Final Proposals.

Our response strengthens the case for investment by:

- Explicitly mapping investment to consumer outcomes, MTIs and avoided disbenefit;
- Sharing matured project-level needs cases for schemes excluded or deferred under the IP, demonstrating why they remain necessary to deliver H8 outcomes;
- Sharing further information for all physical asset renewals which demonstrates the need for investment in H8.

The CAA recognises that Heathrow engages extensively with consumers (350,000+ passengers annually, including c.10,000 consumers for H8), and Steer concluded that

the research programme is broadly robust and sufficiently comprehensive to inform plan development.

However, the CAA and stakeholders (airline community and HPF) have also noted that Heathrow needs to make clearer the link between investment, consumer outcomes and costs.

We set out the implications of the proposed capital envelope across five areas:

- Asset renewal – physical and technology
- Passenger experience
- Commercial revenue
- Sustainability
- Digital

We illustrate where constrained investment risks degrading rather than improving consumer outcomes and efficiency. In parallel, we provide more mature needs-case evidence for priority projects excluded from the IP capital envelope.

Finally, we reference new projects that have been identified since our business case submission last July and projects that have materially changed in scope.

### 37.1. Asset renewals

In our H8BP submission we propose £4.311bn investment in asset renewals. The CAA's IP includes £3.672bn (£3.427bn, once efficiency and phasing applied) of asset renewal within the proposed capital envelope.

#### 37.1.1 Physical asset renewals

##### Safety, compliance and passenger protection

Physical asset renewals underpin Heathrow's ability to meet:

- statutory and regulatory obligations (for example ISO 45001, ISO 55001, Building Safety Act);
- life-safety systems (fire mains, power, emergency infrastructure), and;
- Heathrow's commitments to reduce passenger and colleague injuries.

##### Why physical asset renewal matters for consumers

- Heathrow operates approximately 650,000 individual assets across baggage, civils, controls, electrical, mechanical, fire, rail and environmental systems. These assets are fundamental enablers of passenger outcomes: they determine whether journeys are reliable, safe, timely and resilient, and whether disruption can be recovered quickly when it occurs.

- Heathrow's terminals and infrastructure are now in an aged phase of their operating lives: T3 (~70 years), T4 (~40 years), T5 (~20 years). Assets installed during T2 and T5 peak build periods are now becoming fragile simultaneously. Renewing them in live, heavily utilised terminals is materially more complex and costly, and failure consequences for consumers are far greater than during original construction.
- Investing in our physical assets to ensure they remain in a serviceable condition is therefore key to the delivery of 4 of the 6 H8 consumer priorities identified by Steer and highlighted by the CAA in their IP - baggage, delays and disruption, cargo and congestion and queuing.
- During H8, around £5.8bn of assets reach or exceed end-of-life. Investment in asset renewals in H8 is therefore not discretionary investment, but a do-minimum programme to maintain Heathrow's ability to operate safely as national critical infrastructure at a two-runway, four-terminal level of service for our Passengers, Airlines and Cargo Operators. The Business Plan prioritises the assets that most directly support safety, passenger continuity and availability.

#### Impact of a constrained capital envelope on consumers

A capital envelope below the level proposed in our H8BP, has clear and adverse implications for consumer outcomes:

- **Build up of asset debt** If an asset has exceeded its design life, its risk of failure will likely increase until it is eventually replaced or refurbished. Heathrow refers to the replacement value of assets that have exceeded their design life as maintenance debt. Figure 2.1.3 shows the evolution of maintenance debt in Heathrow between the end of 2021 and start of 2032. The figure shows higher levels of degradation (assets exceeding their design life) during H8 that is not addressed by the levels of maintenance included in the IP. The consequence would be a large increase in maintenance debt by the end of H8 with an associated significant impact on service risk. This would need to be addressed by a significantly larger maintenance programme in H9 that might not be deliverable without impacting capacity or service.



Figure 2.1.3 – Chart showing Evolution of Asset Debt at Heathrow

- Reduced reliability and resilience:** Past under-investment – driven by the expansion pause and COVID-19 – has already translated into higher operational risk. Asset condition continues to deteriorate across regulatory periods, shifting Heathrow from planned renewal into reactive failure management. This directly increases the likelihood of delays, baggage disruption, stand constraints and cancellations experienced by passengers. Specific evidence is provided in Appendix D.
- Rising failure risk and passenger impact:** As set out in our Business Plan, the average residual asset life has fallen from 56% to 34% since 2019. Materially increasing the probability of service-impacting failures which is reflected in forecast CRF scores for the end of H8 without investment. This includes assets directly experienced by passengers – such as airbridges, lifts, escalators, toilets, baggage systems and security infrastructure – where degraded performance translates immediately into poorer journeys. In total 135,000 assets are beyond their expected life (23.7%) and examples of these include 46 of 192 Airbridges beyond their maximum life and at least 50 of 448 toilet blocks are beyond their date for renewal.
- Higher operating cost and poorer service recovery:** Maintenance expenditure has increased by 41% between 2019 and 2024, outpacing CPI, as ageing assets require more intervention. Without sufficient capital for asset renewal, opex is increasingly used to keep assets operating in degraded modes rather than restoring capability. This does not improve consumer outcomes and reduces recovery headroom when disruption occurs. Within the IP the CAA removed the overlay for additional opex to support asset resilience and maintenance, however the reduction in capital to

replace assets will actually result in increased opex requirements. The higher the cumulative asset replacement “debt” (i.e. assets not replaced in the period in which they are at the end of their life) the higher the opex impact, and the dual effect of removing asset replacement capital and the additional opex overlay does not reflect the reality of Heathrow’s aged infrastructure.

- **MTI risk and avoided disbenefit:** Constrained asset renewal investment increases the likelihood of MTI failures across baggage, reliability and availability measures. Crucially, many asset renewals deliver value primarily through avoided disbenefit – preventing deterioration rather than creating visible improvements – which the current envelope risks under-recognising. For example, in November 2025 T5 LEPC MTI failed, in Feb/March 2026 T2 Airbridges MTI failed and in April 2026 T5 Airbridges MTI failed. These asset systems are on a downward trend for MTI performance and have low residual asset life due to underinvestment.

#### High utilisation amplifies passenger impacts

As Heathrow has built back to record-breaking passenger levels, assets are operating in an environment of sustained high utilisation. This accelerates degradation and reduces operational resilience. Under these conditions, even minor asset failures can cascade rapidly into passenger disruption. A low capital envelope therefore disproportionately increases consumer impacts precisely when demand – and passenger expectation – is highest.

#### Strengthening the needs-case evidence

Heathrow recognises the CAA’s request for clearer linkage between asset renewal spend and consumer benefit. We have provided strengthened needs case for each of these items which can be found in Appendix D, and will:

- Explicitly articulate the passenger outcome at risk;
- Describe the service disbenefit if renewal is deferred;
- Reference MTIs, resilience and safety impacts, and;
- Demonstrate why reactive maintenance is not a substitute.

### **37.1.2 Technology asset renewals**

Heathrow maintains a vast technology estate that underpins all aspects of Heathrow’s operations. There are 75,000 individual technology assets.

We need to provide a secure and resilient IT estate to keep the Team Heathrow operation running effectively every day, and to ultimately support and enable the delivery of:

- Consumer outcomes, including in particular ‘I have a predictable and reliable journey’;

- MTIs (e.g. Departures Punctuality, Runway Operational Resilience and Overall Satisfaction);
- Other Heathrow Business Cases.

For asset life specifically, Heathrow has traditionally sweated its assets, which we propose is neither best practice nor viable any longer for the majority of assets. i.e. We need to keep our assets 'in-life' and therefore in support. Failures due to degraded or end-of life assets is extremely likely to impact consumers via service failures across the passenger journey in areas such as Check-in, Baggage systems, Security and also via operational failures on the Airfield that can a significant impact on Arrivals and Departures Punctuality. For MTIs specifically, this could be a failure caused by an issue with our technology foundations. e.g. Baggage delivery delayed due to a network issue. or, there could be an issue with the core technology products that lead to a need to cap runway capacity or leads to significant impact of Departure Punctuality thus increasing congestion on the runway and in the terminals e.g. Stand availability is reduced – and therefore flights delayed if there is a failure in our FOD system.

A constrained capital envelope means that we would (1) Continue to operate assets beyond their life which increases risk of failure and (2) Reduce investment in Cyber posture. This brings implications for:

#### Security

This includes implications such as:

- **Cyber security non-compliance** – Risk of non-compliance with the Cyber Security and Resilience bill (when introduced) and industry recognised standards such as the National Institute of Standards and Technology (NIST) framework.
- **Operational security incidents** – Risk of security incidents in the Airport due to the technology providing or supporting security processes being degraded or not working e.g. KVM system in the Control Centre, which is not assessed to be at mid-point.

#### Resilience

This includes implications such as:

- **Immediate operational disruption** – Risk of disruption to the passenger journey, with passengers and cargo unable to fly and/or are delayed.
- **Eroded operational visibility** – Risk of degraded visibility of the operation, and hence implications of this for safety and passenger satisfaction e.g. Reduced visibility of passengers if Passenger Flow Monitoring technology degraded.
- **Delayed recovery** – Risk of delayed recovery due to complexity of work on an asset that is past its life, and that is operating in the wider Heathrow environment e.g. Could involve work in physical locations, multiple integrations with other Heathrow/Airline systems and/or dependencies on other assets.

## Costs

This includes implications such as:

- **Costs associated with disruption** – Risk of substantial costs due to disruption such as cancelled/delayed flights. Costs can include resourcing to move to contingency processes, MTI non-adherence and Airline costs and/or compensation
- **Increased maintenance and support spend** – Increased opex due to asset condition being such that vendors increase annual support costs and assets require repairs. We have numerous examples from this year alone – one recent example is our server hosting for baggage and CCTV has increased by £800k per annum an increase of 200%.

Operating assets beyond their life – which makes them more vulnerable to Cyber threats - and not investing appropriately in Cyber in general - is no longer viable with the exponential increase in cyber risk and the dynamic cyber threat environment.

We are additionally expecting the Cyber Security and Resilience bill to come into force, and as recently as May 2026 have had communication from the DfT that says that it “*is imperative we accelerate delivery of existing resilience measures and stress-test them against this emerging threat.*” We all want to move as fast as we can and therefore we require the funding needed to keep pace, and accelerate wherever possible, this critical agenda for the benefit of all airport users and consumers.

We have provided strengthened needs case for items in both the Asset Renewals (new) Business Case and the AMC Business Case. These can be found in Appendix D.

In these needs cases, in addition to explicitly addressing the scoring criteria and providing more information compared to the original submission, we have especially tried to demonstrate:

- Maturing of items since the submission was made;
- Link to consumer benefit, which includes both actual benefits and service disbenefits if the renewal is not completed.

The needs cases cover:

- £100m of scope in Asset Renewals business case that are not at mid-point.
- Critical IT assets in the AMC business case that are not at mid-point.

## **37.2. Passenger Experience**

In our H8BP submission we propose £310m investment in our H8 passenger experience programme. Whilst recognising the ‘*strong strategic case for this investment, built on rising demand, evolving passenger expectations and identified service gaps*’, the CAA’s Needs Assessment and IP includes only £65m (£61m, once efficiency and phasing applied) of this investment as ‘*the evidence provided does not demonstrate the scale of the problems or the expected impact of the interventions.*’

### 36.2.1 Strengthening the needs case evidence:

We welcome the CAA's assessment that all our proposed passenger experience projects have *'a clear direct impact on passenger experience'* and that *'improvements in passenger experience leads to increases in commercial spend'*.

We also welcome the CAA conclusion that *'the strategic rationale is clear and strongly aligned to consumer priorities'* and we note the CAA's concerns that *'the information provided remains at an early stage of maturity to meet the requirements of the guidance.'*

In response to the CAA's concerns, we have sought to strengthen the evidence provided and have included 19 strengthened needs cases which can be found in Appendix D.

We have provided additional evidence to quantify project benefits, for example in terms of quantified additional equipment provision, additional capacity, utilisation and growth forecasts and anticipated improvements (or avoided declines) in satisfaction based on Key Driver Analysis of passenger satisfaction, together with feedback from trials and initiatives such as Summer 2025's Protect T3 / Elevate T5 Experience Initiative.

#### Recognising Safety, Compliance, and Operational Resilience Benefits

We welcome the CAA's recognition that 5 of our proposed projects to support Passengers Requiring Assistance have clear compliance benefits under equalities legislation and the CAA's inclusion of these projects in the capital envelope.

Many of the remaining projects in the programme also have safety benefits, deliver compliance requirements and operational resilience – examples include:

##### *Meeting national policy requirements:*

- Enhanced border experience project is required to deliver 102 additional e-gates and immigration hall reconfiguration to meet the Home Office target and National Statement of Expectations for a fully contactless border by 2031.

##### *Meeting equality requirements:*

- Aviation passengers have a right to be provided with assistance at the airport that is suitable to their needs without any additional cost to the passenger.
- Provision of alternative mobility equipment project is required to give passengers requiring support greater choice over how they move through the airport, providing the right assistance ensuring that the support is suitable to passengers' needs. Providing a wider range of equipment such as digitally enabled rollators, walking aids and mobility-support trolleys in addition to traditional wheelchairs, will enable more passengers to travel independently, reducing reliance on traditional wheelchairs and people-intensive assistance where full support is not required.
- Creation of soundproof sensory/quiet spaces in departure and arrival areas. This project is key to delivering a truly accessible airport experience for all passengers,

regardless of neurodiversity. While not mandated by legislation, quiet or sensory spaces support our duties under the Equality Act 2010 and CAA accessibility expectations by reducing disadvantage for passengers with non-visible disabilities. Providing a quiet/ sensory room is widely accepted as a reasonable adjustment and a best practice response to identified needs.

- We note that that the needs assessment identifies the autonomous wheelchairs project as having clear compliance benefits but does not score them accordingly and as a consequence they are excluded from the capital envelope.

#### *Delivering Resilience Benefits*

- A number of our proposed projects, including those to improve seating, wayfinding, cleaning and connections, build on the successful Summer 2025 Protect T3 / Elevate T5 Experience initiative. This initiative implemented improvements including self-serve wheelchairs, improved wayfinding and departure seating and charging which led to a 15% reduction in passenger crowdedness as well as an increase in overall satisfaction by 0.15. This reduction in congestion together with improved ability to manage flow through our proposed digital wayfinding project will provide additional incident management resilience.

#### *Delivering Safety Benefits*

- The importance of additional washrooms and smarter washroom technology to more speedily detect spills and blockages, improving hygiene by reducing the time from incident occurrence to cleaning.

In consideration of our strengthened evidence and updating its needs assessment, it is important that the CAA take into account:

- That passenger experience projects are not disadvantaged due to their maturity (being relatively smaller projects that deliver more qualitative outcomes) they will inevitably be at an early stage of maturity (pre P1);
- That the guidance set out in Appendix A of the Steer Needs Assessment does not include any reference to passenger experience; and
- That we have provided additional evidence to support our proposed projects to deliver improved seating and wayfinding – projects that were set out in the Brilliant Basics element of our H8 plan and removed from the IP capital envelope as not having a strong enough needs case, despite the CAA’s IP raising concerns that these issues “were not explicitly reflected in the H8 Business Plan”.

We would encourage the CAA to look again at some important areas of this section of the IP, with its broader public law duties carefully in mind. For example:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**37.3. Commercial revenues and commercial property**

**37.3.1 Commercial revenues**

In our H8BP submission we proposed £795m investment in commercial revenue projects. The CAA’s IP included £284m (£263m once efficiency and phasing applied) of commercial revenue investment within the proposed capital envelope.

Restrictions or deferrals within the CAA’s proposed H8 capital envelope risk eroding existing commercial revenues, not just limiting future enhancements. This weakens Heathrow’s ability to generate non-aeronautical income that helps offset airport charges paid by airlines and consumers.

The IP assume that Heathrow can deliver improved commercial outcomes despite a reduced capital envelope, without adequately reflecting the effect that lower capital investment would fundamentally have on the delivery environment, passenger experience, service quality and therefore commercial revenues.

[REDACTED]

[REDACTED]

Without timely renewal and refresh, commercial spaces become outdated, less attractive and less competitive, reducing passenger satisfaction and partner confidence. This leads to degradation of existing revenue streams, rather than improved efficiency, and undermines long-term financial sustainability. Weaker commercial performance has direct value-for-money implications for consumers, as lower EBITDA contribution reduces Heathrow’s ability to mitigate charges over time.

Targeted commercial investment therefore supports the CAA’s objectives by:

- Improving passenger experience in heavily used terminals;
- Protecting non-aeronautical revenues that help manage airport charges; and
- Avoiding longer-term cost escalation associated with deferred renewal and loss of competitiveness.

We have provided strengthened needs case for commercial revenue projects which demonstrate a clear link between the investment, consumer outcomes and MTIs, and can be found in Appendix D.

### 37.3.2 Commercial Property Developments

We respond in full to the CAA’s IP rejecting our proposed hybrid till approach in Section 3.5. The case for a new approach, including our arguments under s.1(1), s.1(3)(c), s.68 and s.69 of the Civil Aviation Act 2012, is set out in full in section 3.5 and should be read together with this section.

By not considering a hybrid model means that there is no commercial property investment assessed at all in H8. Therefore, Heathrow has developed needs cases for two commercial property developments proposed in H8 to be considered in the capital envelope, and we welcome CAA support for these projects being included within the capital envelope assessment for the Final Proposals. We have included project plans for two commercial property development projects which demonstrate a clear link between the investment, consumer outcomes and MTIs, and can be found in Appendix D. These include:

- Cargo Southside: [REDACTED]
- CPC office development: [REDACTED]

## 37.4. Sustainability

In our H8BP submission we proposed £1.136bn of capital investment in projects to improve sustainability outcomes, offset by £112m prioritisation adjustment, to take the net ask to £1.024bn. We also proposed noise insulation to be treated as capex, at £241m. The CAA's IP included £383m within the capital envelope plus £50m for noise insulation moved from capex to opex. For projects excluding noise this represents a 63% reduction. For noise this represents an 88% reduction.

The IP does not dispute that the right investment in sustainability is fundamental - indeed, as the CAA chair has said, "sustainability is the greatest challenge aviation has ever had"<sup>20</sup>. The IP states that Heathrow has not provided sufficient evidence on benefits, options selection and phasing, and reasonableness of cost to consumers.

### 37.4.1 Impact of a constrained capital envelope on consumers

Climate change and noise create significant risks to the availability, continuity and cost of airport operations services. The IP materially undermines our ability to manage those risks.

The statutory "Climate Financial Disclosure" statement in our annual accounts quantifies the risks of climate change to consumers. In a scenario with significant temperature rises and associated negative impacts on the global economy, Heathrow demand starts to fall from around 2040. There are also risks from more restrictive Government policies, changing consumer sentiment and more expensive financing. Investing in a planned way to decarbonise and manage those risks is manifestly in the consumer interest.

We do not need to solve everything in H8. But we cannot defer most investment to future business plans, which is the approach taken by the IP. The sixth UK carbon budget, now legislated, demands a 78% cut in UK carbon emissions from 1990 levels by 2035. The seventh carbon budget proposes an 87% cut by 2040, a level of reduction that cannot be delivered at Heathrow in compressed timeframes. Deferral increases the risks, but equally foregoes delivering benefits – early carbon reduction has a greater value in addressing climate change and investment in noise insulation ensures that more than 6,500 households and 15 schools (as set out in our H8BP) would not be exposed to significant day and nighttime noise levels over an extended period and the associated risk of health impacts such as sleep deprivation and annoyance.

Our updated business cases show how we have selected solutions and phased investment to deliver at a reasonable cost to consumers.

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<sup>20</sup> Sir Stephen Hillier interview with the Scotsman, 20 May 2023

As well as the benefits for consumers of managing these risks, there is a golden thread between our investment plans and what passengers tell airlines, the CAA and us that they care about.

- [REDACTED]
- 67% of passengers expect Heathrow to take a leadership role in the aviation sector.<sup>22</sup>
- The Heathrow Passenger Forum has told us that climate adaptation and noise mitigation in particular are important to them.

### 37.4.2 Compliance requirements

The IP does not reflect how significant a driver “compliance” is for several of the key sustainability projects that we put forward. In some cases, like the introduction from 2027 of new rules for how we segregate waste, we must respond to clear statutory requirements. In other cases, as an infrastructure owner with a planning horizon of three decades, we need to respond to a clear “policy direction of travel”. Four key areas where the IP fails to recognise our compliance responsibilities are:

- **Disallowing all investment in airside Electric Vehicle (EV) charging while the UK plans to phase out new petrol and diesel cars by 2030.** 25% of the c. 8000 vehicles that operate airside are already electric. By 2030 we forecast that will rise to 50% - up to another 2000 airside EVs. However, the IP disallows all H8 investment in airside charging.
- **Disallowing 88% of planned noise insulation investment despite this being a target in our statutory Noise Action Plan approved by the Government.** (See Section 2.3 for further detail).
- **Disallowing most investment in heat decarbonisation means we would be using gas up to 30 years beyond the UK’s legal target for net zero in 2050.** The UK’s carbon budget delivery plan assumes there is no industrial gas heating by 2050. We have developed a plan to move to electric heating in a phased and efficient over the next four quinquennia. At the funding levels allowed, it would take until c. 2080 to switch off gas heating and would cost up to 60% more.
- **Disallowing all investment in waste** means we are unable to meet the Government's requirement to introduce facilities for "deposit return schemes", comply with the Department for Environment, Food & Rural Affairs (DEFRA)'s guidance on aircraft cabin waste and limit exposure to and costs arising from, changes to the UK Emissions Trading Scheme.

<sup>21</sup> [REDACTED]

<sup>22</sup> Savanta Sustainability Perceptions Research, 2025

### Airline benefits

Sustainability is one of five key investment priorities for H8 identified by our airline customers in their alternative business plan. The IP disallows investment in two key areas identified by airlines as important: charging for airside electric vehicles / ground support equipment and waste (including facilities to treat category 1 waste).

#### 37.4.3 Wider resilience and financial benefits

The IP does not give sufficient weight to the wider benefits of sustainability projects.

- **Operational resilience:** our proposed investments provide a contingency solution for surface access during CTA tunnel closure (Hatton Cross), avoid reactive maintenance of ageing gas boilers and ensure that airlines can reliably charge the EVs they purchase.
- **Opex savings:** our proposed investments reduce exposure to increasing / volatile gas prices, avoid opex on waste treatment and support Team Heathrow to use lower cost EVs.

For these reasons, the CAA's approach to investment in sustainability falls short of the legal obligation that it must have regard to the need to **secure** that Heathrow is able to take reasonable measures to reduce, control or mitigate the adverse environmental effects of the airport, facilities used or intended to be used in connection with that airport and aircraft using that airport [REDACTED]

### 37.5. Digital

In our H8BP submission we propose £455m investment in digital projects. The CAA's IP includes £255m (£238m, once efficiency and phasing applied) of commercial revenue investment within the proposed capital envelope.

To deliver capacity growth of +10m passengers per year in a highly-constrained operational environment, on assets whose average residual life has fallen from 56% to 39% since 2019, whilst maintaining high standards of passenger and airline service and satisfaction, Heathrow must be more efficient and productive – we must do more with less. Technology is the critical factor to unlock this and will strengthen our resilience and improve passenger outcomes. It is the lever that will make every other investment in our assets and services go further, faster, and longer. The importance of digital, data, and AI is widely recognised: a Boston Consulting Group survey of leaders at 50 European Airports shows Digital Transformation to be the number one value lever, with 94% of airports with over 20m passengers per annum listing it as a top lever.<sup>23</sup>

At the time of writing our H8BP, our digital & data strategy was still emerging. The maturity of our proposal for Digital has increased significantly since submission in July

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<sup>23</sup> Source: [European Airports Add New Routes to Value Creation | BCG](#)

2025, as we have developed an airport-wide strategy for our Digital Future beacon. The strategy sets out how digital, data, and Artificial Intelligence (AI) will accelerate the objectives of Heathrow's corporate strategy through continuous, airport-wide modernisation based on trusted, actionable data, throughout the H8 period. To achieve material performance uplift through technology, digital is the engine and data is the fuel – both are critical.

The Digital Future strategy contains a roadmap of projects prioritised to meet its aims, with the strongest-impact (financial, operational performance, passenger satisfaction, safety and resilience) projects selected. It remains aligned to the key categories of the July 2025 Business Plan submission, and now enables the demonstration of stronger needs cases for:

- Next-Gen Passenger Services – [REDACTED]
- Intelligent Operations and Optimisation: Proven pilots (T2 automated lane allocation, T5 stand Foreign Object Debris (FOD) detection, T5 automated jet bridges) demonstrating scalable capacity gains and clear requirements for wider roll-out.
- Predictive and Proactive Asset Management: [REDACTED] transition to predictive, condition-based maintenance, targeting 100% coverage of critical assets by end of H8 that will contribute to meet MTI Asset Availability targets.
- Modernising Corporate Processes: Focused delivery of two critical systems – asset capitalisation [REDACTED] and a competence management system for safety- and security-critical roles.
- Enterprise Operational Systems and Data: Data & AI strategy [REDACTED] with centralised capabilities and new governance (incl. data loss prevention and AI risk management) reducing misuse risk.

We have provided strengthened needs case for digital projects, and can be found in Appendix D.

### 37.6. New Heathrow and airline priorities since H8 Business Plan submission

Since we submitted our H8BP, three new projects have been requested by airlines, and are now viewed as necessary investment in H8 due to their positive impact on consumer outcomes.

We are therefore submitting additional needs-cases for the following projects, which can be found in Appendix D.

- One Stop Security: [REDACTED] to transition a successful pilot into a permanent capability, enabled by over a decade of collaboration between the UK and US Governments, representing a landmark bilateral agreement. With over 210,000

passengers across more than 2,700 flights already benefitting from the pilot, it is driving a clear step change in service through faster, more predictable journeys and fewer missed connections, reducing airline operational and opex impacts while enhancing the passenger experience and improving security efficiency at Heathrow.

- **T3 Strategic Infrastructure and Airline Focussed Investment:** [REDACTED] strategically targeted investments to increase passenger and airline customer experience, operational resilience, safety and accessibility across Terminal 3.
- **Additional Fuel Infrastructure:** [REDACTED] to provide additional on-airport fuel storage infrastructure, increasing capacity from 1.5 days of fuel to 3 days of fuel, as recommended by IATA. This increases our ability to cope with supply interruptions, improving airline operations, reducing airline opex and avoiding disruption to passengers.

### 37.7. Projects with materially different scope since H8 Business Plan submission

Since we submitted our H8BP, three key projects have materially changed in scope, and therefore cost. As this change has been shared with the airlines, it was considered appropriate to provide an updated in our response.

We have provided updates for the following projects, which can be found in Appendix D:

- **(D03) PRJ-001901 - B71-152 Terminal 4 Front Door and Car Park - Tranche 34**  
Increase [REDACTED] due to the requirement to maintain terminal adjacency for drop-off and pick-up throughout delivery of the project.
- **(C037) PRJ-001956 - B7680.36 CPC** [REDACTED] to deliver enabling works (demolition, external works and re-provisioning) to produce a fully compliant and operational Control Post, delivering safe and efficient airside access, regulatory compliance and supporting wider airport capacity and resilience.
- **(C041) In airport Cargo, OAA Upgrade to Southside CPSRA & Control Post 25 Phase 2** Increase [REDACTED] due to increased design maturity requiring scope changes. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

### 38. Updating the CAA assessment methodology

We welcome the CAA’s continued focus on ensuring that the H8 capital programme is efficient, deliverable and clearly in the interests of consumers. In that context, we recognise the value of an external, structured framework to support prioritisation through a “needs case” assessment in determining the appropriate capital envelope.

The CAA's assessment methodology can be summarised as follows:

- First, projects that have passed Gateway 3 (G3) are treated as having a strong need case and are therefore not scored in the same way as earlier-stage projects.
- Second, projects that are pre-G3 but supported by airlines are treated as the next tier of priority, ahead of the remaining portfolio.
- Third, all other projects are ranked by a benefits-based score, derived from Net Impact and Likelihood scoring across three consumer benefit categories (with the safety/compliance/ resilience category receiving the highest weight), and assembled into an indicative prioritised list in the order: post-G3 projects, then airline-supported pre-G3 projects, then the remaining projects by descending score.

We believe it is important that any assessment is conducted in a manner that delivers a balanced capital envelope that aligns with the CAA duties and meets consumer priorities. We are concerned that aspects of the CAA's methodology may move the outcome away from a balanced position resulting in not meeting consumer priorities and under-representing projects across safety, resilience, and service across the areas articulated in the sections above. We are also concerned that, contrary to its public law duties, the CAA has not provided sufficient explanation and reasoning for various aspects of its approach, and that some aspects of its approach seem contradictory.

With this in mind, we are proposing a small number of targeted adjustments to the CAA's needs assessment methodology that the CAA should look to adopt. The enhancements are not intended to fundamentally change the methodology, but to build on it in an evolutionary manner, strengthening its effectiveness while retaining its overall structure.

### **38.1. Resolving the dilemma of line of sight to consumer priorities in the current scoring mechanism**

We welcome the CAA's pragmatic approach to needs assessment, but we are concerned the methodology may not be sufficiently anchored in consumer priorities or capable of delivering balanced outcomes. The scoring framework described in "H8 capital expenditure assessment –Steer report for Initial Proposals" does not clearly show how the CAA's priority consumer themes for H8 are translated into the definition and scoring of consumer benefits and, ultimately, the capital envelope. Moreover, the technical guidance that underpins the needs scoring appears to focus largely on compliance and reliability, with limited explanation of the evidence that would support assessment of consumers' basic needs and service experience, or preferences around value for money.

To address this gap, the "needs case" scoring matrix should more directly reflect the refined Consumer Priorities set out in Section 1 of our Response. As a targeted and

proportionate remedy, we propose adding those refined priorities as a distinct **Consumer Priorities**<sup>24</sup> heading within the “needs case” assessment matrix, alongside the existing Safety, Compliance and Operational Resilience category (with its 3 weighting), as shown in Figure 2.1. below. This would provide a clearer line of sight from evidenced consumer priorities to the capital envelope and reduce the risk that projects delivering material consumer benefits are systematically undervalued simply because their impacts sit outside, or are not well captured by, the current benefit categories.

Current approach		Proposed approach	
Benefits category	Weight	Benefits category	Weight
Safety, compliance, operational resilience	3	Safety, compliance, operational resilience + <b>Consumer Priority</b>	3
Capacity, passenger experience, airline operations, sustainability	2	Capacity, passenger experience, airline operations, sustainability	2
Increases revenues, reduce opex	1	Increases revenues, reduce opex	1

Figure 2.1.4 - Current approach vs Proposed approach, source: Heathrow

In practice, this means that the Net Impact of projects that deliver benefits on Safety, compliance, operational resilience + **Consumer Priority** would also need to include an assessment of how they delivery against the consumer priority themes, in addition to CAA’s Net Impact assessment of safety, compliance and operational resilience.

A practical implementation of this could take the following shape:

Refined Net Impact scoring for Consumer Priority:

- Score 3: Project delivers for more than four consumer priority themes
- Score 2: Project deliver for 3-4 consumer priority themes
- Score 1: Project delivers for 1-2 consumer priority themes
- Score 0: Project that do not delivery any consumer priority themes

This proposed adjustment would have the effect of increasing the “needs case” assessment scores of projects to reflect the importance of delivering H8 for consumers.

Examples include:

- **Enhanced Border Experience** - that contributes to delivery of the congestion and queuing consumer priority;
- **Additional washroom provision** - that contributes to the delivery of the consistent basic comforts priority; and

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<sup>24</sup> 1) Affordability, 2) Delays and disruptions, 3) Congestion & queuing, 4) Baggage, 5) PRS/PRM and accessibility, 6) Cargo. Heathrow’s two additional themes are: Basic comforts and Environmentally friendly travel

- **Heat decarbonisation** - that contributes to the delivery of environmentally-friendly travel.

The proposed adjustment would also help address issues that arise from the exclusion of a large number of projects from the capital envelope at IP. More specifically, our analysis of the 151 excluded projects, mapped to the MTI measures most likely to be affected by each exclusion, indicates that material tensions may arise across a number of proposed MTIs, including R17 Carbon Emissions, F2 Wayfinding and R1 Overall Satisfaction. This reflects the direct (or at least a highly plausible) link between a number of excluded projects and the operational, carbon and service outcomes that those MTIs are intended to measure, as shown in 2.1.2 below.

Although the CAA’s IP recognise that MTIs are intended to incentivise Heathrow to deliver outcomes that matter to consumers<sup>25</sup>, the resulting capital envelope does not appear to be calibrated consistently and appropriately if the CAA is to discharge its primary duty to further the interests of users in relation to the range, availability, continuity, cost and quality of airport operation services. Projects that support consumer priorities – including environmentally-friendly travel and consistent basic comforts – or that are required to deliver MTI-linked outcomes should therefore be properly recognised in the final capital allowance:

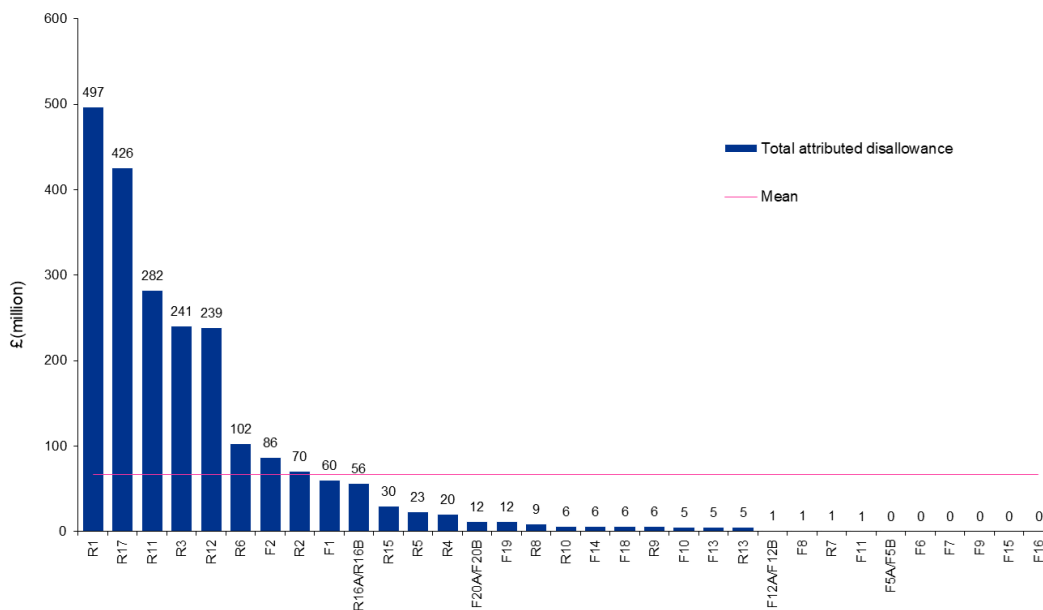


Figure 2.1.5 - Total disallowed capital attributed to each MTI measure (direct links), Source: Heathrow’s analysis of excluded capital projects and their linkage to MTIs

<sup>25</sup> CAP3232A Economic regulation of Heathrow Airport: H8 Initial Proposals Section 1: consumer engagement, passenger forecasts and service quality, paragraphs 1.30-1.31

If the CAA maintains material capital exclusions without recalibrating the relevant MTIs, it may risk creating an asymmetric and inconsistent H8 settlement, whereby we are unable to meet our MTI commitments and are penalised for doing so via rebates. This would risk undermining consumers' interests across the statutory dimensions of quality, continuity, availability, cost and range of services.

### 38.2. Need for an “in the round” assessment

Heathrow would like to draw the CAA's attention to some additional features of the capital assessment methodology that may warrant further thought in order to ensure that it delivers the best outcome for consumers. These include:

- Revisiting the concept of the capital envelope threshold;
- Methodology bias against commercial and carbon & sustainability projects
- Overall transparency of the “need case” assessment – definition, calibration and moderation;
- Likelihood, deliverability and maturity are treated as one; and
- Sensitivity in the scoring mechanics and aggregation.

#### 38.2.1 Revisiting the concept of the capital envelope threshold

The CAA defines the capital envelope threshold by ranking projects (post-G3 and airline-supported first), selecting a minimum “needs case” score cut-off (base: 20% of max score = 11/54), and reading off the cumulative capital of projects above that cut-off—then expressing this as a range (scores 10–12) to reflect scoring variability, giving £5.5bn–£6.2bn (2024 CPI) capital envelope.

The main concern we have with this approach is that it is overall arbitrary and there is no clear rationale as to why a threshold is needed at all. Additionally, the threshold is set on the basis of a score cut-off (the point at which the CAA assessed need score declines steeply) which is an outcome of the scoring methodology itself. We note that making use of alternative weights for the consumer benefit categories or alternative scores for net impact and likelihood lead to very different project scores and resulting score cut-off.

Indeed, as set out in our next section on capital deliverability, we provide evidence that we are capable in delivering capital levels above the £7.5bn level that the CAA has characterised as “exceptionally challenging to deliver”, and, drawing on evidence from elsewhere provide an argument that there should not be a hard cap being imposed to the overall H8 capital envelope on an ex-ante basis.

Overall, a 20% threshold is a discriminator of consumer value because projects scores cluster tightly around the cut-off. Small changes in one or two component scores can therefore shift multiple projects across the threshold line, making outcomes highly

sensitive to marginal scoring judgements rather than a clear step-change in underlying consumer benefit. More broadly, this sensitivity reinforces our concern that the threshold line/score cut-off is arbitrary and not properly justified, with the stated rationale relying on a cut-off in the project ranking distribution that appears comparatively weak at the point where the line has been drawn.

### 38.3 Methodology bias against commercial and carbon & sustainability projects

Our analysis of the capital envelope exclusions suggests there is a clear bias against commercial, carbon & sustainability and to a lesser extent asset management and compliance projects, as shown in Figure 2.1..1.6 below.

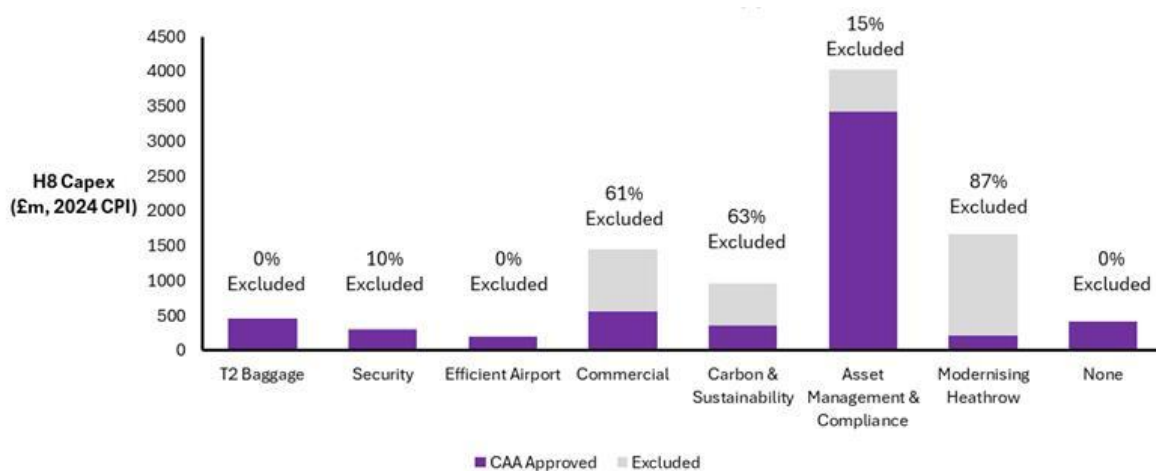


Figure 2.1.6 - H8 Heathrow submissions vs CAA approval at IP, Source: Heathrow

This is driven by the CAA’s “needs case” assessment methodology as well as the threshold applied. Projects that do not register any Safety or Capacity impact are capped below the inclusion threshold regardless of revenue strength or likelihood. This pattern predominantly affects commercial, retail and some passenger experience schemes, which are excluded by design rather than evidential weakness. This results in over £600m of projects never scoring more than 9.

Of particular interest are:

- Commercial projects** – the consumer benefit of commercial projects is recognised by the CAA as these projects deliver a net reduction in the price cap under the single-till approach by raising revenue or driving down net costs. However, the maximum score that a commercial project can score under the CAA’s needs assessment process is 9 – meaning that despite being in consumers’ interest through reducing pressure on aero charges, these projects cannot be included in the capital envelope given the threshold was set at a score of 11.
- Passenger experience focused projects** – these projects can theoretically score 18, but practically due to their nature (being relatively smaller projects that deliver

more qualitative outcomes) they will inevitably be at an early stage of maturity (pre P1) their maximum realistic score is between 8 and 12.

This is demonstrated by the outcome of the CAA's assessment, where the only passenger focused projects with adequate scores to be included in the capital envelope are those with a compliance obligation for Passengers Requiring Support (PRS). No other passenger experience project crosses the threshold. These include projects that will deliver the CAA-identified priority consumer themes and align with the evidence on passenger priorities from consumer insight, the HPF and the airlines' capital investment priorities.

Overall, this approach creates a structural exclusion risk for commercially-led investments, not because they lack merit, but because the model's design constrains their maximum attainable score.

This methodological bias can largely be addressed by:

- The introduction of Consumer Priority within the benefits categories of the “needs case” assessment; as well as;
- Revised threshold line/cut-off score.

#### **38.4 Overall transparency of the “need case” assessment – definition, calibration and moderation**

The CAA defines ‘Net Impact’ as “positive impact minus negative consequences”, giving examples of negative consequences including temporary reductions in service quality during construction, increases in opex required for new facilities/systems, and “high capital required”.

We agree, in principle, that a balanced assessment should consider downsides as well as upsides. However, the methodology does not set out a clear explanation how those positives and negatives are weighed in practice to arrive at a 0–3 score. The absence of an explicit method (and worked examples) limits transparency, reduces repeatability, and makes it difficult for stakeholders to understand how similar impacts have been treated consistently across projects.

A further concern is the inclusion of “high capital required” as a negative consequence inside Net Impact. This risks embedding affordability or cost considerations inside the need assessment itself, before affordability is separately considered through the capital envelope and threshold setting process. It also suggests a discrimination against more expensive investments, i.e. projects that have a smaller capital are more likely to score higher.

We also note that Steer states that Net Impact and Likelihood scores have been “assured, moderated, and calibrated across projects”. However, no audit trail has been provided, which makes it hard to engage constructively. We believe that to strengthen the defensibility and stakeholder usability of the methodology, a process note that documents how consistency was achieved would be useful. This could take the form of

a short moderation protocol describing who moderated and what checks were done (e.g., cross-theme calibration, outlier review), and how disagreements were resolved. The moderation protocol could be supplemental with a small sample (e.g., 3–5 examples) showing “before and after moderation” at a conceptual level (not necessarily disclosing full scoring history), explaining why an adjustment was made.

### **38.5 Likelihood, deliverability and maturity are treated as one**

The CAA defines ‘Likelihood’ as the likelihood that a project will be executed as planned and deliver expected benefits. The CAA then states that projects with more granular information and that are “well defined” in our Business plan “have more chances” of being scored highly on Likelihood; and that Likelihood scoring is linked to the robustness of evidence submitted, with the project-by-project assessment of alignment to the CAA ‘Business Plan Guidance’ requirements also informing Likelihood scoring.

We are concerned that this results in Likelihood functioning primarily as a proxy for project maturity and evidence completeness at the point of Business Plan submission, rather than an assessment of delivery probability and benefit realisation risk.

Many projects are appropriately earlier in the governance lifecycle at this stage (with optioneering, scope refinement, sequencing and third-party dependencies still in progress), which does not imply they are less deliverable or less likely to deliver consumer benefit when implemented. This creates a structural timing bias: a point-in-time Likelihood assessment that is influenced by evidence maturity will tend to favour earlier-delivery projects that are more fully defined at submission, while systematically marking down later-period projects that are intentionally developed closer to execution. The resulting “discount” reflects the timing of assessment and the availability of documentation at this stage, rather than any inherent weakness in merit, consumer value or deliverability.

We further understand that, for Corporate Risk Framework (CRF)-driven asset renewal cases (particularly within AMC), the risk evidence considered in the need assessment may be anchored largely to the risk position at, or close to, Business Plan submission / the start of H8, rather than the risk position expected to arise later in H8 if renewal is deferred. Where risk increases materially over time due to degradation, obsolescence, or compounding effects of deferral, a point-in-time view can under-represent the consumer and operational consequences expected to arise within H8 absent intervention. When combined with a Likelihood score that is materially influenced by evidence maturity at submission, this creates a structural outcome whereby renewal items that are not yet fully defined at submission (but where risk is expected to escalate within H8) can be marked down on Likelihood and therefore suppressed in the ranking relative to their underlying consumer and operational importance.

### 38.6 Sensitivity in the scoring mechanics and aggregation

We recognise the value of the CAA’s attempt to provide a consistent scoring approach across a large portfolio. However, we have methodological concern regarding the way in which ordinal judgements are converted into cardinal calculations (and multiplications), and the extent to which this can drive outcomes in a way that is not robust.

An ordinal scale expresses order only (e.g., High > Medium > Low) but does not define the *size* of the gap between categories. A cardinal scale implies that the *magnitude* of differences is meaningful and that arithmetic operations (addition, multiplication, averaging) preserve that meaning (e.g., a score of 8 is “two points more” than 6 in a way that is interpretable and consistent). The key issue is that it is generally valid to rank on ordinal judgements, but it is not generally valid to treat ordinal categories as if they have equal intervals or ratio properties unless that has been explicitly evidenced and justified.

To illustrate our point, we replicated Steer’s model but replaced the Net Impact and Likelihood category scores of 0, 1, 2 and 3) with alternative numeric labels, i.e. 0, 6, 7 and 8 whilst maintaining the same consumer benefit category prioritisation (3–2–1) and this resulted in 454 out of 488 projects being included within the capital envelope (maintaining the threshold line at 20%) vs Steer’s assessment at IP of 337 out of 488 projects, as shown in Figure 2.1.7 below.

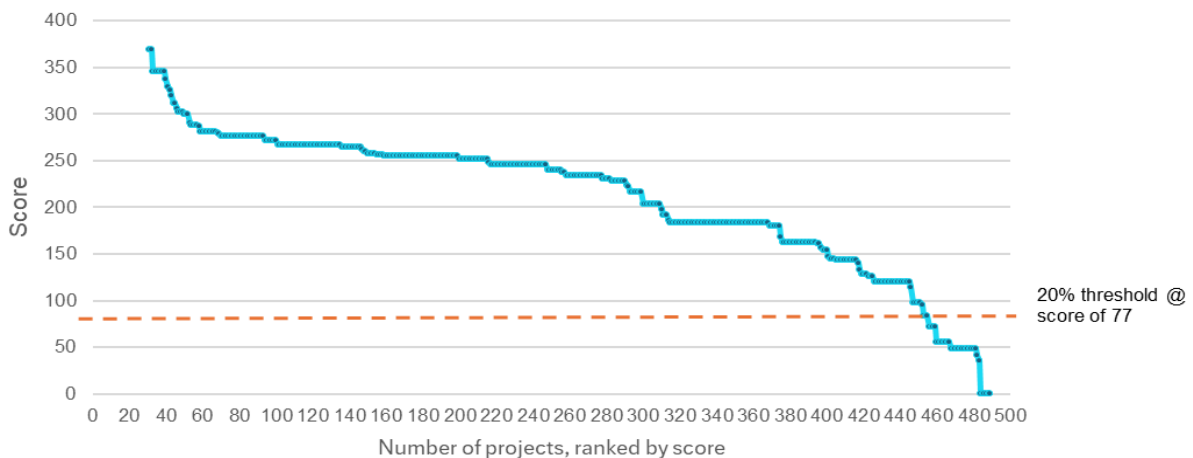


Figure 2.1.7 - Illustrative example of project ranking using alternative numeric labels

The CAA should assess how sensitive the prioritisation framework, and the resulting set of prioritised capital projects, is to the use of a mixed ordinal and cardinal scoring approach. In particular, we ask the CAA to apply caution when interpreting the outputs of the framework and recommend undertaking a cross-check against the core purpose of the assessment: to evaluate the strength of each project’s needs case and to rank projects on a robust and consistent basis.

### **38.7 Summary of recommendations to the CAA on the assessment methodology**

Our principal recommendation is that the CAA makes a targeted and proportionate adjustment to its Category 3 “needs case” assessment methodology by introducing a distinct Consumer Priority category. This would ensure that projects which clearly support consumers’ stated priorities are given appropriate weight when determining the capital envelope in the Final Proposals.

Our review of the CAA’s capital assessment framework has also identified a number of more specific methodological issues, which we set out below. We do not suggest that the CAA needs to adopt every individual adjustment in its revised methodology. However, the CAA should use these findings to undertake an “in-the-round” sense check of the overall outcome of its capital assessment. In doing so, it should ensure that the framework is not being applied mechanistically, but that results of applying this framework are tested against whether they support consumer priorities, are consistent with the evidence, and enable the CAA to discharge its statutory duties.

## **39. Deliverability**

### **39.1 Heathrow’s Feedback on the Initial Proposals**

Deliverability should be treated as a risk to be actively managed by Heathrow, in consultation with the airline community through the capital governance process, rather than a binding constraint on the overall level of investment. We have a strong track record of delivering complex capital programmes within a capacity-constrained airport while improving consumer outcomes. Building on this, our H8 plan further strengthens deliverability through targeted interventions, including expanded working windows, improved design standards, enhanced supplier strategies, and increased use of off-site manufacturing and location-based delivery.

Operational performance is most effectively regulated through targets and incentives on operational availability, rather than through an implied deliverability cap. While the CAA has confirmed at Constructive Engagement Round 4 that deliverability is not intended to act as a hard cap to the capex envelope, there remains a risk that, in practice, the current approach could limit investment, despite clear evidence of increasing delivery capability.

In particular, while the CAA has embedded the –5% capital efficiency target in the proposed capex envelope, it has not included the delivery innovations that enable this outcome within the deliverability assessment. A purely historic analysis also assumes that historic constraints were driven by deliverability, when in fact these constraints were driven by business need and a regulatory capex envelope.

### 39.2 Deliverability should not constrain the overall capex envelope

Deliverability should not determine the overall level of capital investment. The capex envelope should be set to meet consumer priorities and enable delivery of consumer benefits, with deliverability risks addressed through portfolio implementation and delivery strategy.

Our H8BP and existing capex governance framework already contain a number of control features that are consistent with the approaches used by other regulators to manage deliverability risk, including portfolio-level planning, staged scrutiny and ongoing risk management:

- Our H8 capex plan is subject to detailed ex-ante scrutiny by the CAA
- Our governance arrangements provide for structured project development and approval, including engagement with airlines and regulatory scrutiny through constructive engagement and in-period capex review processes.
- We have established underlying risk management procedures that standardise the way we manage risk and uncertainties at project and portfolio level.

The regulatory framework therefore already contains a suite of mechanisms through which deliverability risks can be tested, monitored and managed at project and portfolio level.

To support efficient delivery in H8, the focus should therefore be on enhancing capital governance and delivery flexibility, rather than applying a top-down capex constraint. This includes implementing our proposed improvements to capital governance, which are designed to enable more adaptive sequencing, timely decision-making and effective management of operational and delivery risk. These are covered further in the Capital Governance section of this response.

### 39.3 Historic spend profiles do not reflect future deliverability

The CAA's methodology draws appropriately on historic spend profiles; however, historic performance is not a measure of deliverability. It primarily reflects regulatory constraints and portfolio choices, rather than a binding capacity limit. As such, historic spend should not be understood as evidence of maximum deliverable capacity.

[REDACTED]

[REDACTED] Treating this as a deliverability constraint risks embedding regulatory limits into the dataset and systematically understating future capability.

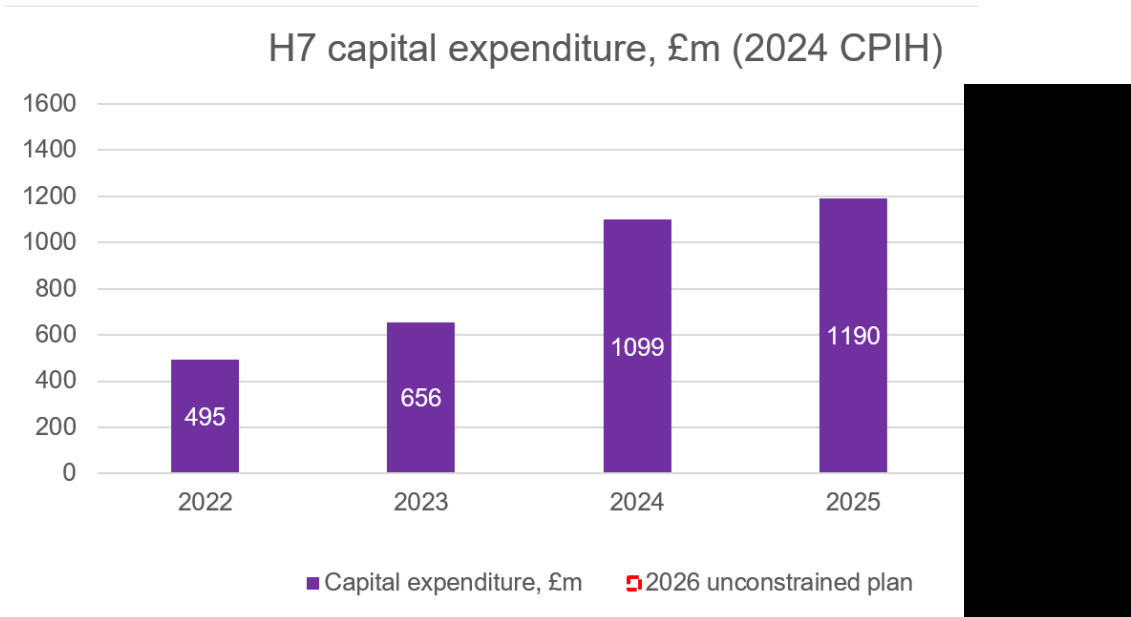


Figure 2.1.8 – H7 capital expenditure (2024 CPIH)

The CAA’s location-based analysis (“Method C”), which was limited to Regulatory Accounts from 2015–2024, excludes periods where Heathrow delivered materially higher levels of investment (>£0.4bn) within individual locations, notably during Terminal 2 and Terminal 5 delivery.

In H8, working windows will be further optimised across the portfolio, supporting sustained levels of investment above those suggested by historic data alone, with additional headroom where works are operationally isolated.

Industry best practice, as reflected in NISTA’s (National Infrastructure and Service Transformation Authority) Delivery Confidence Assessment<sup>26</sup> and Gate Review

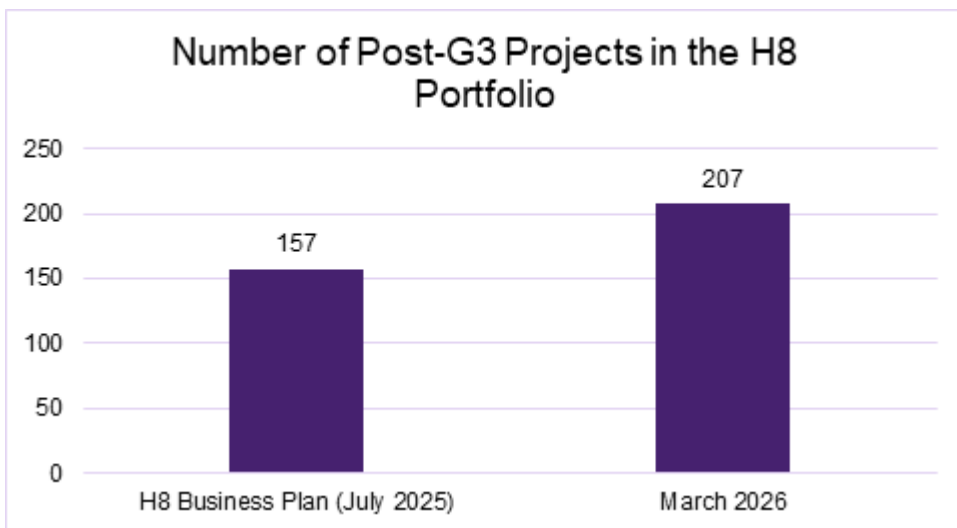
<sup>26</sup>[https://assets.publishing.service.gov.uk/media/5a820821e5274a2e8ab5723e/delivery\\_confidence\\_guide\\_for\\_review\\_teams.pdf](https://assets.publishing.service.gov.uk/media/5a820821e5274a2e8ab5723e/delivery_confidence_guide_for_review_teams.pdf)

principles<sup>27</sup>, emphasises a balanced assessment of deliverability, combining historic evidence with forward-looking evaluation of risks, market capacity and active mitigation. Viewed through this lens, Heathrow enters H8 with strengthened delivery confidence.

**39.4 Heathrow materially strengthened its delivery capability in H7 and H8 scope has matured**

We enter H8 from a significantly stronger delivery position, having materially scaled up capital investment through H7. As shown in Figure 2.1.8 above, despite regulatory constraints, capital expenditure increased from £495m in 2022 to £1,190m in 2025 (CPIH 2024), supported by established supplier partnerships, delivery processes and programme controls. This provides a proven and repeatable foundation for managing significant volumes and delivering large-scale transformation programmes.

At the same time, the maturity of the H8 portfolio has increased substantially since submission in July 2025. Of the H8 projects listed within Heathrow’s Business Plan, 50 have since passed the G3 gateway, reflecting a greater proportion of scope with defined delivery plans and agreed investment decisions. This materially reduces delivery uncertainty and strengthens confidence in execution.



*Figure 2.1.10 – Number of post-G3 projects in the H8 Portfolio*

We have also clearly demonstrated that increased capital delivery does not compromise consumer outcomes. As investment more than doubled over H7, passenger satisfaction not only remained stable but significantly improved, rising from

<sup>27</sup> <https://www.gov.uk/government/publications/ogc-gateway-review-2-delivery-strategy-guidance-and-templates>

4.19 to 4.36. This evidence confirms that delivering at scale can be achieved while simultaneously enhancing the overall passenger experience, rather than diminishing it.

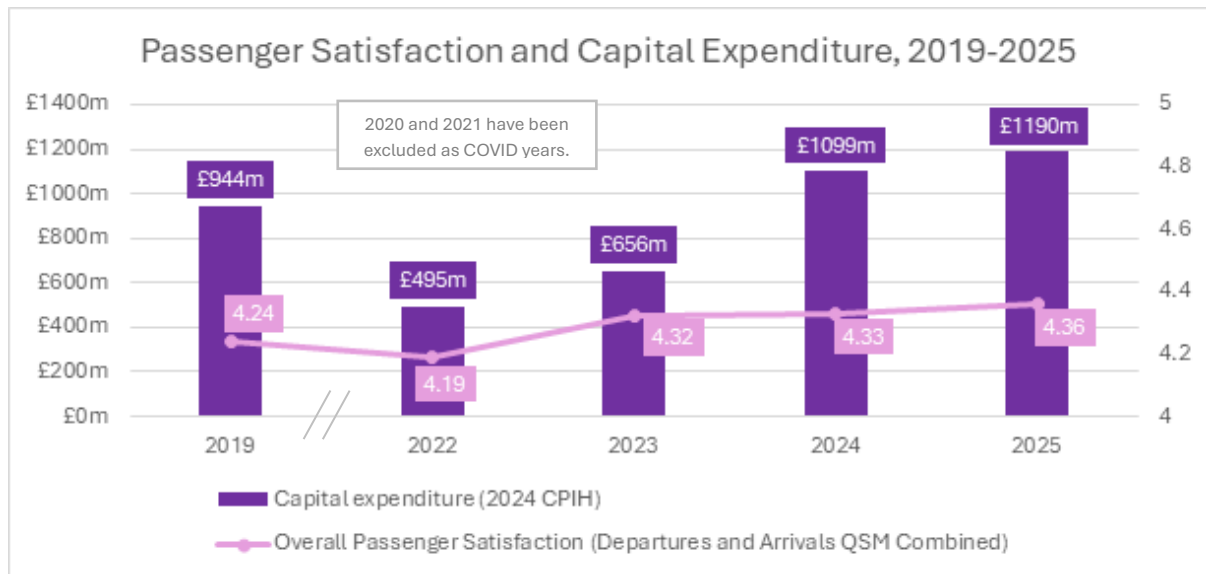


Figure 2.1.11 – Graph demonstrating passenger satisfaction and capital expenditure, 2019-2025

We enter H8 with significantly enhanced delivery capability, a more advanced and well-defined portfolio, and a track record of successful performance that demonstrating strengths that exceed what is captured by historical averages.

**39.5 The H8 delivery model introduces significant innovations that should be reflected in the CAA’s deliverability assessment**

While the CAA has embedded our –5% capital efficiency target within the proposed capex envelope, the deliverability assessment does not reflect the delivery innovations and reduction in operational constraints through which this efficiency will be achieved. This creates inconsistency whereby the outcome is recognised, but the mechanisms enabling it are not.

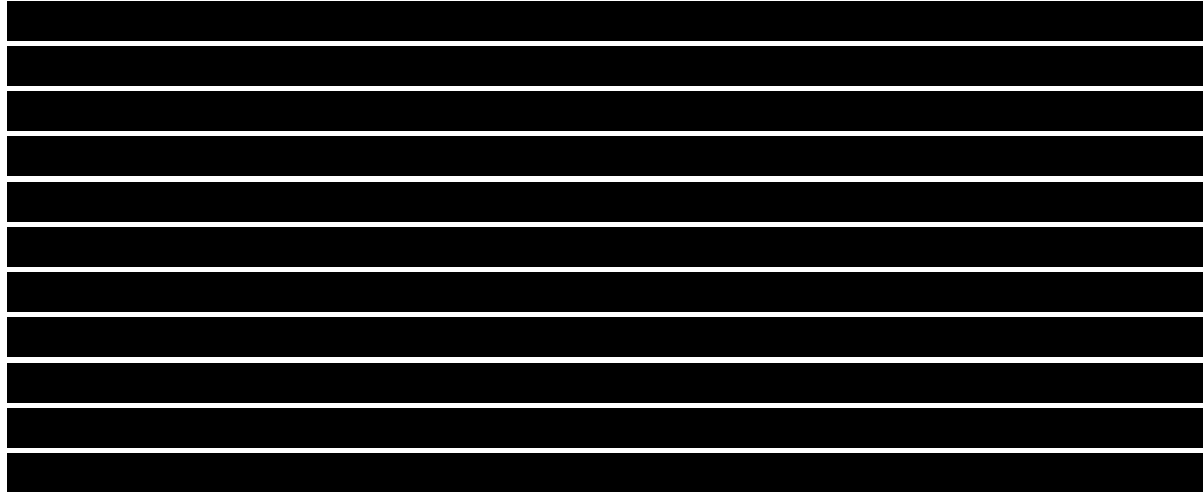
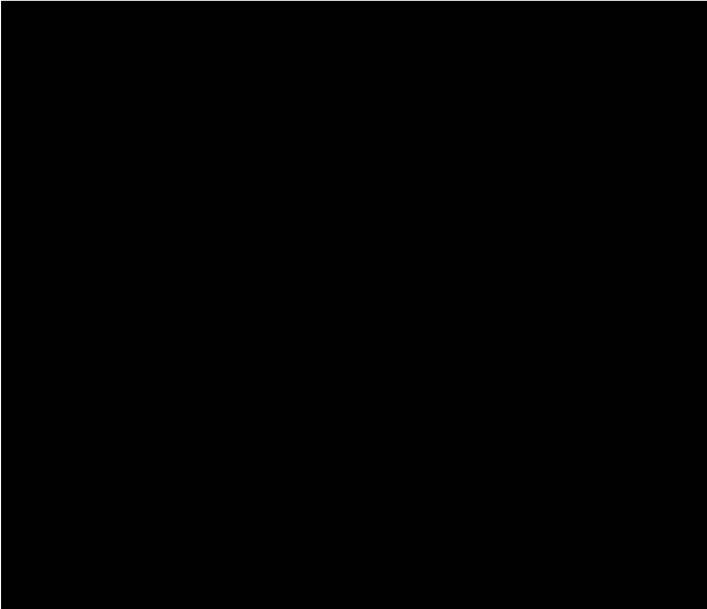
Our Capital Efficiency plan is not exclusively focused on reducing costs; it drives a step-change in delivery by actively removing operational constraints. By minimising reliance on restricted elements of traditional construction, such as on-airport labour, limited working windows and spatial limitations, we create a more productive and scalable environment for portfolio delivery.

As part of Heathrow’s original H8 submission, we provided evidence on how these opportunities will be maximised in H8 to improve our capacity to deliver:

- See H8BP, pages 303-310

- See CE Round 3 – Deep Dive – Capital Efficiency & Deliverability, presented on 30<sup>th</sup> September 2025

One of the key initiatives which will be scaled up in H8 will be an increased use of Modern Methods of Construction (MMC) and higher pre-manufactured value (PMV), which shifts activity off-site and enables a more productive, scalable delivery model.



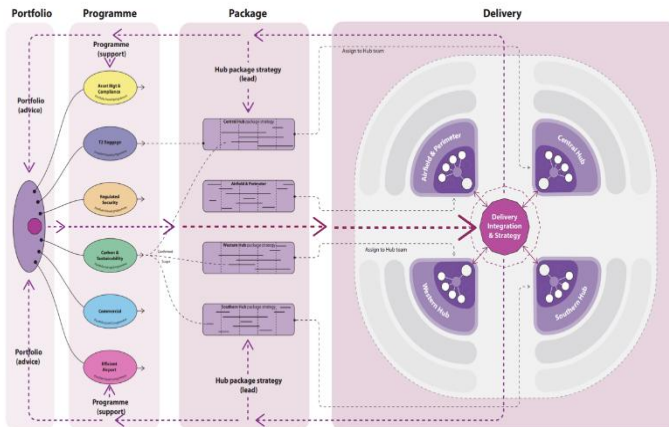
Cross-industry experience shows the applicability of MMC and PMV to portfolios similar to H8, with delivery of highly repeatable asset types in congested, operational environments<sup>28 29</sup>.

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<sup>28</sup> Prison Estate Transformation Programme (PETP) – adopted standardised design and pre-manufactured solutions across a repeatable operational asset base. Reported outcomes include faster on-site assembly and materially reduced reliance on constrained site labour, [20220901 LTC Guidance Note](#)

<sup>29</sup> The New Hospital Programme – developed 80% design standardisation hospital solution to deliver a targeted 25% time and 20% cost savings across multi-year programme delivery, [Delivering the next generation of hospitals | Mott MacDonald](#)

### 39.6 Shift to zonal delivery enables delivery at greater scale



To support delivery at scale, we have introduced a location-based (zonal) framework, grouping projects into geographically coherent packages.

Figure 2.1.13 – Diagram showing zonal framework

This approach reduces interface risk and congestion, enables coordinated sequencing, smooths demand on labour and logistics, and improves supplier efficiency. Widely adopted across complex infrastructure portfolios, it supports higher and more reliable levels of delivery than historic patterns suggest.<sup>30 31</sup>

### 39.7 The H8 portfolio includes a materially different mix of delivery types which should be excluded from the deliverability assessment

The current assessment does not sufficiently differentiate between fundamentally different types of delivery. These categories are less reliant on constrained conditions and have materially lower operational impact. Applying a uniform, construction-led deliverability lens therefore overstates delivery constraints and does not reflect the true nature of the portfolio. In total, these less disruptive categories of capital investment represent **£2,108.9m in H8 (2024 CPI)** and therefore should be excluded from the deliverability assessment. These include:

- **Digital and technology investments** – largely delivered virtually, with limited on-site intervention

<sup>30</sup> Network Rail – progressive adoption of zone-based packaging, procurement and delivery management, enabled by devolution of the railway, has underpinned c.£4bn of efficiency targets, [CP7 Efficiency Planning report](#), [Overview of CP7 efficiency initiatives](#)

<sup>31</sup> Crossrail – defined small, integrated delivery zones to plan and bundle work holistically supported active management of congestion, minimised interfaces and supported predictable delivery timelines, [Mind the gap! Lessons learned from Crossrail as a project delivery advisor – Infrastructure and Projects Authority](#), [Completing Crossrail - NAO report](#)

- **T2 Baggage** – predominantly delivered in isolated, non-customer-facing environments
- **Electrical network investments** – delivered at the airport periphery with limited operational interaction
- **Off-airport investments** – delivered outside the airport estate
- **Modernising Heathrow (DCO)** – design and consenting activity with no immediate operational impact

A full list of projects within these categories is provided in Appendix E.i – Capital Deliverability.

### 39.8 External constraints such as Supply Chain are already being proactively managed

Any potential supply chain constraints are proactively managed through a structured, forward-looking approach. In preparation for H8, we have undertaken a comprehensive assessment of supply chain capacity and risk, identifying key constraints across trades, materials and delivery pace. This insight informs targeted interventions to de-risk delivery and strengthen resilience, moving beyond reactive management of constraints. Key actions include:

- **Expanding and diversifying delivery capacity**  
Additional contractors have been introduced into H7 delivery, increasing resilience, competitive tension and available delivery routes ahead of higher H8 volumes.
- **Strengthening design and delivery capability**  
Ongoing procurement focuses on building scalable, repeatable capability within the design supply chain, supporting more efficient delivery at programme level.
- **Transforming procurement and access to the market**  
The development of the digital tool Ecosystem Live enables faster, more flexible procurement through pre-qualified supplier pools, improved transparency and real-time market intelligence.
- **Market Insight and risk management**  
Improved visibility of supplier capability, capacity and risk across tiers enables earlier identification of constraints and more targeted mitigations, including alternative sourcing and advance procurement.
- **Maintaining a continuous pipeline of work**  
As a live airport, we provide a sustained pipeline of capital investment, enabling suppliers to retain and develop workforce and capability over time, rather than responding to intermittent demand.

### 39.9 Conclusion and Proposed Approach

The evidence set out above demonstrates that the current deliverability assessment systematically understates our true capacity to deliver H8 investment.

The assessment does not fully reflect:

- Our stronger delivery capability and more mature portfolio;
- The step change in how H8 will be delivered, including improved productivity and new delivery models; and
- The extent to which external constraints are actively managed, rather than fixed limits.

As a result, there is a risk to consumers that:

- Efficient and deliverable investment is constrained;
- The timely delivery of resilience, capacity and service improvements is delayed; and
- The benefits of productivity improvements and delivery innovation are not realised.

Deliverability should therefore be managed by Heathrow during portfolio delivery, not through a hard cap on the capital envelope. It can be managed through targeted, evidence-based interventions, including our proposed capital governance enhancements, supporting the CAA's primary duty further the interests of consumers regarding the range, availability, continuity, cost and quality of airport operation services without unnecessarily constraining investment which benefits consumers. In addition, a regulatory mechanism exist to protect consumers in the event of delivery below the cap.

## 30. Capital governance

### 30.1. The CAA's Initial Proposals

In its IP, the CAA acknowledges stakeholder concerns about the effectiveness and proportionality of existing capital governance arrangements. Heathrow has highlighted that the current framework is complex and difficult to scale for a larger and more diverse portfolio, proposing targeted refinements. The airline community has raised concerns around information asymmetry, timing and influence within the governance process, and has called for earlier engagement, greater transparency and stronger scrutiny.

The CAA has indicated that it is open to incremental improvements that can be delivered within the existing framework where there is scope for consensus between Heathrow and the airline community, while more fundamental reforms will be addressed through its wider work on regulatory models for capacity expansion. Where disagreement remains, the CAA will set out its position in the Final Proposals.

### 30.2 Heathrow's feedback on the Initial Proposals

The CAA's IP for H8 increases the capex envelope from H7. In this context, efficient and proportionate capital governance under the ex-ante scheme is in the interests of consumers so that programmes are delivered efficiently with prompt realisation of benefits. We consistently receive feedback from the airline community that current processes involve a high volume of governance activity. Our proposed changes are deliberately limited and proportionate, focusing mainly on low complexity and repeatable investments, where governance processes can add time, cost and complexity without commensurate benefit to consumers. These refinements are expected to deliver meaningful efficiencies and support agile and effective delivery of the H8 capital portfolio, so that consumers benefit from more efficient delivery.

### 30.3. Passenger voice through governance

We thank the Heathrow Passenger Forum (HPF) for its feedback on capital governance, and respect the request for the consumer voice to play a more active role in the capital governance process.

As per our letter to the HPF dated 17<sup>th</sup> December 2025, and discussions during Constructive Engagement Round 4, Heathrow remains open to further enhancements if demonstrated that they will provide better line of sight from consumer priorities to capital prioritisation.

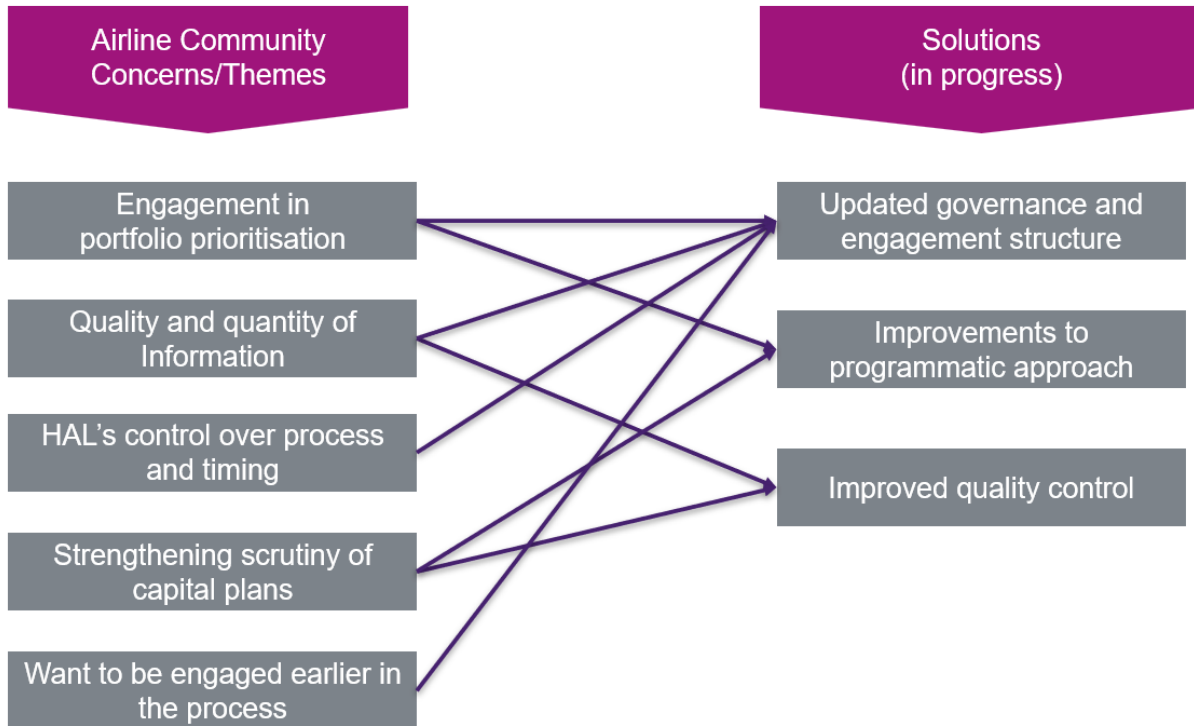
A fuller response to the HPF's views can be found in pages 10-11 and Appendix A1 of Heathrow's letter to the HPF, shared with the CAA, dated 17<sup>th</sup> December 2025.

### 30.4 The airline community's concerns

Both Heathrow and the airline community have made significant progress on improving governance and quality of information over H7. We have worked within the parameters of the licence to develop protocols and governance arrangements with the airline community.

At the same time we recognise the airline community's concerns regarding capital governance and the CAA's expectation that Heathrow and the airline community work collaboratively to identify improvements.

Within the current framework, Heathrow is committed to working with the airlines to make improvements. Below, we outline relevant solutions that are currently underway.



*Figure 2.1.14 – in-progress solutions to airline community concerns with the capital governance process*

We will continue to work on these matters through our approved forums with the airline community, where the concerns will be addressed through:

**30.5 Updated governance and engagement structure**

Heathrow and the airline community are working constructively to update the governance structure and processes for H8. Changes being discussed include:

- A greater role for the Future Portfolio Group (FPG) in strategic review of the portfolio, prioritisation, and greater scrutiny for upcoming programmes and tranches.
- A new Investment Stakeholder Group for gateway governance to drive more timely investment decisions, consistency and quality across the portfolio.
- Consultation with airline operational teams ahead of G3 investment decisions to assess operational deliverability and create buy-in for delivery plans.
- Clearer delineation of governance and engagement activity.

These changes will drive efficiencies for a larger H8 portfolio and provide Heathrow and stakeholders the ability to focus more on portfolio strategy and prioritisation.

### 30.6 Improvements to programmatic approach

The programmatic approach was adopted in H7 to address structural limitations in how capital investment had previously been planned, governed and delivered, allowing Heathrow to:

- Move away from disconnected project delivery, towards a set of coherent capital programmes, organised around delivery of clear outcomes and benefits aligned to strategic priorities, with clear end-to-end internal accountability.
- Provide more proportionate and streamlined decision-making, with a focus on strategic choices at portfolio, programme and tranche level, rather than disconnected individual projects.
- Enable coordinated planning, sequencing and re-prioritisation of interdependent investments, supporting delivery at scale.

We will continue reviewing this model to ensure it delivers the level of visibility required by the airline community, while meeting our obligations and maintaining an internal approach that is both practical and efficient. In order to meet the intended outcomes that benefit consumers, we are currently working with the airline community to improve the programmatic approach in several key areas, which we believe will address their key concerns:

- Updating the programme baseline at P2T, which will give the airline community continuous visibility of the overall programme and portfolio position.
- Improved reporting of benefits realisation throughout the life of the programme.
- Clearer change control for programmes and tranches, to allow greater transparency over scope, cost and schedule changes.

### 30.7 Improved quality control

Heathrow's dedicated Quality team works across the portfolio to improve the consistency and clarity of governance material.

Rollout of a full suite of standardised templates across all governance activities began in 2025 and continues through 2026. They include improved guidance notes embedded in the templates to support 'right first time' authoring, based on continual improvement feedback from the airline community and Heathrow's programme teams. We are also improving our pre-release quality checks ahead of external governance.

A new Governance and Stakeholder Engagement team will conduct comprehensive reviews of material before governance to ensure quality, consistency and best practice across the portfolio.

As the portfolio continues to evolve, we will continue to work closely with the airline community to improve the quality of information provision through governance.

### 30.8 Heathrow's recommendations to the CAA

Given the large volume of governance activity expected in H8, and to ensure the airline community can focus on the key strategic decisions enabling efficiency and proportionality in our agreed forums, we maintain our view that incremental changes to the current framework are needed. We refer the CAA to previous representations from Heathrow on this subject, which outline the full suite of changes to Delivery Obligations and governance recommended in our H8BP and Constructive Engagement Round 4.

For all our proposed changes, we want to work collaboratively with the airline community to define how they will work in practice and give the right level of assurance, suitable for the type of capital investment.

In particular, we want to restate the proposals for two critical changes to governance that will support successful capital delivery in H8:

#### 30.8.1 Increasing the DO threshold for Low-Complexity Asset Renewals

Increasing the threshold at which Delivery Obligations apply to low-complexity asset renewals to £10m would support more efficient delivery of the H8 programme without weakening ex-ante. At only around 4% of Heathrow's proposed H8 portfolio, increasing the DO threshold to £10m for low complexity asset renewals would reduce DO governance by 20-30% in total, allowing the airline community and Heathrow more focus on strategic investments which provide a step-change to consumer outcomes. All projects would continue to be subject to ex-ante.

We recognise the CAA's view that, within the early stages of the new ex-ante incentive, a £10m threshold may be too high, and we welcome its consideration of an incremental increase. Although we continue to consider £10m appropriate given the anticipated volume and value of low-complexity asset renewals in H8, we would support the CAA's determination on any increased threshold.

#### 30.8.2 Removal of Schedule element of DOs

We want to enhance the DO approach to balance project certainty whilst also driving efficiency through delivery and setting ambitious schedules to deliver benefits to consumers quicker.

The Schedule element within Delivery Obligations can unintentionally delay the delivery of benefits to customers by incentivising projects to wait for near-absolute schedule certainty before mobilisation. This effect is most pronounced for larger, more complex investments, where uncertainty is inherent and outcomes are best managed through staged and sequential Delivery Obligations. Heathrow retains full accountability for

schedule delivery and we have a strong track record of managing impacts during construction; however, the incentive constrains our flexibility to adapt sequencing and manage risk dynamically during delivery. A more proportionate approach would better align incentives with timely delivery, adaptive risk management and earlier realisation of benefits for consumers, without weakening accountability for outcomes.

Our proposed change is to remove or down-weight Schedule elements from DOs by default, unless:

- It is agreed with the airline community on key projects (the need for a schedule element and the appropriate weighting is discussed and agreed with the airline community).
- It is an airline-requested project critical to their daily operations.

We recognise that the CAA will consider more fundamental reforms, such as funding conditional on outcomes, as part of its work on regulatory models. We would welcome the opportunity for further engagement on these topics as the regulatory models work progresses.

## Section 2.1 summary - asks of the CAA

Heathrow asks that the CAA reflect the following in their Final Proposals:

### Removing incompatible criteria

- That the incompatible criteria between expecting Heathrow to deliver passenger growth while only enabling an investment envelope for capacity stasis.
- Remove the stasis 'maximum deliverable' ceiling that is very difficult to reconcile with the priority of growth and subsequent far greater expansion of Heathrow.

### Scope adjustments

- That T5 Optimisation Phases 1 and 2 are treated as a single, integrated BAU programme and include both within the H8 capital portfolio (at the capital value of £996m), so that Heathrow can deliver timely capacity (+2mppa by 2028 and a further +4mppa by 2032), resilience and passenger experience improvements in T5 within the two-runway airport framework, avoiding unnecessary deferral risk and inefficiency.
- That the creation of new stands at T2 are treated as a business-as-usual project at a cost of £339m within the H8 capital portfolio, so that Heathrow can deliver timely capacity, resilience and passenger experience improvements within the two-runway airport framework.
- That the demolition of T1 is treated as a business-as-usual project at a cost of £156m within H8 capital portfolio, so that Heathrow can deliver increased

resilience, capital efficiency and reduce health and safety risks from its infrastructure within the two-runway airport framework.

- That Noise & Vortex costs are treated in line with statutory accounting treatments, and specifically, add £38m for Easterly Alternation Infrastructure back into the capital plan.

#### Updating the needs assessment:

- That the 48 new and updated project plans (see Appendix D) and further evidence for asset renewals are assessed as part of the updated needs assessment and included within the H8 capital envelope.
- To make a targeted and proportionate adjustment to its Category 3 “needs case” assessment methodology **by adding Consumer Priority category** which would ensure that consumer priority themes are given more weight in the capital envelope in the Final Proposals.
- To reconsider the use of a threshold at all; but, should the use of a threshold be maintained, reset the cut-off point in light of our proposed adjustment to Category 3 definition and amended project list.
- To complete an in-the-round assessment of the amended capital envelope by programme to ensure no methodological bias exist against passenger, commercial and carbon and sustainability projects.
- To consider a more transparent approach to its downside Net Impact assessment through making the process more transparent and repeatable. The CAA should consider adding a short scoring rubric that standardises how common negatives (temporary disruption, opex impacts, capital scale) affect the 0–3 rating and two to three worked examples (e.g., a renewal, a capacity scheme, a tech/cyber item) illustrating how positives and negatives net out.
- To publish a short process note alongside the capital assessment setting out how scoring consistency was achieved—including a brief moderation protocol (who moderated, what cross-theme/outlier checks were performed, and how disagreements were resolved) and 3–5 illustrative examples showing, at a conceptual level, why any score adjustments were made.
- Using a clearer delineation between “likelihood” and “maturity” when re-scoring projects
- Use a CRF-score representative of the asset at the end of the regulatory period, not the start, when re-scoring projects.

#### Deliverability:

- To ensure the deliverability assessment is proportionate and aligned with consumer outcomes. We propose that the CAA:
  - Adopts a more pragmatic approach to deliverability - recognising that a hard ex-ante cap or adjustment to capex is not proportionate, given the inherent

limitations of historic analysis and the overriding benefit of capital investment for consumers.

- Incorporates delivery innovations into the deliverability assessment - reflecting the H8 delivery model (e.g. productivity improvements, off-site delivery and location-based planning).
- Differentiates between types of delivery - recognising that 'atypical' delivery investments are not subject to the same constraints as traditional construction in customer-facing locations.
- Considers proposed capital governance improvements which will help aid co-ordinated and cost-effective delivery.
- To enable flexibility, responsiveness and effective management of delivery, so that benefits for consumers are realised quicker.

#### Governance:

- To increase the DO threshold for low-complexity asset renewals to £10m.
- To remove the Schedule element of DOs by default, unless agreed otherwise for key projects.
- To provide more detail on the process for invoking the capex uncertainty mechanism to support our understanding of how it would work in practice, considering that the timeframe and complexity of the process will be significant factors in assessing the benefit of the mechanism to Heathrow and consumers.

## SECTION 2.2 WEIGHTED AVERAGE COST OF CAPITAL (WACC)

### 41. Executive Summary

This section sets out our response to the CAA's IP on the weighted average cost of capital (WACC) for H8.

Overall, we welcome the CAA's objective to 'take a reasonably transparent, consistent and predictable approach to setting the WACC'<sup>32</sup>, however, we are concerned that key parts of the proposed methodology do not properly reflect Heathrow's risk profile, current market conditions nor the available evidence. In particular, we challenge the proposed Traffic Risk Sharing (TRS) adjustment and any resulting downward adjustment to asset beta, arguing that the evidence does not support it.

We do support retaining the existing airport comparator set as a starting point, but recommend excluding Fraport because their low trading liquidity distorts beta estimates, and propose the combining of shorter- and longer-term beta evidence while retaining the CAA's 60% notional gearing and debt beta assumptions.

On debt and financeability, we broadly support using actual debt costs as a starting point, but argue that the IP understate both embedded and new debt costs by overlooking impacts from RPI reform, such as inflation-linked debt assumptions, Heathrow-specific issuance costs and more recent market evidence. We also challenge the proposed financeability thresholds and the suggestion that a BBB rating would be sufficient for the notional company, instead recommending stronger thresholds and a BBB+ target consistent with precedent and our real-world funding needs.

Overall, we ask the CAA to remove the TRS adjustment, refine comparator and beta methodology, update debt and market assumptions using current evidence, and place greater weight on our actual circumstances when applying its statutory financing duty.

Due to the macroeconomic uncertainty at the time of writing, and considering the parallel development of the regulatory finance framework for Heathrow's expansion, we have sought to make suggestions that would function as intended under a range of economic environments, and would avoid unintended consequences if extrapolated to a 3R scenario.

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<sup>32</sup> [IP](#), Section 3, para 9.24.

## 42. The Traffic Risk Sharing (TRS) adjustment

The CAA noted that:

*“In our view, a high evidentiary threshold should be applied when determining whether to adopt a different value than the estimate for listed comparator companies. This is because applying such adjustments can:*

- *Reduce the reliability of the asset beta estimate for HAL by introducing additional uncertainty and measurement error;*
- *Be impractical and disproportionate to implement; and*
- *Lack transparency.”*<sup>33</sup>

The CAA found that only one adjustment – its proposed Traffic Risk Sharing adjustment—passed the evidentiary bar for inclusion.

The IP sets a WACC of c.5.86% (pre-tax real), around 0.9 percentage points below Heathrow’s submission (6.76%), driven primarily by a lower cost of equity due to the CAA applying a Traffic Risk Sharing (TRS) adjustment.

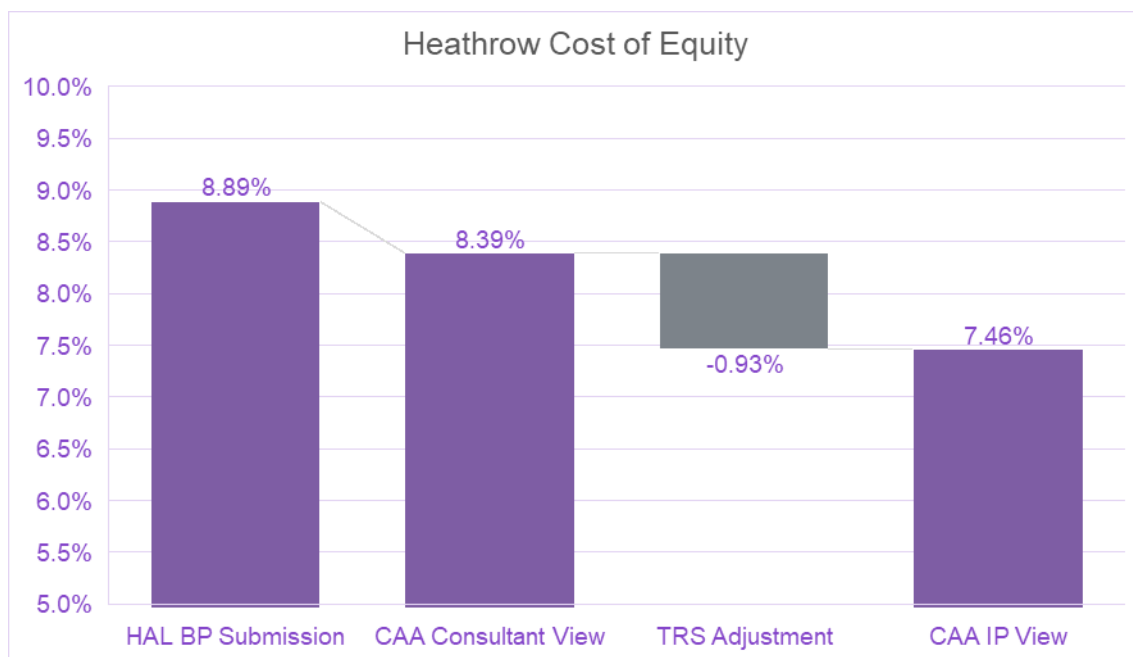


Figure 2.2.1 – Graph showing comparisons on Heathrow’s cost of equity.

The TRS adjustment is based on a CAA judgement that the risk of Heathrow is much closer to that of water companies than the comparator airports used to calculate airport asset beta.

<sup>33</sup> IP, Section 2, para 9.91.

Based on the evidence seen to date, Heathrow does not support any ad-hoc relative risk adjustments to asset beta. We find that the TRS adjustment fails the CAA's own evidentiary criteria:

- **Reliability:** the TRS adjustment reduces reliability because it is based on unevidenced and inaccurate assumptions<sup>34</sup>;
- **Proportionality:** the effect of TRS on asset beta is not material and so any adjustment is disproportionate.

To evidence the above points, we reviewed the H7 evidence on TRS adjustment, and identified the following areas that would benefit from a deeper evidence base:

- A more robust and evidenced estimation of the TRS adjustment.
- A clearer framework for comparing Heathrow against the comparator airports.
- A clearer explanation of the drivers of beta differences between airports, and between airports and utilities.

Our findings on these topics are below.

#### 42.1 Estimating the TRS adjustment

We have estimated the value of the TRS mechanism if it had been in place during the period 2015-2025, against a counterfactual in which the TRS mechanism were not in place. This historical performance of TRS demonstrates that no adjustment of Heathrow's asset beta relative to the comparators is warranted.

Within a CAPM framework, equity only prices systematic risk. Therefore, the TRS can only affect asset price to the extent that its effect co-moves with market returns. We present new analysis in Appendix E.ii that there is no empirical evidence that TRS can mitigate systematic risk: there has been no evidence of co-movement between passenger forecast errors and market returns at Heathrow, and there has been no evidence of co-movement between passenger volumes and market returns at comparator airports. We have reproduced these results across a wide range of measures of passengers, asset prices, betas, and market returns. These results are provided in Appendix E.ii. There is a timing mismatch: market expectations (equity prices) update very rapidly, whereas the real economy (passengers) often update to new information slowly.<sup>35</sup> However, a CAPM framework and UK regulatory precedent

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<sup>34</sup> This adjustment rests on two quantitatively unevidenced assumptions: (1) the proportion of demand risk that is mitigated by TRS, and (2) the extent to which that reduction in demand risk shrinks the beta downward the level seen among UK utilities.

<sup>35</sup> Airport equity price fluctuations are generated by short-run changes to expectations about cashflows that are months to years in the future. Shareholders need to have a degree of certainty about the effect of TRS in the future to incorporate it into expectations. Shareholders have considerable uncertainty about

assesses simultaneous co-movement of returns. There is no empirical evidence that TRS affects Heathrow's beta in a CAPM framework.

We note that if the CAA deviates from CAPM and includes idiosyncratic risk in the H8 cost of equity, then this has implications for how future cost of equity determinations price total risk into the cost of capital.

Conceptually, TRS is an insurance policy against idiosyncratic risk. To price the premium of this insurance policy, we need two components:

- a. Effect of TRS on expected equity return.
- b. Effect of TRS on variance of equity return.

For assessing whether a TRS adjustment to beta is warranted, the salient comparisons are:

- a. Heathrow's expected equity return including TRS vs. the comparators'.
- b. Heathrow's variance of equity return including TRS vs. the comparators'.

#### **42.2 Assessing Heathrow against the comparators: return on assets**

We use Return on Assets as the metric of return from the perspective of shareholders that can be constructed on a like-for-like basis across the airport sample.<sup>36</sup> We examine the last decade, including all years in the pandemic, which is a time interval in which the value of TRS should be most clearly expressed.

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the net effect of TRS because the CAA rightly does not make regulatory decisions in isolation. The CAA would jointly consider TRS together with other regulatory mechanisms to assess whether further measures to alleviate airline commercial strain are appropriate (for example, short-run adjustments to the MAY, slot alleviation, interim price control periods). Shareholders cannot predict the effect of TRS in isolation because the CAA does not make determinations based on mechanisms in isolation. In a period of volatility, shareholders will only have certainty about the effect of TRS very close to or at the point when the policy increments/decrements the RAB.

<sup>36</sup> We have not used Return on Equity because Heathrow's book equity was negative in some years of the sample, which complicates interpretation.

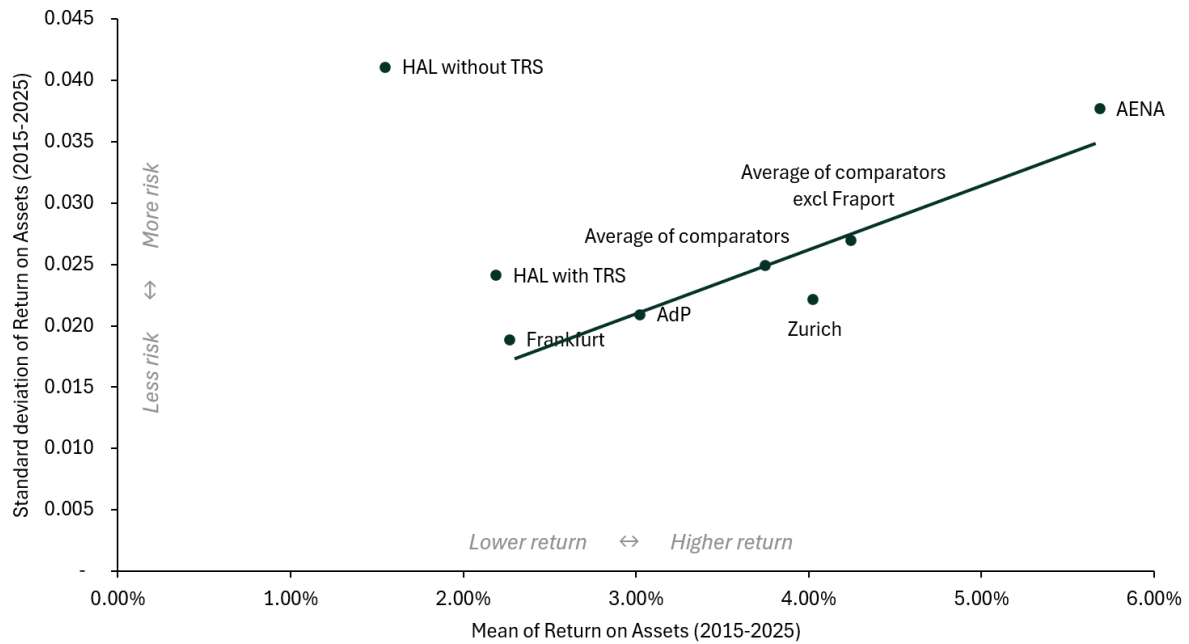


Figure 2.2.2 – Graph showing return on assets: risk-return trade-off (2015-2025) Source: Heathrow analysis. Note: This graph compares actuals at the comparators with two counterfactual scenarios for Heathrow. ‘Heathrow with TRS’ is the scenario where TRS was in place for the entire time period. TRS is included as a Present Value (PV) pre-tax lump addition to profit in year of passenger forecast. ‘Heathrow without TRS’ is the scenario where TRS was in place for none of the time period. Linear trend represents best fit among the four comparator airports.

A TRS adjustment is only warranted if Heathrow’s return profile is better than those of the comparators (higher return and/or lower risk). The main conclusions based on data from 2015 – 2025<sup>37</sup> are:

- a. Without the TRS mechanism, Heathrow performed strictly worse than the average of the comparators: lower average return and higher risk.
- b. With the TRS mechanism, Heathrow’s performance is closer to the average of the comparators, mostly through de-risking returns.
- c. With the TRS mechanism, Heathrow performs strictly worse than three comparators (has higher risk and lower return): Fraport, AdP, Zurich. AENA has higher return, but also higher risk.

There is therefore no justification for a TRS adjustment to asset beta, even if the CAA were to decide to price idiosyncratic risk into beta.

<sup>37</sup> We therefore compare Heathrow with and without the TRS mechanism with comparators actuals, including the total impacts of any regulatory mechanisms that the comparators have had in place to reallocate risk. Analysing comparator actuals in this way is appropriate for considering whether a TRS adjustment relative to the comparator betas is warranted (as the comparator betas are estimated on actuals). Because the impact of TRS for Heathrow would have been greatest in the pandemic period, it is appropriate to include this time period in the analysis.

### 42.3 Assessing Heathrow against the comparators: traffic and revenue risk

We believe that Return on Assets is the conceptually correct metric with which to assess whether the TRS adjustment is warranted. However, for completeness we have also taken a second, simpler approach to follow the CAA's TRS adjustment logic, based on traffic and revenue risk.

We have analysed half-yearly data from 2016 to 2025 to examine traffic volatility and the effect of that volatility on group revenues.

Operator	Airport	Coefficient of variation of hub passengers (half yearly)	Correlation between hub passenger volumes and group revenues (half yearly)
Heathrow	LHR	0.39	0.95
AENA	MAD	0.35	0.93
AdP	CDG	0.35	0.72
Fraport	FRA	0.37	0.78
Zurich	ZRH	0.38	0.94
Comparator average		0.36	0.84
Comparator average excl. Fraport		0.36	0.86

*Figure 2.2.3 - Table showing relationship between passenger volumes and revenues (2016-2025)<sup>38</sup>*

TRS would not in reality mitigate revenue risk because the RAB recovery mechanism would spread any revenue impacts over multiple business cycles. However, if we pretend for argument's sake that TRS delivers the revenue in PV terms in the year of the forecast error, then a rough but simple calculation can indicate a sense of the scale of TRS effects:

<sup>38</sup> See Data Pack, Table 2.

Term	Source	Calculation	Value
Percentage of total revenue that is aeronautical	2025 Heathrow (SP) Annual report (£2258 bn total rev / £3,623 bn aero rev)	A	62%
Average CAA forecast error (absolute value)	Summary of 2015-2025 data	B	16%
Average risk sharing rate	Risk sharing rate for 16% forecast error	C	70%
<b>Reduction in HAL correlation between passenger volumes and revenue due to TRS (2015-2025)</b>		$A*B*C$	<b>7%</b>

Figure 2.2.4 – Table showing effect of TRS on correlation between traffic and revenue

The key points from the above are:

- Heathrow has higher passenger variability than the comparator hubs, controlling for airport size.
- Heathrow has a higher correlation between passenger volumes and group revenue than the comparators.
- Even if we pretend that TRS delivers lump sum compensation in the year of the forecast error, TRS would only reduce the correlation between passenger volumes and revenue from around 0.95 to around 0.88 in the period 2015-2025. This is a strict overestimate of the effect of TRS. The 2015-2025 interval heavily over-weights the pandemic compared with the CAA's estimate of a 3.5% probability of a pandemic-like event in a year.

To conclude, even with TRS:

- A given change in traffic causes a proportionately larger change in revenue at Heathrow than the comparator average.
- The changes in traffic are proportionately higher at Heathrow than at the comparators.

#### 42.4 Other remarks

In the above analysis, we have arrived at a different conclusion from CEPA's 2025 analysis of the TRS adjustment.<sup>39</sup> CEPA's analysis of the TRS adjustment rests on an assumption that Heathrow without traffic risk would have the same asset beta as a utility. This counterfactual is irrelevant. As explained above, the salient question is

<sup>39</sup> <https://www.caa.co.uk/media/ro1esrw5/virgin-atlantic-response-to-cap3044a.pdf>

whether an adjustment against the comparator asset betas is warranted. If one wished to cogently construct a counterfactual that removed/added traffic risk from Heathrow, it would need to be considerably more sophisticated than CEPA's approach and address the different aspects of demand risk that are described in the following section.

Supporting analysis can be found in Appendix E.ii.

#### 42.5 Explaining differences between airport and utility asset betas

We find that the difference in asset beta among airports, and between airports and utilities is largely due to demand risks, divided into the following categories:

- Sector concentration of customers: airport groups mostly serve the aviation sector; whereas utilities' customers are highly sector-diversified. Sector diversification reduces exposure to macro shocks.
- Customer share concentration: at many airports, a few large airlines have significant market share; whereas regulated utilities typically serve a highly unconcentrated customer base, where no customer dominates. This also reduces macro shock exposure.
- Customer beta inheritance: Airports inherit beta from their airline customers. Airlines tend to be high-beta because a range of systematic macro shocks can threaten their ability to cover their capital costs in the medium- to long-term

From the above we reason that variation between airport betas largely derives from long-run financial robustness of their respective airline customer bases. This can also be stated: airports have higher betas than regulated utilities because airports have concentrated exposure to an undiversified customer business model with systematic long-run fragility.<sup>40</sup>

To check this empirically, we examined the co-movement of airport, airline, and market returns and betas. Across regression specifications found a reasonable, interpretable relationship between airport and airline returns and betas. For airport-airline group pairs with higher mutual commercial dependency (e.g. Fraport and Lufthansa), we found a stronger relationship than for airport-airline group pairs with weaker mutual independence (e.g. Zurich and Lufthansa). This is consistent with airports having higher beta if they have a more concentrated customer base, and their anchor customer(s) are high-beta. More details of this analysis are given in Appendix E.ii. We have not attempted a complete academic treatment of the subject. The purpose of the airport-airline beta analysis was to contextualise the TRS discussion.

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<sup>40</sup> [The Airline Business Model | Springer Nature Link](#)

Airport (Regressand)	Airline (Regressor)	Regression coefficient
Groupe ADP	Air France	0.19
Aena	Ryanair	0.31
Fraport	Lufthansa	0.38
Flughafen Zürich	Lufthansa	0.17

*Figure 2.2.5 – Table showing coefficient of 2-year airport equity beta regressed on airline equity beta (cutoff end-March 2026)*

TRS will affect Heathrow’s asset beta if the TRS mechanism materially affects the medium- to long-run commercial viability of Heathrow’s main airline customers. But shareholders have no reason to believe that TRS would ever have such an effect. The RAB-based cost recovery mechanism that smooths and delays costs is designed expressly to avoid such an outcome.

Shareholders should reasonably believe that the CAA would react to material threats to airline commercial sustainability by adjusting risk sharing, in the interests of consumers. The discretionary ability of the CAA to redesign TRS at will is another reason why shareholders do not include TRS in asset pricing.

#### 42.6 Asset beta time period selection

The CAA has examined 2-year, 5-year, and 10-year asset betas, and based their lower bound beta on the 2-year sample, and the upper bound on the 10-year sample.

Much of the variation between the 2-, 5-, and 10-year estimates is due to the types of macro shocks that dominated in those years. The ongoing oil supply shocks at the time of writing in Spring 2026 has the potential to increase airline and airport asset betas. We do not know the nature of the shocks that will arise over the course of the H8 price control period. In forecasting, when recent data is not reflective of the future, it is appropriate to shrink the estimate to the longer-run historical average.

#### 42.7 Comparator selection

The CAA proposed retaining the four comparator airports that were used for H7.

Heathrow agrees with the approach:

- Comparators from other sectors are less informative;
- There is an advantage to including Zurich to increase the sample size of comparators even though it is a smaller hub;
- The choice is consistent with precedent.

## 42.8 Comparator weighting

For each time horizon, the CAA calculated a simple average of the comparators and also an average weighted by market capitalization. The CAA then selected the minimum and maximum average for the asset beta bounds.

The IP states that “*Equity and asset betas for the listed comparator airports have shown significant instability over the previous two price control periods.*”<sup>41</sup> The CAA has noted “*significant instability*” but does not seem to have done anything to take it into account.

Asset beta is likely to be the single greatest driver of uncertainty in the entire WACC calculation. WACC noise muddies and therefore weakens the incentives of all the other building blocks, and therefore has a wide range of unintended consequences for customers. It is unquestionably in the interests of Heathrow’s customers to invest in an asset beta approach that reduces statistical noise to the greatest extent possible.

Due to recent instability in asset betas, since our Business Plan submission, we have investigated sources of asset beta inaccuracies. We found that Fraport has recently had low liquidity, which can be seen in its high bid-ask spread (Table 8). The statistical estimation of the CAPM model requires adequate trading volumes for the estimates of parameters like beta to be statistically reliable. Price movements for illiquid stocks like Fraport are often stale or infrequent and will not produce a reliable beta for themselves, never mind as a third party comparable for a peer like Heathrow. In regressing Fraport returns on market returns, we have an errors-in-variables problem, which biases Fraport’s regression coefficient toward zero and so causes the equity beta to be underestimated.<sup>42</sup>

	AENA	AdP	Fraport	Zurich
Average daily trading volume relative to shares in issue (2020-2026)	0.127%	0.094%	0.001%	0.213%
Relative (%) Bid-Ask Spread (2020-2026)	0.09%	0.11%	0.68%	0.04%

Figure 2.2.6 – Table showing liquidity of comparators, Source: Heathrow analysis of Bloomberg

As a cross-check, we have examined monthly asset betas for Fraport, which should be less affected by order book noise.

<sup>41</sup> IP, Section 3, para 9.70.

<sup>42</sup> For example, see [Extending the Classical Normal Errors-in-Variables Model](#)

	5-year average of betas for 1/12/2016 to 1/2/2026	10-year average of betas for 1/12/2021 to 1/2/2026
Monthly	0.62	0.69
Daily	0.54	0.54

*Figure 2.2.7 – Table showing Fraport daily and monthly betas*

The discrepancy between the monthly and daily estimate, for each time horizon, suggests that Fraport daily betas are attenuated to zero, and that the attenuation is not ameliorated by a long-time horizon. Given this the CAA should not use daily data to estimate the asset beta of Fraport. Using monthly data also precludes using a short period estimate as there would be insufficient data points.

We have updated each comparator estimate using data to end-March 2026:

Estimate	2-year (CAA IP)	2-year (updated end- March 26)	10-year (CAA IP)	10-year (updated end- March 26)
Fraport	0.34	0.34	0.58	0.58
AENA	0.51	0.51	0.74	0.75
AdP	0.53	0.47	0.68	0.70
Zurich	0.50	0.47	0.68	0.68
Simple average	0.47	0.45	0.67	0.68
Excluding Fraport		0.48		0.71
Market capitalization weighted average	0.50	0.48	0.70	0.71
Excluding Fraport		0.50		0.73

*Figure 2.2.8 – Table showing Beta summary*

We propose to follow the CAA's asset beta weighting approach, but removing Fraport from the calculation. This produces a range for asset beta of 0.48 – 0.73.

Further, for the reasons set out in the Legal Annex, the CAA must disregard the CMA's H7 decision on the TRS and its effect on Heathrow's beta.

### 43. Gearing

The CAA proposed to retain a 60% notional gearing level for H8.

Heathrow agrees with the CAA's rationale and the notional gearing level chosen:

- Variation in notional gearing introduces additional variation in the WACC;

- There is a lack of compelling reason to use different notional gearing levels to estimate WACC and to assess financeability;
- It is desirable to maintain consistency with previous determinations.

### 43.1 Estimating the debt beta for the notional company

We agree with the CAA's application of a debt beta of 0.075 to de-lever the raw equity betas.

### 44. Risk free rate

The CAA's proposed RFR estimate is based on the following methodology and set of assumptions.

- Benchmark yield: the RFR is benchmarked against the 20-year index-linked gilt (ILG).
- Averaging period and indexation: the CAA adopts a one-month historical average of 20-year ILG yields.
- Inflation: to convert RPI-linked gilt yields into CPIH terms, the CAA estimates the wedge between the Retail Price Index (RPI) and CPIH (RPI–CPIH wedge) using two complementary approaches:
  - i. A forecast-based approach relying on the Office for Budget Responsibility's (OBR) official forecasts of CPIH and RPI inflation rates up to the assumed point of convergence in February 2030, and;
  - ii. A swap-based approach using 20-year RPI and CPI inflation swap rates, from which a CPIH–CPI wedge, estimated based on official forecasts, is deducted.

Although we question whether the CAA's CPI–CPIH wedge improves the accuracy of this calculation at all, due to the difficulty in forecasting inflation, we chose not to revise the underlying methodology. Instead, consistent with the approach set out in the H8 IP, we update the CAA's RPI–CPIH wedge estimate to reflect a cut-off date of 31 March 2026. This results in the following updates:

- Forecast-based approach—the RPI–CPIH and CPIH–CPI wedges are derived using 20-year quarterly OBR forecasts of RPI, CPI and CPIH inflation from April 2026 to March 2046 (previously October 2025 to September 2045).
- Swap-based approach—the 20-year RPI–CPI wedge is estimated using market-based zero-coupon RPI–CPI swap rates averaged over March 2026 (previously October 2025).

	Formula	CAA H8 IP	Updated CAA H8 IP
Cut-off date		1 November 2025	31 March 2026
RPI-CPIH OBR forecasts wedge	[A]	0.20%	0.14%
CPIH-CPI OBR forecasts wedge	[B]	0.14%	0.14%
20Y RPI-CPI swap-based wedge	[C]	0.17%	0.29%
RPI-CPIH swap-based wedge	$[D] = (1+[C]) \div (1+[B]) - 1$	0.03%	0.14%
RPI-CPIH wedge	$[E] = ([A]+[D]) \div 2$	<b>0.11%</b>	<b>0.14%</b>

Figure 2.2.9 – Table showing RPI-CPIH wedge estimation, Source: Oxera analysis based on OBR forecasts and Bloomberg data.

We estimate the RfR using a one-month average of the 20-year ILG yield, with 31 March 2026 as the cut-off date, in line with the CAA’s methodology. The estimate is then converted into CPIH-real terms by applying the updated RPI-CPIH wedge, estimated using the CAA’s methodology as set out in Section 2.1. The results are presented in the table below.

	Formula	Updated CAA H8 IP	HAL
20Y ILG yields, RPI-real	[A]	2.05%	2.05%
RPI-CPIH wedge	[B]	0.14%	0.14%
RFR, CPIH-real	$[C] = (1+[A]) \times (1+[B]) - 1$	<b>2.20%</b>	<b>2.20%</b>

Figure 2.2.10 - Table showing RfR estimation. Note: Based on a cut-off date of 31 March 2026. Values may not add up due to rounding. Source: Oxera analysis based on Bank of England (BoE) yield curves, OBR forecasts, and Bloomberg data.

#### 45. Total Market Return (TMR) and Equity Risk Premium (ERP)

CAA’s proposed TMR estimate is based on the following methodology and set of assumptions.

- Approaches: the CAA estimates the TMR by assigning equal weight to ex post and ex ante methodologies. The ex post TMR is based on the arithmetic average of DMS data over the period 1900–2024. The ex ante TMR is bounded by a lower estimate derived from the Fama–French dividend growth model and an upper estimate based on the DMS decompositional approach.
- Treatment of inflation: the CAA relies on historical CPIH-real returns.

Based on the above, the CAA’s proposed TMR range is 6.72–6.92%.

While we broadly agree with the CAA’s approach to deriving an ex post TMR under a stable TMR assumption, we do not consider it appropriate to assume that the TMR remains stable. In particular, the current ‘through-the-cycle’ and fixed TMR approach can easily understate the returns required by investors in a persistently rising interest rate environment.

Instead, we suggest also calculating returns under a stable ERP framework, whereby the ERP is estimated directly, and the RFR is then added back to derive the TMR. This method builds upon the CMA approach taken in its PR24 Determinations, updated with an additional year of returns data, and adjusted for geometric differencing of annual ERP estimates to follow academic convention, such as the work by Dimson, Marsh and Staunton. The geometric differencing ensures that the impact of inflation is accurately captured within the risk-free return and that the final ERP estimates are unaffected by the choice of the inflation index. This approach results in a TMR that varies through the cycle, appropriately reflecting changes in the interest rate environment.

Under a stable ERP approach, the ERP is defined as the average CPIH-real annual excess return on UK equities relative to the risk-free asset, proxied by the DMS UK government index, over 1900–2025, which yields an average CPIH-real ex post ERP estimate of 5.39%. Adding the updated RFR estimate of 2.20% implies a CPIH-real ex post TMR of 7.59%, which is 56 basis points (bps) higher than the TMR estimated under a stable TMR assumption.

Based on these considerations, Heathrow’s updated TMR ranges adopt a lower bound that is aligned with the CAA’s approach to ex ante TMR, updated to a cut-off date of 31 March 2026 and incorporating an additional year of DMS data.

Heathrow’s upper bound is updated to reflect the adoption of a stable ERP approach, alongside the inclusion of the additional year of DMS data in deriving the ex post TMR. By contrast, the updated CAA upper bound relies solely on incorporating the additional year of DMS data under a stable TMR assumption. The resulting TMR estimate ranges are presented in the table below.

CPIH-real	Updated CAA H8 IP	HAL
Ex ante TMR	6.76%	6.76%
Ex post TMR	7.03%	7.59%
Midpoint	6.89%	7.18%

*Figure 2.2.11 – Table showing TMR estimation. Note: Based on a cut-off date of 31 March 2026. Values may not add up due to rounding. Source: Oxera analysis*

## 46. Cost of debt

### 46.1 Cost of embedded debt

We agree with the CAA's approach to use Heathrow's actual cost of debt as a starting point for calculating the cost of embedded debt on the basis that Heathrow has raised debt efficiently and because this method avoids making subjective assumptions about when Heathrow would have issued debt.

The CAA's approach in this regard is consistent with the High Court's judgement in the WWU case which requires that adequate account be taken of the position of the actual company.

We agree with the CAA's conclusion that FTI Consulting's estimate of nominal cost of debt (4.94%) is higher than that of our H8BP submission due to their policy decision to use the costs of Heathrow's senior debt only and ignore junior debt and derivatives. This is consistent with Heathrow's analysis and is due to the timing of when junior debt was issued and swaps entered by Heathrow.

We calculate an equivalent cost of embedded debt of 5.02% when junior debt and derivatives are excluded. The remaining differences to FTI Consulting's 4.94% figure arise from other methodological differences in the calculation, such as the treatment of foreign currency debt, inflation-linked debt and the assumed quantum and cost of forecast issuances for the remainder of H7.

When forecast issuances for the remainder of H7 (2025 and 2026 as at the point of our H8BP submission) are excluded, we calculate a cost of 4.75%. This compares to the PR24 CMA cost of embedded debt of 4.84% (at a similar point in time and like-for-like basis) which should give the CAA confidence that Heathrow's actual cost of debt is efficient and therefore appropriate to use.

We will provide an updated view of Heathrow's debt book to help the CAA with the refinement of its cost of embedded debt estimate ahead of the Final Proposals.

### 46.2 Treatment of foreign currency debt

As well as issuing in both public and private markets, Heathrow issues across 7 different currency markets including GBP. This provides scale and diversification to our debt book and allows us to achieve the most cost-effective funding but requires swapping the proceeds back to GBP. We understand that FTI have applied a simplified proxy to assume embedded foreign currency debt is issued at the average of the A & BBB 10+ year iBoxx on the date of issuance with the addition of a Heathrow-specific premium of 10bps. The original KPMG analysis submitted within our H8BP calculated the costs of foreign currency debt using the actual terms of the bonds and swaps used

to convert them to GBP on date of issuance. However, FTI's approach does not result in a significantly different result in the IP, when compared to Heathrow's submission.

### 46.3 Treatment of inflation-linked debt

Heathrow issues a proportion of its debt in index-linked format, as is normal for infrastructure issuers with an index-linked asset base. As the market for inflation-linked corporate bonds is small, Heathrow also uses inflation-linked swaps to convert a portion of its notional debt to index-linked. This would be necessary in order to cost-effectively achieve the 30% inflation-linked debt position that the CAA applied to the notional company for H7 and prior price control periods. In contrast, for H8, by making a policy choice to ignore derivatives in the cost of debt calculation, there is an underestimation of the inflation-linked debt exposure that Heathrow has and which leads to an underestimation of inflation-linked debt that the notional Heathrow would also have. Whilst in stable low-inflation environments this may not result in a significant difference in the estimation of embedded cost of debt, it is an important consideration when in volatile inflation environments and when considering the policy choices around RAB-indexation.

Regarding index-linked bonds, as noted in our H8BP, under the planned RPI 2030 reform whereby the definition of RPI will be aligned to CPIH, Heathrow expects to have to compensate bondholders for the impact of a lower inflation measure to offset the shortfall in nominal returns that bondholders would otherwise face. This stance is based on Heathrow's legal documentation<sup>43</sup> which was in turn based on normal market practice. This is not unique to Heathrow and was the basis for the implied yield set by the market (or the swap counterparty) at issuance. We expect this to impact the notional company in the same way as other corporate issuers of index-linked debt.

To meet its Financing Duty the CAA must have regard to the need to secure that Heathrow is able to finance its provision of airport operation services. To do that the CAA must take account of the relevant factors which, for a cost of debt calculation, includes relevant terms of the debt as well as its cost at issuance in terms of implied yield and any discount and fees. In this case those terms include compensation for the later alignment of RPI with CPIH and that compensation is part of the cost of debt. Were the CAA to wish to exclude that compensatory component then it should allow for a higher implied yield at the outset as the market would have expected compensation for the higher risk it was being asked to take on.

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<sup>43</sup>[https://www.heathrow.com/content/dam/heathrow/web/common/documents/company/investor/offering-related-documents/funding/HFL\\_Base\\_Prospectus\\_19\\_December\\_2025.pdf](https://www.heathrow.com/content/dam/heathrow/web/common/documents/company/investor/offering-related-documents/funding/HFL_Base_Prospectus_19_December_2025.pdf) definition of "Reference Gilt", section (d) Cessation of or Fundamental Changes to the Index

There has been regulatory precedent to acknowledge the index reform, specifically Ofgem have cited that it is looking to provide an allowance, in the next regulatory period (post 2031), to broadly cover the costs of ‘reforming’ inflation linked debt in proportion to the notional company, providing those costs align with ‘market norms’<sup>44</sup>

Whilst we note that neither the quantum of compensation nor the mechanism has yet been confirmed, it has been determined that RPI produces an estimate of inflation about one percentage point higher than the CPIH and that this will continue in the long term<sup>45</sup>. If we were to apply a 0.9% shift in the RPI curve from 2030 until the maturity of the bonds, the total exposure that flows from the accretion growing on an index which is nearly one percentage point higher is £303m in Future Value terms, or £184m in Present Value terms<sup>46</sup>.

KPMG accounted for the additional compensation by applying a constant RPI rate of 2.9% for bonds throughout H8, whereas FTI’s calculation assumes no compensation. The CAA should ensure that Heathrow is able to recover these efficiently incurred debt costs. Heathrow will be liaising with the CAA directly on this topic to ensure an appropriate approach is taken in the Final Proposals as more clarity on the compensation mechanism arrives.

#### 46.4 Cost of new debt

The latest market data indicates that the IP estimate is too low.

Both latest primary market issuance evidence and more recent secondary market data show that the Heathrow-specific premium is higher than assumed in the IP.

- **Primary market evidence:** In October 2025, Heathrow issued a bond that meets the inclusion criteria applied by FTI. Under FTI’s methodology the bond was issued at a premium of 21bps<sup>47</sup> which exceeds the 10bps estimate from the IP.
- **Secondary market evidence:** Based on bonds meeting the inclusion criteria applied in the IP<sup>48</sup>, the secondary market yield differential has also increased since October 2025, as illustrated in the Figure 2.2.12 below. Based on a replication of

<sup>44</sup> <https://www.ofgem.gov.uk/sites/default/files/2025-12/R110-3-Final-Determinations-Finance-Annex.pdf>

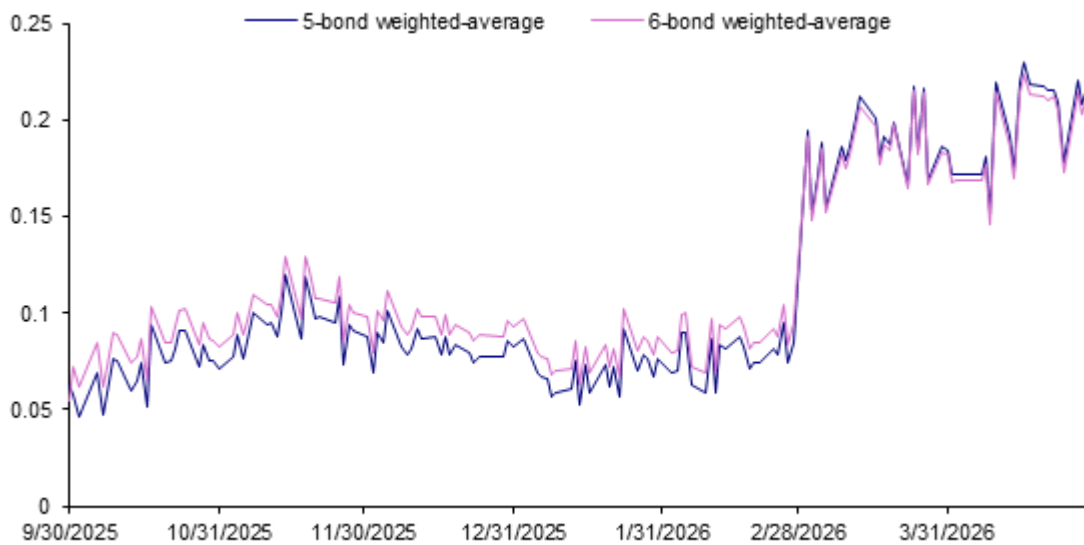
<sup>45</sup> <https://www.judiciary.uk/wp-content/uploads/2022/09/BT-Pension-Scheme-Trustees-v-UKSA-judgment-010922-2.pdf>

<sup>46</sup> Calculated by taking the value of our inflation linked bonds and related accretion as at April 2026, and adjusting the forward RPI curve by +0.9bps from 2030 until the maturity of the bonds.

<sup>47</sup> The bond (XS3198627229) has a tenor at issuance of 17 years. The closest reference benchmark is therefore taken as the average of the iBoxx £ Non-Financials A 10+ and iBoxx £ Non-Financials BBB 10+ indices.

<sup>48</sup> FTI’s analysis of the secondary market spread over October 2025 focused on 5 bonds. These bonds appear to have been selected based on the following criteria: (i) senior only; (ii) fixed-rate instruments; (iii) GBP-denominated, (iv) publicly traded; (v) remaining tenor longer than 10 years; (vi) not wrapped. One additional bond meets these criteria as of April 2026 (XS3198627229).

FTI’s methodology the April 2026 average is 11 or 13bps higher than the October average<sup>49</sup>.



*Figure 2.2.12 – Graph showing secondary market evidence. Note: The increase in the premium observed at the end of February partially reflects a change in tenor matching for bond XS0625276257. As the bond’s remaining maturity shortened, it became closer to the A/BBB 10-15 iBoxx index rather than the A/BBB 10+ index. Under the matching approach used in the analysis, the bond is initially referenced to the A/BBB 10+ index when that index was closest to its remaining maturity, before switching to the A/BBB 10-15 index as the bond rolled down the curve.*

**46.5 FTI’s methodology assigns excessive weight to secondary market evidence**

Under the FTI approach, primary and secondary market evidence are blended into a single premium measure, such that the contribution of primary market issuance data is implicit rather than explicitly weighted. This approach does not distinguish clearly between the relative strengths and limitations of the two evidence sources and therefore does not achieve a balanced treatment of them.

Primary market evidence is more reliable than secondary market evidence because it directly reflects the cost at which companies raise new debt. By contrast, secondary market evidence requires additional adjustments to capture the full cost of issuance, in

<sup>49</sup> FTI’s methodology, including the approach to tenor-matching, has been replicated using Bloomberg data based on the descriptions provided in the report. However, we have not been able to exactly replicate the October-average secondary market yield differential of -1bp. In our replication the premium is c. 5bps.

particular an explicit adjustment for the new issuance premium (NIP), which is inherently more complex and subject to methodological judgement.

There is an internal inconsistency of FTI's calculation of the premium, as the starting secondary market spread (-1bp) is calculated using a 1-month averaging period, while the NIP is estimated using issuance and secondary market data spanning 2011-2023. This mismatch in estimation periods illustrates the sensitivity of NIP adjustments and the potential for such adjustments to distort analysis of the cost of new debt for any given issuance. Although such adjustments are necessary when using secondary market evidence, they involve methodological judgement and are subject to estimation error.

The resulting divergence in outcomes illustrates this issue clearly: the premium from primary market evidence is estimated at around 29bps<sup>50</sup>, while the premium from secondary market evidence is 10bps, suggesting that the blended approach is not reliably capturing the underlying cost of issuance. For primary market evidence, no such adjustment is required, as the NIP is already embedded in the observed spreads.

For illustration, if the starting secondary market spread were instead calculated over the same 2011-2023 window used to estimate the NIP<sup>51</sup>, this would imply an average secondary market spread of 14bps, resulting in an overall premium of 25bps. This would be much more closely aligned with the premium inferred from primary market evidence, highlighting the extent to which the current mismatch in estimation periods influences the blended result.

Consistent with this distinction, primary market evidence has historically been relied upon as the principal source of evidence in estimating issuance premia in regulatory determinations (for example, PR19 and RIIO-2-3). Some weight has been attached more recently to secondary market evidence, particularly where primary market issuance data was limited (PR24), which is not Heathrow's current context.

Recognising the relative strengths of primary market evidence and the limitations associated with secondary market adjustments, a more appropriate approach would have been to assign explicit weight to each source. Placing 50% weight on primary market evidence would have increased the estimated Heathrow-specific premium to 19bps, all else equal, notwithstanding the need for secondary market-implied premia to be derived in an internally consistent manner. Placing full weight on the primary market evidence alone would imply a Heathrow-specific premium of 29bps.

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<sup>50</sup> Weighted-average of the issuance premia calculated by FTI, without any further adjustments for contemporaneous secondary market spreads or otherwise.

<sup>51</sup> More precisely, 13/05/2011-09/11/2023.

#### 46.6 FTI's approach to controlling for tenor is imprecise

FTI's approach matches each Heathrow bond to the iBoxx maturity band with the closest average remaining tenor. This is done by comparing the bond's remaining maturity to the average maturity of each iBoxx maturity bucket and selecting the band with the smallest difference.

FTI considers that constructing an iBoxx curve through interpolation – which allows for precise tenor-matching – is “speculative and lacking transparency”. However, interpolation is widely used in the academic literature and by central banks for yield-curve construction and therefore cannot be characterised in this way. The Bank of England explicitly uses spline-based techniques to construct nominal and real yield curves from discrete bond data, noting that such methods are specifically designed to “fill in the gaps” between observed maturities while ensuring smoothness, flexibility and stability in the estimated term structure.<sup>52</sup> This is also consistent with published analysis in the ECB *Statistics Paper Series*<sup>53</sup>, which describes spline-based yield-curve methods as an established tool used by central banks to construct robust yield curves from discrete bond data.

In calculating a Heathrow-specific cost of debt premium, a high proportion of the bonds used have long remaining tenors, extending beyond the average tenor of the 15+ iBoxx benchmark. Comparing yields on these bonds to a single average benchmark yield without tenor alignment is not robust, as it reflects differences in the term structure of interest rates rather than an appropriate comparison on an equivalent tenor basis.

#### 46.7 iBoxx true-up mechanism

During H7 a mechanism to adjust Heathrow's opening RAB for H8 to reflect the difference between the CAA's cost of new debt allowance and the out-turn value of the indices on which the allowance is based was introduced. We are supportive of the mechanism and whilst it is not explicitly mentioned in the CAA's IP but inferred in its Appendix L, we would expect the same mechanism to be applied during H8.

#### 46.8 Deflating cost of debt

We agree strongly with the CAA that medium-term CPIH forecast should be used to deflate both new and embedded cost of debt. This is consistent with the approach we used in our submission (albeit we used medium term CPI as a medium term CPIH

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<sup>52</sup> Anderson, N. & Sleath, J. (2001). [New estimates of the UK real and nominal yield curves](#). Bank of England Working Paper No. 126. WP 126

<sup>53</sup> Nymand-Andersen. (2018). [Yield curve modelling and a conceptual framework for estimating yield curves: evidence from the European Central Bank's yield curves](#). ECB Statistics Paper Series No. 27.

forecast was not available at that time). It is also consistent with the CAACAA approach at H7 and regulatory consistency is important.

We would expect that the medium-term CPIH forecast is updated to reflect the March 2026 OBR forecast as part of the Final Proposals

#### **46.9 Proportion of new debt**

We have reviewed the calculation of the proportion of new debt produced by the CAA's advisors and agree with the broad approach for the calculation. However, we note that there is a discrepancy between the new issuance amounts in the simplified calculation and in the Price Control Model issued alongside the IP. We estimate that using the figures in the Price Control Model results in a proportion of new debt of approximately 25%. The proportion of new debt calculation should be based on the Price Control Model to be consistent with the approach at H7 and to ensure the weight of new debt is appropriate given the balance of other elements of the settlement.

#### **46.10 Allowance for issuance and liquidity costs**

In general, we agree with the types of costs included in the allowance for additional debt costs. However, a base issuance cost of 4bps does not take into account costs that are specific to the nature of Heathrow's Whole Business Securitisation (WBS) structure. These costs can be higher than a conventional corporate debt structure due to structural complexity but come with a materially lower cost of debt. For instance, the below costs have not been considered:

- Debt platform costs – this includes fees associated with maintaining our debt issuance platform such as professional fees related to the annual update of the EMTN platform, Bond Trustee fees and ongoing credit rating agency monitoring fees, and
- Consent fees – periodic changes to our platform documentation are made which require consent from investors and a fee payable. These changes may be due to new accounting regulation, such as IFRS16, or changes in legislation.

We generally agree with the calculation of the cash liquidity component of liquidity costs but encourage the use of more up to date market data. For instance, the OIS of 4.63% referenced by FTI in the IP would be 4.55% when using a 30<sup>th</sup> April 2026 cut-off date, similarly the benchmark index of 5.86% would be 5.99%.

We estimate the above constitute an additional 3bps of costs and we will provide further details to help the CAA with the refinement of its issuance and liquidity costs estimate ahead of the Final Proposals.

## 47. Financeability

### 47.1 Rating thresholds and target rating

We disagree with the CAA approach to setting notional Heathrow's credit rating thresholds to maintain a BBB+ rating. The IP state the following credit rating thresholds:

- S&P: Funds from Operations (FFO) / net debt of at least 7-8%<sup>54</sup>
- Fitch: net debt / EBITDA no greater than 8-9x

It goes on to say that:

*“Recognising that the notional company is not identical to the actual company, we cautiously make use of the lower end and the upper end of these ranges, respectively, in our financeability assessment.”*

Those thresholds reflect the benefit of Heathrow's covenanted financing structure, in particular in respect of Fitch, where the thresholds for the notional company rated under as a corporate issuer would be materially tighter.

We strongly disagree with the CAA's assessment that hypothetical ringfencing licence conditions of the notional company would enhance its credit quality in a similar way to a covenanted financing structure. We set this out in more detail in Appendix E.ii.

It would be a significant departure from regulatory precedent and the CAA's historical reasoning to impose energy-like ringfencing licence conditions for the notional company in an attempt to see the notional company rated more like a project-finance issuer. Even if the CAA were to do so, ringfencing licence conditions like those imposed on energy networks would be insufficient to meet a sufficient number of Fitch's criteria for assessment as a project-finance issuer.

Consequently, the thresholds by the CAA have the effect of materially weakening the value of the financeability assessment, by assessing the notional company against thresholds far looser than would be applied. As set out in a report by KPMG<sup>55</sup>, the appropriate thresholds for a notional Heathrow at a target credit rating of BBB+ would be as follows:

- S&P: FFO / net debt of at least 8%
- Fitch: net debt / EBITDA no greater than 5.2x

The CAA's usage of the thresholds for Heathrow to maintain a BBB+ on its Class A debt is also inconsistent with its position that a one notch differential would apply between the thresholds relevant for the notional and those applied to Heathrow. If a one notch

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<sup>54</sup> The CAA refers to 7.0-8.0x, but that is assumed to mean 7.0-8.0%

<sup>55</sup> KPMG, June 2025. An analysis of the target credit rating for the H8 price control.

differential applies, where the CAA acknowledges “*there was some merit in the argument that a whole business securitisation would produce a one notch uplift in rating but that other factors were also relevant*”, it would be more appropriate to assess finance-ability against the thresholds for an A- rating on Heathrow’s Class A debt.

For S&P the threshold is the same as that proposed by KPMG for the notional company (FFO / net debt of at least 8%), whilst for Fitch, it would be in line with the lower bound of the range proposed by the CAA (recognising the credit enhancements under Heathrow’s covenanted structure).

In any case, even disregarding the issues with using thresholds relevant for a covenanted structure, it would be prudent to use the more cautious end of the threshold ranges, as the CAA itself recognises. From the CAA’s ranges set out in the IP, that would be FFO / net debt of at least 8% and net debt / EBITDA no greater than 8x. The CAA uses the more generous (less stringent) end of the ranges in its financeability assessment (Chapter 11, Section 3 of the CAA’s IP, Figures 11.4 and 11.5), but this would logically appear to be an error given the CAA’s stated position.

#### **47.2 Financeability of the notional company at BBB**

In Appendix L of the CAA’s IP, the CAA sets out its view that the notional company would be financeable at BBB:

*“As noted above, HAL’s financing requirement for the H8 period is comparable to that for the H7 period and, therefore, we conclude that a BBB rating would still be likely to be sufficient for the notional company to be able to finance its activities.”*

The assumption that a BBB target credit rating would be sufficient for the notional company is a significant departure from precedent in other UK regulated sectors and the CAA’s own target rating for H7. Regulators have generally targeted BBB+, being an investment-grade rating with headroom to absorb plausible downside risks and ensure larger issuers have sufficient market access at a reasonable cost of debt.

There are several reasons why a BBB rating would not be financeable for a large issuer like a notional Heathrow, with a capex programme expected to be materially larger than H7:

- Debt spreads are materially wider at BBB+ vs BBB – under typical conditions, KPMG found BBB-rated debt would be expected to be priced 25-35bps wider than BBB+-rated debt, likely as a result of significantly higher default rates of BBB-rated debt. This applies also to the cost of hedging and liquidity facilities with banks, where a BBB rating results in a higher funding cost for the bank than a BBB+ rating (and therefore higher cost to Heathrow), driven by capital requirements that increase as credit risk increases.

- At a BBB rating, the notional company would be expected to materially under-perform the allowed cost of new debt, which is informed by Heathrow's actual debt yields, not a BBB index. In that scenario, the structural under-performance on cost of debt would itself put greater pressure on credit ratings and finance-ability. The cost of new BBB debt would also be higher and therefore lead to higher WACC and charges in future periods.
- It is incomplete to consider in-period financing requirements as the only relevant factor for finance-ability. Debt investors are exposed to risk in respect of the total value of outstanding issuance (not just that refinanced or raised new in-period) – that risk is greater at BBB, where there is a single notch of headroom to lowest-investment grade, below which there is a structural break in investor appetite and pricing. In the case of notional Heathrow, the average total value of debt is likely to be significantly higher in H8 than H7, therefore the value that investors place on a stronger credit rating is greater. Companies with the same scale of total outstanding of issuance as notional Heathrow would typically be rated at least BBB+, but in many cases at single-A. It is also important to note that debt investors have counterparty limits in respect of total exposure to a single issuer and those counterparty limits are generally higher for stronger-rated issuers.

#### **48. Financial framework - Inflation treatment in setting the allowed return on debt**

The CAA note in the IP<sup>56</sup> that they are proposing to consider further a variation of the approach of allowing a nominal cost of debt. Under this approach, fixed rate debt could be deflated by a fixed inflation forecast and the same fixed inflation forecast could be applied to a portion of the RAB (for example, the portion of the RAB that is assumed to be funded by fixed rate debt). The remaining portion of the RAB, assumed to be funded by equity and index-linked debt, would continue to be indexed to outturn inflation.

We would welcome further investigation by the CAA and discussion between parties on this topic. We understand that the investigations are at an early stage and we await further details to be provided by the CAA. At this stage, Heathrow would like more clarity over the assumption that the CAA make on the proportion of fixed rate debt and the proportion that would be funded by index-linked debt within the notional company. It is essential that the CAA are clear on their assumptions and apply them consistently between price control periods for Heathrow to manage its risks within its own capital structure and debt portfolio.

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<sup>56</sup> Initial Proposals paragraph 10.80

As a change in the RAB indexation method would represent a significant change to risk allocation (that would normally be included in a methodology consultation) we would expect the CAA to provide details as soon as possible, rather than waiting until the Final Proposals. This will allow effective consultation to occur ahead of the Final Proposals.

## Section 2.2 summary - asks of the CAA

Heathrow asks that the CAA reflect the following in their Final Proposals:

### Traffic Risk Sharing:

- To remove the TRS adjustment from the calculation of asset beta.
- To base asset beta on a combination of 2- and 10-year estimates.
- To consider the four comparator airport groups that were used in H7 as a starting point for asset beta estimation.
- To remove Fraport from the comparator airports, because its stock is too illiquid to reliably estimate beta.

### Gearing:

- To retain the 60% notional gearing level, and the application of a 0.075 debt beta.

### Cost of debt

- To incorporate the costs associated with RPI 2030 reform into its cost of embedded debt allowance.
- To be more explicit about the inflation-linked debt assumptions being used by the CAA for the notional company.
- To update the calculations for cost of new debt to reflect latest market data and to assign more weight to primary market evidence in estimating the cost of new debt. *For comparison, we estimate that the Heathrow-specific premium should be approximately 10-20bps higher than currently included in the IP.*
- To confirm that the iBoxx true-up mechanism will remain in force for H8.
- To use the Price Control Model to calculate the proportion of new debt used in the WACC calculation
- To increase the allowance for liquidity and issuance costs to include the additional debt costs associated with Heathrow's WBS structure and update their liquidity cost allowance for up-to-date market data. *For comparison, we estimate this at 3bps.*

### Finance-ability

- To update the credit rating thresholds used for assessing debt finance-ability as follows:
  - S&P: FFO / net debt of at least 8%

- Fitch: net debt / EBITDA no greater than 5.2x

Financial framework:

- To share further dialogue on the topic as thinking progresses.

## SECTION 2.3 OPERATING COSTS

### 49. Executive Summary

Heathrow believes that the CAA's IP has materially understated the operating cost allowance needed to deliver a safe, resilient and high-quality airport service through the H8 period.

The H8BP already embeds significant efficiency improvements, and we set out that the CAA's proposed reductions - particularly in baseline efficiency, overlays, business rates and ongoing efficiency assumptions - rely on flawed benchmarking, outdated assumptions, and insufficient recognition of Heathrow's operational complexity.

Heathrow has continued to improve passenger satisfaction and service quality while maintaining a stable cost per passenger; the CAA's approach focuses too narrowly on cost efficiency in isolation rather than the effectiveness of expenditure in delivering outcomes for consumers.

This sections sets out the key areas that we ask the CAA to revisit ahead of its Final Proposals - these include removing unsupported additional security efficiencies, updating contract and energy assumptions to reflect current and retendered costs, reinstating omitted overlays for maintenance, digital transformation, cyber resilience and noise mitigation, and reducing the proposed business rates adjustment to reflect updated H7 outturns.

We also set out that the CAA's top-down econometric benchmarking of 1.0% is inconsistent with recent CMA precedence, and that the ongoing frontier efficiency assumption should be lowered to 0.7%.

Overall, Heathrow seeks a materially higher H8 opex allowance, to avoid undermining service quality, resilience, regulatory consistency and Heathrow's ability to finance its operations.

### 50. Heathrow's H8 Business Plan (July 2025)

As noted in the H8BP, Heathrow's plan included a 1.2% year-on-year efficiency across most opex categories, reducing opex per passenger (excluding rates) from £17.32 (2024) to £16.44 (2031). This 1.2% reflected an assumption of catch-up efficiency of 0.5% per annum, a frontier shift of 0.5%, and a technology enabled shift of 0.2%.

We consider that this efficiency improvement will be challenging to deliver because wage pressures at the airport are likely to be greater than those forecast by the OBR for the UK as whole that are used in our projections of input price inflation. For example, the 2026 London Living Wage (LLW) has been announced at a 7% increase year on year,

despite inflation running at around half that level. This highlights the persistent real-terms cost pressures that Heathrow continues to face.

## 51. The CAA's Initial Proposals (March 2026) compared against Heathrow's H8 Business Plan (July 2025)

The CAA has allowed £1,544m for total operating costs in 2027, a reduction of -£65m compared to our 2025 total operating costs of £1,609m. The CAA then proposes a slight cost increase to £1,577m in 2028 before reducing to £1,545m by 2031. This presents £7,790m for total operating costs across H8<sup>57</sup> (all 2024 CPIH).

The CAA's IP reflects a difference of -£569m (2024 CPI) lower in total operating costs when compared to our proposal across H8.

The drivers of this difference are focused in three main areas.

- *“The efficiency adjustment [the CAA] propose to make to the 2024 baseline is the primary driver of the difference, accounting for around - £279 million (2024 CPI), or 49%, of the overall -£569 million gap between the proposals”;*
- *“The lower allowance [the CAA] propose to make for overlays accounts for around - £205 million (2024 CPI), or 36%, of the -£569 million (2024 CPI) difference”;*
- *“The downward adjustment to the business rate liability of around £104 million, to true up the ‘logged up’ amount from H7, accounts for a further 18% of the - £569 million (2024 CPI) difference”<sup>58</sup>.*

In addition to the above; volume, efficiency and input price assumptions made by the CAA result in a £19m upward adjustment to bring the difference back to -£569m. This upward adjustment occurs primarily due to the CAA assuming a 1% ongoing efficiency compared to our 0.7% assumption with a 0.5% catch up from H7 (referenced within the CAA's IP as *“HAL's 1.2% assumptions”*).

Further the £279.0m downwards adjustment for efficiency includes an upwards adjustment of £52.0m for Noise and Vortex (N&V) costs, which the CAA reclassified to opex from Capex in our H8 proposal. The £52.0m being a reduction of £189.0m from the £241.0m amount we had requested as Capex to cover Noise & Vortex costs across H8.

## 52. Heathrow's feedback on the CAA's IP

We agree with the CAA when they acknowledge within their IP; *“the quality of consumer services at Heathrow is materially influenced by how effectively HAL manages and deploys its opex to deliver a safe, efficient, and high-quality airport service.”*

<sup>57</sup> CAA, CAP 3232B, H8 Initial Proposals Section 2, Table 4.14 pg29

<sup>58</sup> CAA, CAP 3232B, H8 Initial Proposals Section 2, para 4.64 pg26

Over the course of H7, and through our proposal, into H8, we have managed our cost base to ensure an efficient and stable cost per passenger profile whilst at the same time continuing to improve passenger satisfaction and service quality. Independent passenger survey results and third-party industry assessments in 2025 and 2026 indicate that Heathrow has delivered measurable improvements in passenger satisfaction, despite operating under increasing capacity and volume constraints as we set out in our H8BP<sup>59</sup>. This trend is evidenced in Figure 2.3.1 below where we have achieved an improving Quality of Service Monitor (QSM) performance whilst delivering a downwards trend in operating cost per passenger.

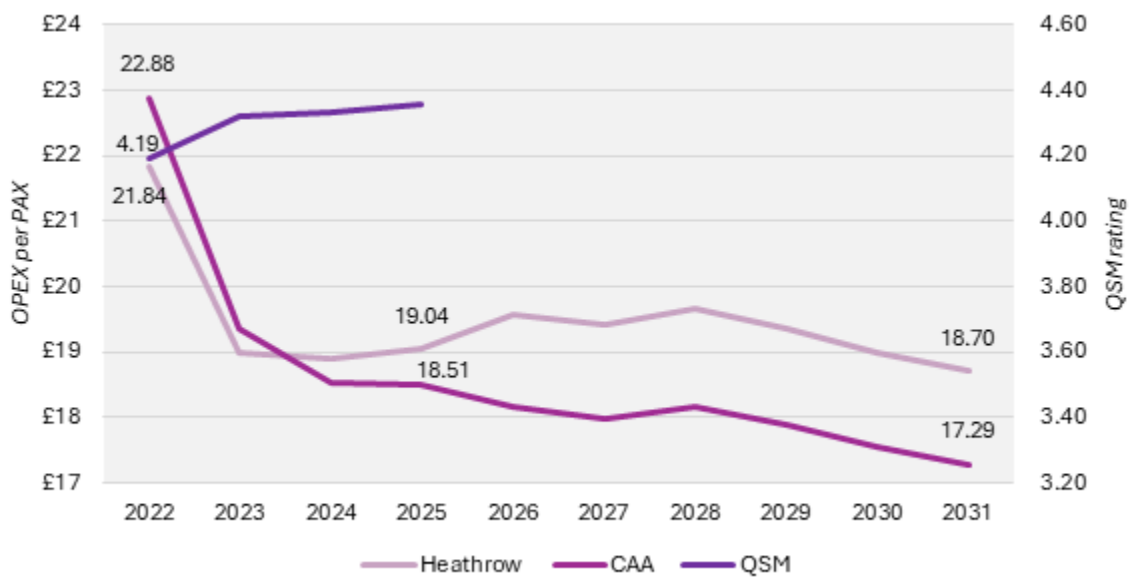


Figure 2.3.1 – Operating Cost per Passenger (2024 CPI) compared to QSM score achieved (Passenger Service Metric)

Considering the above context, we are therefore disappointed that the CAA’s methodology, and benchmarking analysis, appears to have considered the efficiency of operating cost spent in H7 in isolation without regard to the effectiveness of delivering outcomes for the consumer. Whilst this point applies generally across the CAA’s IP for H8, we have outlined some specific examples within our response below.

We also note that whilst the CAA lists certain legal duties within the chapter, the CAA’s proposals fail to explain how the allowance for operating costs ensures that Heathrow can finance its operations. This is inadequate, as outlined in the Legal Annex, Appendix C to this response.

<sup>59</sup> Heathrow, H8 Business Plan, Section 2.3 Capacity Environment

Our response to the IP focuses on the following sections and evidences why the CAA must adapt the operational cost allowance accordingly:

1. Baseline Adjustments
  - Security people costs
  - Other Operational and non-operational people costs
  - Contracts
  - Energy
2. Overlays
3. Business Rates
4. Ongoing efficiency

### 53. Baseline Adjustments

In the development of their IP, the CAA made a baseline adjustment of £63.8m to our 2024 actual baseline for what they deemed an “*estimate of efficient level of opex that would have been achievable in 2024*”.

This baseline adjustment was then rolled over into H8, the effect being this baseline adjustment is worth £279m (2024 CPI) in downward adjustment on operating costs across H8.

The following sections provide our response where we believe the CAA have made baseline efficiency adjustments on the basis of either flawed evidence (in the case of Security People Costs) or factual inaccuracy (in the case of contracts where we have already retendered them to cover the H8 period). Further, the CAA has failed to ask follow up questions to clarify its misunderstanding of evidence provided by Heathrow.

#### 53.1 Security People Costs

The CAA’s IP includes a £110m (2024 CPI) reduction in security staffing costs across H8. This is the equivalent to a 10.3%, or [REDACTED], reduction in Security Officer headcount. This is despite us delivering strong, independently recognised performance, and committing to, community agreed, H8 efficiencies of [REDACTED] following the roll out in H7 of Next Generation CTiX Security lanes.

We have reviewed York Aviation’s assessment of efficiency at passenger security screening used by the CAA to inform their proposed security headcount reduction. However, we are disappointed with the conclusions drawn and believe they are based on an inaccurate and flawed methodology, that risks oversimplifying the relationship between cost, throughput and performance by insufficiently accounting for Heathrow’s unique operational, regulatory and workforce context.

Our response to the assessment supporting the IP has been summarised under the following sections with an overarching principle that the CAA's position of driving excessive cost efficiency leads to consumer harm:

- The CAA's conclusion that our strong performance against MTI's demonstrates inefficiency is contradictory and inconsistent with their position during COVID that our payment of MTI Rebates constituted poor performance.
- The CAA's application of NGS efficiencies beyond those agreed between Heathrow and airline community through Capital Governance is an unprecedented intervention by the regulator into the established regulatory process.
- The York Aviation benchmarking approach, using only data from other UK Airports, is flawed and better evidence exists that more accurately compares Heathrow to peer international hub airports.
- The proposed efficiencies have been applied without regard to the practical reality of implementing them within the specific context of Heathrow.

***The CAA's conclusion that our strong performance against MTI's demonstrates inefficiency is contradictory and inconsistent with their position during COVID that our payment of MTI Rebates constituted poor performance.***

In 2022 & 2023 Heathrow paid out a combined £47m in punitive rebates for performing below the minimum threshold set within the MTI framework. The CAA have drawn attention to this in previous regulatory statements, including engagement on CAP3195, as evidence of poor service quality.

Since COVID, Heathrow's security operation has delivered strong and externally recognised performance. In the most recent Skytrax World Airport Awards, Heathrow ranked third globally for security performance. This recognition reflects sustained improvements in processing reliability, passenger experience and operational professionalism and is consistent with the ambition set out through the Outcome Based Regulation (OBR) framework and the CAA's own QSM data, which shows a marked recovery and stabilisation of performance following the pandemic period.

The CAA are now citing our strong security performance as indicative of inefficiency. This creates a regulatory contradiction. In one context, MTI rebates are used as evidence of failure; in another, consistent achievement of demanding service outcomes is interpreted as over resourcing.

Heathrow does not plan security resource levels to maximise upside incentive payments. To do so is economically irrational and is exactly what the OBR protects against. The MTI rebates paid in just two years across 2022 & 2023 are worth 43% of the total £110m H8 saving from the security headcount reduction proposed by the CAA.

This downside risk is sufficiently punitive to steer Heathrow towards conservative operational stability rather than minimum cost staffing. However, on the upside the

financial value of MTI bonuses is materially lower than the recurring operating costs required to resource above efficient demand on a sustained basis. A deliberate strategy to resource for bonus simply doesn't make financial sense and York Aviation have provided no worked evidence to support their statement that Heathrow is doing so.

Heathrow has engaged constructively with the airline community on security performance management for H8. Options involving operating cost evolution have been discussed, and airline representatives have supported retaining the current approach. Material reductions in security resourcing would force trade-offs that directly conflict with consumer expectations of stable and resilient service.

***The CAA's application of NGS efficiencies beyond those agreed between Heathrow and airline community through Capital Governance is an unprecedented intervention by the regulator into the established capital governance process.***

We are proud of the efficiencies we have delivered through the roll out of Next Generation Security (CTiX). The programme has improved throughput predictability and passenger satisfaction, and these gains are real and should be recognised. [REDACTED] savings were agreed upon with the airline community through the established regulatory capital governance process. These savings are included within H8BP as an efficiency saving and applied at approximately [REDACTED] p.a. 2027-2030 with a [REDACTED] saving in 2031.

However, through their IP the CAA have chosen to intervene during the delivery of a significant multiyear Capital Programme and go beyond the efficiency savings developed and agreed by Heathrow and airline community without due cause. This represents a material departure from recognised practice. The CAA has identified purported efficiencies within a live Capital Programme and without robust evidence has sought to intervene and apply these onto the existing capital programme and governance.

In addition to the -11.9% lower baseline efficiency adjustment for NGS, the CAA have also included a secondary overlay for a downwards adjustment of £8.3m. This has been described by York Aviation as reflecting the "learning by doing" benefit. The evidence relied upon by the CAA is poor in this regard. As outlined in the Legal Annex, the CAA is required to have sufficient and proper evidence, and it has failed to meet the standard in this case. We also believe there is a double count of benefits already specifically included within our efficiency adjustment for NGS. This overlay should be removed.

***The York Aviation benchmarking approach, using only data from other UK Airports, is flawed and better evidence exists that more accurately compares Heathrow to peer international hub airports.***

We fundamentally disagree with York Aviation and the CAA choosing to benchmark Heathrow against other UK airports when considering Security Performance. We acknowledge York Aviation's clarification in the IP bilateral discussions that this benchmark was chosen as it was the only source of quality data available. However, that does not make it appropriate as a comparator.

Heathrow's security operation is not directly comparable to other UK airports. We operate a significantly larger and more complex security estate, encompassing multiple passenger search areas, staff search facilities, transfer passenger screening and dedicated connections security, all within a highly space constrained, peak intensive hub environment. Our passenger mix is also more diverse, international and far more long-haul and premium than the direct leisure passengers predominantly seen at other UK airports. Heathrow also has more demanding and stretching MTI security queue time targets than any other published UK or major international airport which makes like for like comparisons very challenging.

The 2025 Airport Benchmarking Group (ABG) KPI report shared with the CAA alongside our H8BP shows that our security costs per passenger in 2024 place us around the mean when compared to our peers across major international hubs.

In contrast to the York Aviation methodology based on simple high level productivity metrics; ABG [REDACTED]. It therefore provides a more appropriate basis for regulatory interpretation.

In addition to cost, the ABG data also demonstrates that Heathrow's security staffing levels and throughput performance sit broadly within the expected range for a large, transfer-heavy hub operating under UK security rules, even before accounting for Heathrow's uniquely constrained physical footprint and pronounced demand peaks.

Finally, the York Aviation benchmark does not adjust for risk tolerance or service resilience policy. Security operations are exposed to unavoidable and random disruption, including lane faults, secondary screening requirements, staffing volatility, and short-term demand surges driven by airline presentation peaks. Due to the prolonged period of Heathrow's daily passenger peaks over several hours (unlike other UK airports that experience peak periods of 1 or 2 hours) queueing pressure cannot be absorbed into quieter hours. It is necessary to plan assuming near-zero queueing in steady state, to allow a limited buffer to absorb unexpected demand. ABG data shows that Heathrow's resourcing is proportionate to this risk posture and comparable to peers when similar resilience standards are applied. York Aviation's analysis, by contrast, implicitly benchmarks Heathrow against airports operating with materially higher tolerated queue times and lower resilience expectations.

***The proposed efficiencies have been applied without regard to the practical reality of implementing them within the specific context of Heathrow.***

The existing Capital Governance process ensures a controlled review and update of benefits associated with established Capital Programmes including Next Generation Security. These are agreed and aligned with the Airline Community. If material changes are agreed ahead of Final Determination for H8 then Heathrow would adjust our submission accordingly.

In the meantime, additional stretch unilaterally applied by the Regulator risks adverse consumer outcomes. The new technology is not without fault, continuous development, algorithm updates, and compliance changes. Across 2025 and 2026 we have spent an additional [REDACTED] on mitigating faults within the new technology. In addition, we have seen a significant increase in secondary search rates, which have adjusted our expectations made at the design stage and required operational solutions. These have been worth a further [REDACTED] since 2025.

These performance downsides have not been considered within the IP that assumes a constant straight line of improvement across the H8 period. This contrasts to the community agreed phasing that provides for mitigating these implementation issues but also sees a step change in improvement from 2031 onwards.

Due to the prolonged peak periods at Heathrow, and the Trade Union aligned shift patterns, it is not possible to reduce shift strength for the quieter “shoulder” periods. The Trade Unions have been, and are likely to continue to be, opposed to significant change in this area. The proposed circa [REDACTED] reduction within the CAA’s IP would see a direct reduction to resourcing across the peak operating periods from the start of 2027 when they have been proposed. This would significantly reduce our resilience to the impacts identified above.

### 53.2 Other Operational and Non-Operational People Costs

The CAA’s Initial Proposal includes an £86m (2024 CPI) reduction in Other Operational and Non-Operational Staffing costs across H8. This is based on the application of a 3.75% blanket efficiency to the 2024 baseline and then rolled forward to 2031.

We have reviewed York Aviation’s assessment on which the CAA have based their Initial Proposal. Our view is that this assessment is particularly weak for the following reasons:

1. The limited evidence provided by York Aviation contradicts their conclusion to apply a blanket efficiency stretch of 3.75%.
2. No workings or justification have been provided for 3.75% being relevant or applicable as a reasonable efficiency beyond that already adjusted for using the 1.2% frontier stretch included in our H8 Submission.
3. We use independent evidence such as the general industry survey by WTW to benchmark our salary ranges against the market. This evidence demonstrates that,

given our London location, we are in the middle of the range for pay compared to over 1,600 organisations across the UK.

**The limited evidence provided by York Aviation does not support, and contradicts, their conclusion to apply a blanket efficiency stretch of 3.75%**

There are repeated instances throughout the York Aviation Expert Report, provided to the CAA, where they summarise the evidence they have considered that contradicts their final conclusion to apply an efficiency stretch on all Other Operational and Non-Operational People Costs.

In their concluding statement they say *“Prima facie, we therefore conclude that whilst there may be some marginal inefficiency in staff costs, there is no concrete evidence to prove cost inefficiency in Other Operational and non Operational Staff Costs at a specific level.”*<sup>60</sup>

*“2024 appears to be broadly in line with preceding years in relation to both costs as a proportion of total Staff Costs (including Security) and Total Opex and also in terms of Staff Costs per FTE.”*

*“Staff costs per FTE for both Other Operational Staff and Non-Operational Staff are slightly higher than the other UK benchmark airports for which we have data but are close enough, within reason, to accept that regional wage differences and/or different patterns of insourcing and outsourcing at other airports could well account for any difference.”*

*“Overall Staff Costs (including Security) at Heathrow do benchmark as high against other UK and overseas airports. However, the multitude of different variables involved, including the outsourcing/insourcing mix and regional differences in salaries as already mentioned, but also the layout of airports themselves, such as the number of terminals, the mix of airlines and the number of different products provided to customers. These can all hugely affect the costs makes it difficult to compare and, therefore, to categorically prove or disprove efficiency.”*

Having drawn the conclusion above based on the evidence they collected, they then contradict their conclusion and arbitrarily state: *“However, to the extent that there is inefficiency in total Opex, this would warrant a pro-rata downward adjustment. We have set this equivalent to the reduction in Non-Staff Opex derived from our bottom-up assessment below (3.75%).”*

This statement is contradictory. [REDACTED]

[REDACTED]

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<sup>60</sup> York Aviation, Opex and Commercial Revenue Report for IP, pg 111

**No workings or justification have been provided for 3.75% being relevant or applicable as a reasonable efficiency beyond that already adjusted for using the 1.2% frontier stretch included in our H8 Submission.**

In addition to the conclusion to apply an efficiency stretch, beyond the 1.2% frontier efficiency, being contradictory to the evidence supplied. There is equally no supporting evidence to justify why 3.75% is the correct level of efficiency to be applied.

The York Aviation assessment, on which the CAA have based their Initial Proposal, merely states that 3.75% is used as it's the same efficiency they calculated to be applied to Non-Staff Opex. There is no further evidence or statements provided to explain why this would be equally appropriate applied specifically to Staff Opex. *“We have set this equivalent to the reduction in Non-Staff Opex derived from our bottom-up assessment below (3.75%).”*

**We use independent evidence such as the general industry survey by WTW to benchmark our salary ranges against the market. This evidence demonstrates that, given our London location, we are in the middle of the range for pay compared to over 1,600 organisations across the UK.**

In contrast to the approach taken by York Aviation, we do have widely used, independent research that benchmarks our pay against industry standards.

We use the general industry survey (2025 All Companies Total Rewards Survey Report) from WTW as our primary source of market data. This dataset is compiled anonymously from over 1,600 organisations across the UK.

It provides insights into market salaries, showing what other organisations pay for specific skill sets at each role level.

[REDACTED]

Our management population consists of [REDACTED] colleagues. Analysis of position in range shows that [REDACTED] of our management colleagues are paid above the market median. With this being distributed across all bands (i.e. one band isn't disproportionately above or below the median).

Our circa [REDACTED] are also benchmarked against similar national surveys and additional sources tailored to airport specific roles.

Given the contradictory, arbitrary, and poorly evidenced nature of the efficiency stretch applied by the CAA we request that this be removed in full.

**53.3 Contracts (COMMERCIALY SENSITIVE SECTION)**

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

## 54. Overlays

Within our H8BP, we highlighted a focused number of operating cost categories where we will incur incremental costs during H8, not reflected within the 2024 baseline on which the CAA's IP is based.

We acknowledge where the CAA have included £13.4m of overlays that will allow us to continue providing support for our passengers with reduced mobility (PRM) as we expect to see a continuation into H8 of demographic shift towards a higher participation rate of passengers requiring assistance in their journey through the airport. In addition, the CAA also included £25.0m of overlays to enable us to provide passengers with an interim short stay car parking solution whilst we carry out capital investment on the short stay multi-story car park serving Terminal 4.

On our remaining three operating cost overlays totalling £193m, the CAA accepted the recommendations of their consultants that at the time of our submission there was insufficient clarity on the need for these to be included within their IP. With increased maturity, since submission of our H8BP, and acknowledging the feedback from the CAA and their consultants, we have outlined in the following sections further supporting evidence and detail to support the need for these additional cost overlays to be included within the CAA's Final Proposal.

Overlay	H8 Value (2024 CPI)	
	Heathrow H8BP	CAA IP
Technology Support & Maintenance	£90.0m	£0.0m
Asset Resilience & Maintenance	£63.0m	£0.0m
Data, Digital & Cyber Security Transformation	£40.0m	£0.0m
Support increasing demand for PRM	£15.0m	£13.4m
Interim Multi-story Car Park Terminal 4	£27.0m	£25.0m
CAA security staff adjustment	£0.0m	-£8.3m
<b>Total H8 Business Plan</b>	<b>£235.0m</b>	<b>£30.1m</b>

*Figure 2.3.5 - Summary of Overlays Included in H8BP and the CAA's IP*

### 54.1 Overlay - Technology Support & Maintenance

Our technology assets underpin the provision of all our services and the importance of technology to service delivery (both direct passenger experience and supporting systems) is increasing over time as systems become increasingly digitised. This transformation leads to increased efficient operating cost requirements over time which are reflected in the overlay of £90.0m (CPI 2024) proposed in our H8BP.

This overlay is required to enable us to continue to deliver consumer outcomes in the face of the changing nature of technology. Overlay drivers include:

- Increasing demand for new technologies to meet passenger and airline expectations – often driven by Artificial Intelligence and other intelligent solutions. These novel technologies require increased, and new, capabilities for support, maintenance, and cyber resilience.
- The transition to Cloud based, and third party hosted, assets. Unlike traditional assets these require reduced capital intensity but increased operating costs.
- Above CPI cost increases for new commercial agreements on assets being replaced or upgraded, driven by increased market demand for services in this area.
- Heathrow has a requirement to increase investment in Cyber posture to remain compliant with Cyber regulations and the Cyber Security and Resilience bill (when introduced)

We are increasingly adding new technology to improve the efficiency of the airport operation for the benefit of passengers and airlines. This new technology comes with ongoing annual vendor costs to provide and support it, which previously were not in our H7 operating cost baseline. Much of this demand has come about through demand for ‘smart’ technologies e.g. Artificial intelligence and Internet of Things (IoT) devices. As examples of new technologies:

- Turnaround Management - AI technology is being used with cameras to track movement in and around stands to improve punctuality
- Condition Based Monitoring - Sensors are being used to understand the condition of the runway and taxiways to help airlines with landing and braking decision making.
- Passenger Flow Monitoring – sensors are being used to understand the flow of passengers across areas such as Check-in, Security and Immigration which predicts and manages passenger flow to improve the passenger journey.

Removal of the overlay therefore constrains our ability to deliver the digital transformation that our airlines and passengers expect. By constraining our ability to transform and upgrade our technology estate using hybrid and cloud-based solutions to underpin core systems (such as the Airport Operational Database on which our services rely) it presents material risk to our operational resilience and constrains our ability to deliver improvements such as digital wayfinding that our passengers expect.

The commentary provided by the CAA and accompanying consultant reports suggests a misunderstanding of the information provided by Heathrow, the nature of technology maintenance and support costs compared to physical assets, amplified by a failure by the CAA to ask questions to clarify that misunderstanding. In the summary of their decision relating to the need and additionality of the proposed overlay, they make repeated reference to the maintenance of technology assets being linked to asset replacement through capital investment (as would be the case for physical assets)<sup>61</sup>.

Technology support and maintenance costs do not have the same relationship as traditional physical assets and the maintenance of them, whereby replacing old assets with new may reduce your reactive maintenance costs. In the case of technology, capex and opex is used for a specific purpose based on the lifecycle stage of an asset:

- Capex – expenditure provides for the creation of an asset, which could be buying a completely new asset, or upgrading or replacing an existing asset. This new and upgraded technology is initiated across the capital programmes
- Opex – expenditure provides for an annual cost paid to the technology vendor for this same asset i.e. ongoing costs after it has been deployed into the live Airport environment and is considered in service.

As an example, [REDACTED]

[REDACTED]. In this instance – as this technology is connected to an MTI for Check-in availability – the service provided by the vendor needs to ensure that the technology performs in a way that support Heathrow meeting the MTI and that appropriate reporting against the MTI is available.

Whilst these cost pressures are expected to only increase opex needs across H8, the proposed overlay reflects the incremental cost base that we have already experienced in 2025 and 2026 to date. To demonstrate ongoing cost control we have not included any increases for 2027 onwards. In practice further increases are likely.

As demonstrated in the table below of the £19.8m (2024 CPI) delta between the 2024 baseline and 2026; the overlay requested is for additional costs that we have already incurred but that were not present in our 2024 baseline.

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<sup>61</sup> CAA, CAP3232B Section 2 – Chapter 4, Table 4.9 pg23

Heathrow Technology Support Costs	2024 Actuals	2025 Actuals	2026 Forecast	Delta	% Change
Platform	£14.1m	£18.8m	£18.2m	£4.1m	29%
Product	£19.0m	£25.3m	£26.6m	£7.6m	40%
IT Service Management	£25.4m	£24.7m	£25.4m	£0.0m	0%
Leadership and Support	£2.9m	£3.8m	£5.8m	£2.9m	100%
IT Staff Costs	£11.5m	£14.2m	£16.7m	£5.2m	45%
<b>Total</b>	<b>£72.9m</b>	<b>£86.8m</b>	<b>£92.7m</b>	<b>£19.8m</b>	<b>27%</b>

*Figure 2.3.6 - Comparison of Technology Support & Maintenance costs growth between 2024 and 2026*

We have seen incremental cost driven by four of the five cost categories shown in the above table, with IT Service Management remaining constant.

#### 54.1.1 Product and Platform

Over the last two years, material incremental cost has been invested in this area to support Heathrow's technology estate as it delivers more cloud based solutions, which are typically: evergreen, meaning they get incremental updates and typically do not require large upgrade/replacement projects; and involve third party owned Software as a Service (SaaS) and Platform as a Service (PaaS) solutions.

Throughout H7 we have focused on placing Commercial and Corporate technologies onto the Cloud. However, throughout H8 there will be increasing demand to transition our Operational technology. A key example of the impact this Operational Technology transition would be the existing projects for Passenger Flow Monitoring and Turnaround Management within the Efficient Airport programme. When delivered and operational, they will add an additional £4m per annum to technology maintenance and support costs.

Whilst the initial transformation may be unlocked through capital investment the ongoing usage, support, and renewal is funded through a subscription model based on usage and functionality. This means a reduction in capital intensity for platform transformation but an increase in ongoing opex.

#### 54.1.2 IT Leadership and Support and Staff costs

We have been required to invest incremental cost in these areas to support a new IT operating model that addresses legacy issues generated by a turnover of two-thirds of the IT Business Unit headcount during Covid-19, and the need to modernise the Business Unit.

The key objectives of the new operating model have been to:

- Future proof capabilities – ensure capabilities cover the breadth of what IT needs to do for the airport, including delivering better outcomes for Team Heathrow, the airline community, and consumers.
- Introduce modern industry practices – a key example of this is the introduction of ‘Product and Platform’ model and the creation of a strategy and architecture function. Together, these drive the opportunity for Heathrow to be more strategic on our technology roadmap, to meet the needs of airlines and consumers, and deliver value.
- Cost Efficiency – ensure that stated cost efficiency benefits are realised. Through including more efficient delivery of programmes and projects, driving greater value with our IT partners and enhanced cost assurance activity for all of our spend
- Address operational and consumer needs – In particular, work as a strategic partner with the Heathrow operation and airlines to understand and address their needs, and providing enhanced IT services to all.

Based on the evidence provided above the CAA should include this overlay of £90.0m (2024 CPI) in its Final Proposals.

Notwithstanding the above, we are concerned that following the CAA’s misunderstanding regarding some of the evidence presented to it that it did not ask Heathrow follow up questions to clarify areas of uncertainty to allow for better informed proposals. [REDACTED]

[REDACTED]

### 54.2 Overlay - Asset Maintenance

This overlay of £63.0m (CPI 2024) was proposed in our H8BP due to the incremental and increasing trend we are seeing for both reactive and proactive maintenance due to both the aging asset base at Heathrow and the volume of usage for critical assets due to our capacity levels.

Critical assets facilitate delivery of Heathrow’s core passenger outcomes, particularly predictable, reliable journeys and acceptable MTI service levels. As noted above, Heathrow’s ageing asset base increases the risk of failure, disruption and higher operating costs, all of which are ultimately borne by passengers. In a capacity-constrained environment, asset failure has disproportionate impacts on congestion, delays and resilience. Timely repair and maintenance therefore protect service quality, minimise disruption and reduce long-term costs, making them a direct interest of

consumers under the CAA framework.

The CAA’s Outcome Based Regulation regulatory framework recognises the importance of asset availability through the setting of minimum asset availability targets on key assets for airline and passenger experience in our MTI. Constrained maintenance expenditure resulting from the removal of this overlay will increase the likelihood of MTI failures across our asset availability MTI in particular availability of: lifts, escalators and travellers; stands, jetties (and therefore pier-served stand usage); fixed electrical ground power, and arrivals baggage carousels.

We have demonstrated in Figures 2.3.7 and 2.3.8 below the stark and increasing reduction of residual life on our asset base, with most of our asset base forecast to reach the last 20% of its life by the end of H8. Terminal 5 surpassing 20 years old at the beginning of H8 with Terminal 2 nearing the same milestone at the end of H8. This forecast supported by the percentage of assets requiring renewal, which even with our £9.5bn capital portfolio proposed in our H8 Submission, will continue increasing. With the reduced £5.9bn portfolio proposed in the CAA’s IP we would expect the trend to be steeper and thus put further strain on our ability to extend life through proactive maintenance.

Despite this increasingly pressured environment, Figure 2.3.7 below also demonstrates that our costs have not risen at the same proportional rate and our proposed forecast is already challenging in not only maintaining but reducing our real terms maintenance cost from 2027.

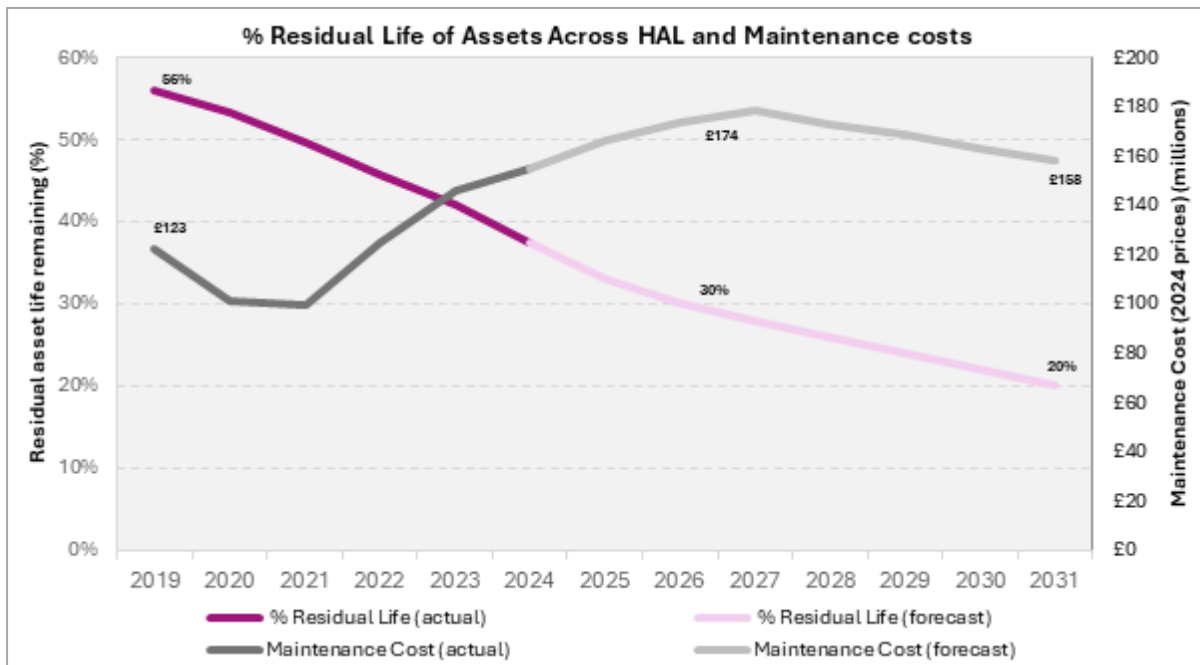
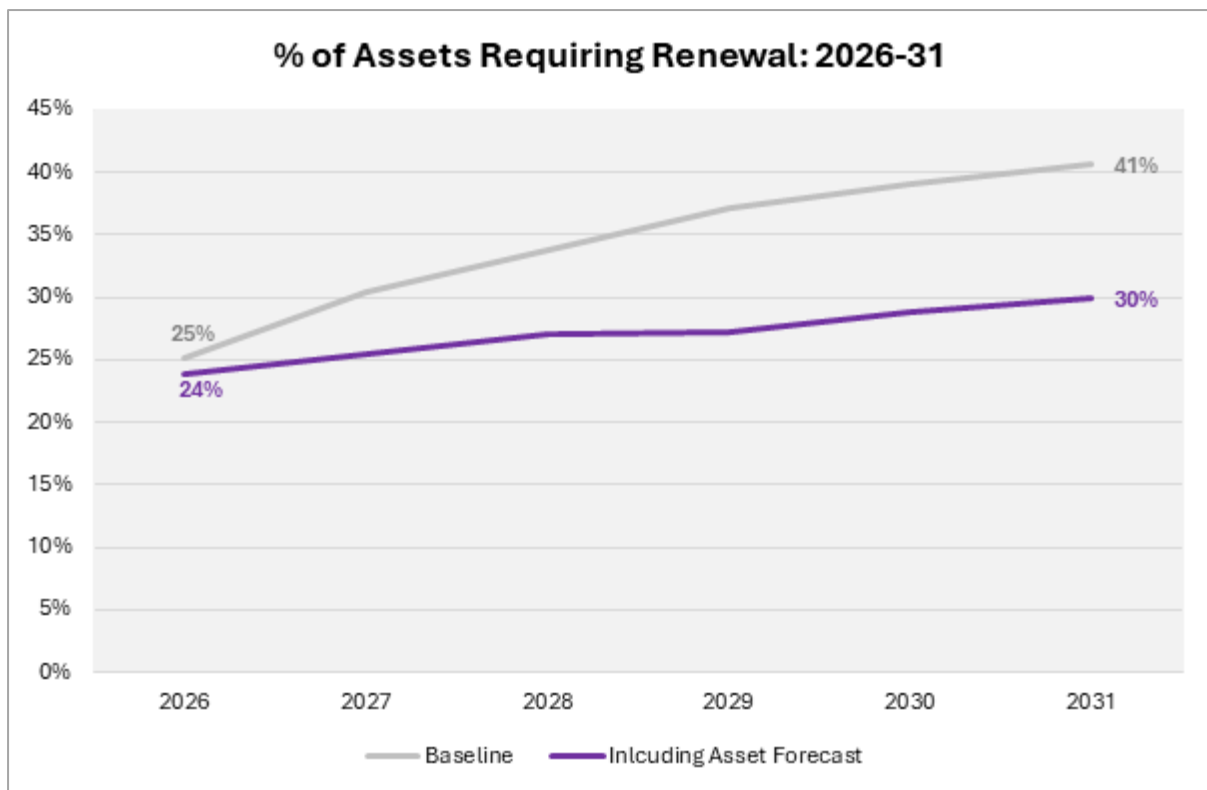


Figure 2.3.7 – Graph showing % residual life of assets across Heathrow and maintenance costs



*Figure 2.3.8 – Graph showing % assets requiring renewal: 2026-31*

We are pleased the CAA’s consultants recognised the cost efficiencies we have delivered with a 13% reduction in real terms on our core facilities maintenance spend since 2014<sup>62</sup>. However, the CAA in their IP have not taken account of the trend in work orders increasing incrementally because of the overall ageing of the asset base. Based on our H8BP, we expect the trend of increasing work orders to continue into H8, and therefore the cost of maintenance will increase relative to the 2024 base year.

This trend is not captured by the roll-forward maintenance opex calculation as this is linked to terminal space (which is not growing during H8). Therefore, the increase in maintenance costs, directly proportional to the amount of work carried out demonstrated below, is incremental over this forecast and needs to be accounted for with an opex overlay.

As evidenced by the data below, we have seen an average year on year increase in maintenance work orders that is projected to continue. At the current rate we will be completing an additional 72,208 work orders by 2031 at an additional annual cost of £22.9m (2024 CPI).

<sup>62</sup> Europe Aviation, Opex and Commercial Revenues Report, Section 2.4.3 pg12

H8 Projected Incremental Maintenance Work Orders (2024 CPI)								
	2025 (actual)	2026	2027	2028	2029	2030	2031	H8
Incremental work orders (vs 2024)	11,053	20,713	30,579	40,658	50,952	61,468	72,208	255,865
Incremental cost (vs 2024)	£3.8m	£7m	£10.2m	£13.3m	£16.5m	£19.7m	£22.9m	£82.6m

*Figure 2.3.9 – Table showing projected incremental maintenance work orders across H8*

Based on the evidence provided above we consider that we have clearly demonstrated that the costs are additional to the 2024 base-line, that they are incurred as a result of the overall ageing of assets considering the maintenance included in our plan; and that they are efficiently incurred. Therefore, if we want to achieve the MTI targets for assets that consumers expect alongside the capital envelope set out in the IP, the CAA should include an overlay of £82.6m for the additional operational maintenance that will be required above and beyond the amount included in the base year (2024). Alternatively, if the capital allowance is increased to the levels set out in our H8BP the required overlay is £68.9m reflecting the higher capital maintenance in our plan compared to the CAA's IP.

### 54.3 Overlay - Data, Digital & Cyber Security Transformation

In addition to the £90m overlay for our incremental Technology Support & Maintenance costs driven by delivery of Digital Transformation, we also requested the CAA include a £40m overlay related to the incremental ongoing costs underpinning the Digital Future Transformation itself and the increasing resources required to provide effective and continuously updated cyber security resilience.

We are pleased that the CAA have agreed there is a compelling need for this overlay and acknowledge that at the time of our H8BP submission our cost breakdown wasn't mature enough to give certainty on its additionality. Following the CAA's request for clarity, we have provided a matured cost breakdown to enable the CAA to better understand inclusion of this overlay within the CAA's Final Proposal.

In summary, the overlay equates to £8.0m per annum and is split into two elements;

1. Data & Digital - £3.0m per annum for costs (already being incurred in 2026 but incremental to the 2024 baseline) that provides the headcount underpinning the strategy and co-ordination of our Digital Future Strategic Beacon and associated transformation.
2. Cyber Resilience - £5.0m per annum for costs (again already being incurred in 2026 but incremental to the 2024 baseline) that funds the increased third party (SaaS &

PaaS) cyber security costs and associated headcount required internally to ensure sufficient threat mitigation against this increase volume of digitally based solutions.

These costs are demonstrated in the table below and are incremental to 2024 but already being incurred in 2026 and we are proposing to maintain them flat in real terms across in H8. Aligned to our ambition that Digital Transformation is delivered in a cost effective and efficient manner.

Heathrow Technology Support Costs	(2024 CPI)				
	2024 Actuals	2025 Actuals	2026 Forecast	Delta	% Change
Cyber Security	£4.1m	£5.9m	£6.6m	£2.6m	63%
Data & Analytics	£0.6m	£0.8m	£2.3m	£1.7m	290%
Digital Transformation	-	£1.6m	£3.5m	£3.5m	N/A
<b>Total H8 Business Plan</b>	<b>£4.7m</b>	<b>£8.3m</b>	<b>£12.4m</b>	<b>£7.7m</b>	<b>36%</b>

Figure 2.3.10 – Table showing technology support costs.

The 2024 baseline does not provide for the organisational capability, governance and delivery capacity needed to implement Heathrow’s Digital Future Strategy. These are incremental costs arising from a materially different operating requirement: Heathrow must now manage data and AI as safety-critical operational assets, respond to increasing operational complexity and deliver airport-wide digital transformation in a more controlled, resilient and outcome-focused manner.

[REDACTED], building on the dedicated Digital Transformation and Data & AI leadership teams established in 2025. It will also enable Heathrow to implement a Scaled Agile Framework (SAFe), used by BA, Lufthansa, Airfrance, Emirates, KLM and many other large businesses globally.

In 2025, Heathrow developed its Digital Future Strategy, with the ambition that by 2031 the airport will be fully digitally integrated and underpinned by trusted, actionable data. Delivery requires executive accountability and dedicated leadership capacity not provided for in the baseline. The CDIO role and supporting leadership teams are therefore essential enabling costs, providing the oversight and coordination needed to deliver transformation in a controlled manner and realise measurable operational and service benefits.

On Cyber Security the overlay covers key initiatives such as insourcing cyber functions to reclaim control of outcomes, deploying specialist supply chain security tooling to

measure and manage supplier risk at speed and scale, and enhancing monitoring and incident response.

The CAA and airline community are aware of the changing threat landscape and understand that this investment is essential. We meet with them regularly in both open and closed group meetings such as the Aviation Cyber Security Forum and others. Those conversations amongst the aviation cyber community are all aligned.

Based on the evidence provided above the CAA should include this overlay of £40.0m (2024 CPI) in its Final Proposals.

#### 54.4 Overlay - Terminal 4 Multi-story Car Park (MSCP4)

Heathrow’s H8 submission included an operating cost overlay of £27m. We acknowledge the CAA’s inclusion of this overlay within their IP.

However, following engagement with the airline community concerns were raised around the passenger experience, specifically that the proposed solutions, over the given timetable, would not provide a like for like service and would fall below the standard expected of future Terminal 4 consumers.

Following a revision of the project to reflect this feedback, it is now expected to span until 2033, therefore impacting the full H8 period, with an anticipated revenue reduction of -£94m and cost of £50.5m in H8.

A breakdown of these figures has been provided in the tables below. These incorporate the impact of project delays and timeline extensions due to the concerns regarding the initial options proposed.

Commercial revenue impact increase is an extension of the original submission impact (cost per year) for the entirety of H8.

The cost overlay increase within year reflects the need for more robust forecourt protection operations including Police vehicle patrolling and the issue of Penalty Charge Notices (PCN); initial police costing did not include vehicle patrolling or the cost of the vehicles, amounting to a £5.3m increase in cost through H8. The remaining increase of £18m relates to the extended timeframe of the project.

Commercial Revenues	2026	2027	2028	2029	2030	2031	H8
H8BP submission	£-	-£18m	-£19m	-£19m	£3m	£3m	<b>-£50m</b>
May 2026 update	£-	-£18m	-£19m	-£19m	-£19m	-£19m	<b>-£94m</b>

Figure 2.3.11 – Table showing updated commercial revenue impact for MSCP4 overlay.

Operating Cost	2026	2027	2028	2029	2030	2031	H8
H8BP submission	£9m	£9m	£9m	£9m	£-	£-	<b>£27m</b>
May 2026 update	£10.1	£10.1m	£10.1m	£10.1m	£10.1m	£10.1m	<b>£50.5m</b>

*Figure 2.3.12 – Table showing updated operating cost impact for MSCP4 overlay.*

## 55. Noise and Vortex

In our H8BP we propose treating Noise & Vortex (N&V) costs as capex for regulatory purposes as this would allow greater airline oversight, ensure that cost recovery matched actual expenditure, and ensure that the cost to consumers was spread over the life of the assets created rather than up front. In their IP, the CAA has decided to retain Noise & Vortex within Operating Costs. Whilst we accept the CAA's approach on this matter, we consider that if Noise & Vortex costs continue to be treated in line with statutory accounting, there are considerable advantages in recovering this cost through Other Regulated Charges (ORCs). In particular, this would enable greater airline engagement and scrutiny, and ensure cost recovery matches expenditure. We have covered this treatment proposal in Section 3.4.

Notwithstanding the above we are concerned that in changing our proposed treatment of Noise & Vortex investment, the CAA have also decided to significantly reduce the expected level of investment over H8. We had proposed £241.0m (2024 CPI) Noise & Vortex within Capex whereas the CAA have proposed only £52.0m, with the assumption being that this continues only the current run rate of community noise mitigation (See Appendix E.iii).

We disagree that this proposed level of investment is sufficient for the following key reasons:

- The level of investment provided only maintains the H7 run rate, which falls well short of our 2026 run rate, and the updated statutory target for noise reduction as contained in the Noise Action Plan adopted by, and accountable to, DfT.
- Failure to achieve the targets adopted within the Noise Action Plan leaves Heathrow open to significant operational restrictions imposed through DfT, government policy, or legal challenge from community groups as has already been witnessed at other Hub Airports across Europe.

This approach runs contrary to the CAA's statutory duties, including to have regard to the need to secure that Heathrow is able to take reasonable measures to reduce,

control or mitigate the adverse environmental impacts of the airport (as discussed further below).

***The level of investment provided only maintains the H7 run rate, which falls well short of our 2026 run rate, and the updated statutory target for noise reduction as contained in the Noise Action Plan adopted by, and accountable to, DfT.***

The CAA proposed £52m overlay is intended to only maintain the run rate seen in 2024. This amount was prior to adoption of the Heathrow Noise Action Plan and associated commitment to reduce highly annoyed and highly sleep disturbed homes by 10% in 2030 vs 2019, with a further commitment to insulate 24,000 homes by 2039. Our 2026 run rate is £14m compared to the £10m per annum within the H8 IP.

The CAA’s proposed investment would see us achieve this target in over 50 years’ time. This falls well short of the statutory test that our targets be achieved in a reasonable timeframe. This cannot be in the best interests of Heathrow or our residents impacted by airport noise.

We have seen across 2025 and 2026 a significant increase in uptake, including 100% for Stanwell Moor, for the three noise mitigation programmes covered by the plan, namely:

- Residential home insulation – a forecast 750 homes in 2027 increasing to 1,376 in 2031.
- Wake Vortex Impact and Prevention- a forecast 121 interventions in 2027 increasing to 400 in 2031.
- Quieter Schools Programme – 100% delivery across 23 schools in H8.

Our proposed £242m investment would see us deliver these targets within 15 years. In a controlled ramp up of delivery that aligns to supply chain capability, in line with market good practice. See table below.

Scheme	H8	H9	H10	Total
<b>Residential Insulation (RIS)</b>	5,214 (21.6%)	9,329 (38.6%)	9,657 (39.9%)	24,200
<b>Vortex Impact and Prevention Scheme (VIPS)</b>	1,314 (16.1%)	3,327 (40.9%)	3,500 (43.0%)	8,100
<b>Quieter Schools Programme (QSP)</b>	23 (100%)	0 (0%)	0 (0%)	23

*Figure 2.3.13 – Table showing timeline to achieve scheme targets.*

This timeline also aligns with the experience at Frankfurt airport, a comparable European Hub airport, where over 23,000 homes were insulated over a similar period.

***Failure to achieve the targets adopted within the Noise Action Plan leaves Heathrow open to significant operational restrictions imposed through DfT,***

***government policy, or legal challenge from community groups. As has already been witnessed at other Hub Airports across Europe.***

Heathrow has a larger noise impact than comparable European Hub airports. For example, Heathrow impacts over 508,000 people compared to only 43,700 at Schiphol and 283,700 at Frankfurt, despite all having comparable numbers of air traffic movements. As mentioned above we have a statutory commitment to achieve the targets laid out within our Noise Action Plan.

The failure to address these targets caused by the proposed investment from the CAA would leave Heathrow at risk of tighter restrictions being placed on its operations through either Government policy or brought through legal challenge from pressure groups.

There is very real growing pressure on noise mitigation and redress. We have already seen across Europe legal challenge and tighter noise restrictions leading to operational restrictions other Hub airports.

In addition, we would ask the CAA if it believes maintaining the same run rate of noise mitigation from H7 is consistent with its statements made within CAP1165: Managing Aviation Noise.

The disallowance of these noise and vortex projects is incompatible with the CAA's statutory responsibility to consider the need for Heathrow to take reasonable measures to reduce, control or mitigate adverse environmental impacts.

## **56. Business Rates**

We are pleased that the CAA have acknowledged the material uncertainty that persists in projecting our Business Rates liability for the H8 period. We have expanded on our proposed approach to this uncertainty in Section 3.3.

We also note the proposed £104m (2024 CPI) adjustment to Business Rates made due to reversing the “logged up” amount of the higher Business Rates allowance in H7 than was required. This adjustment had been proposed on the assumption that Heathrow hadn't utilised any of this amount.

Since our H8 Submission, we now have greater certainty of our expected Business Rates outturn for H7. Specifically, that 2026 is higher than the position in the H7 Final Decision. Therefore, we propose that the logged-up adjustment should be lowered to £74m (2024 CPI) as demonstrated in the table below.

H7 Projected Business Rates		2024 (CPI)				
	2022	2023	2024	2025	2026	H7
	Actual	Actual	Actual	Actual	Latest View	
Heathrow Business Rates	£120.7m	£119.2m	£123.7m	£126.5m	£165.4m	£655.6m
CAA H7 Final Decision	£146.0m	£146.0m	£146.0m	£146.0m	£146.0m	£730.0m
<b>Logged Up Amount Adjustment</b>	<b>£25.3m</b>	<b>£26.8m</b>	<b>£22.2m</b>	<b>£19.5m</b>	<b>-£19.5m</b>	<b>£74.4m</b>

*Figure 2.3.14 – Table showing comparison of Heathrow Projected H7 Business Rates and CAA H7 FD*

## 57. Top-Down Modelling

The CAA applied a top-down econometric benchmarking model to assess Heathrow's relative opex efficiency compared with other airports. The output of Heathrow's opex efficiency in CAA's benchmarking model 3% higher than the frontier in 2019 and 5% higher than the frontier in 2022. The CAA's benchmarking model used workload units, GDP per capita, fixed assets, international passengers, and premium passengers to explain the Heathrow's opex efficiency.

GDP per capita was used as the sole measure of local labour costs in the model. The assumption of the model is therefore that two airports in countries with the same GDP per capita (and all other explanatory variables equal) should have the same opex level. This assumption is not necessarily true. GDP per capita measures output per resident, and as such is influenced by factors such as:

- Output that requires relatively little local labour to generate value (e.g. some natural resource extraction industries);
- Output from multinational companies that is taxed in the country (e.g. as occurs in Ireland);
- The size of the labour force relative to the total population (e.g. size of retired population).

The above factors are unlikely to be relevant for measuring the input costs for an airport. For example:

- A country with high petroleum output per capita, or with high multinational tax receipts, may have low or high demand for labour depending on many other factors;
- A country with a large economically inactive population could have labour surpluses or shortages depending on many other factors.

Since airports are labour-intensive, employing a large number of low- and moderate-pay employees (for example in ground handling, retail, and hospitality), the appropriate measure of the price level for opex benchmarking is local labour costs. Wage gives a more direct driver of airport operating costs than GDP per capita. The most exogenous measure of local labour costs is the statutory minimum wage.

Applying the minimum wage as a price measure results in a lower gap to the frontier; 1.7% in 2019 and 2022, and 3.2% in 2023. Replacing GDP per capita with the minimum wage explains more variation in total opex (indicated by a higher  $R^2$  of 0.91 than 0.83 in the model with GDP per capita), thereby improving model fit.

It is appropriate to seek to improve model fit, because based on our review, the CAA's econometric model explains approximately 40% of the cross-sectional variation in opex per passenger, as measured by the proportional reduction in the sum of squared deviations between observed values and model predictions. While this level of explanatory power is broadly consistent with expectations for cross-airport benchmarking, it also implies that around 60% of the variation is not explained by the model's included drivers. This suggests that a significant share of differences across airports is driven by factors not captured in the model – such as operational complexity, local cost conditions, and service provision – which limits the precision of the model as a point estimate of efficient costs and supports its use primarily as a high-level cross-check alongside bottom-up evidence rather than as a determinative measure of efficiency.

We note that the CAA's model does not produce very stable results year-on-year for a given airport. After measuring opex per passenger in 2024 real prices, Heathrow's costs declined by around 2% between 2023 and 2024. This indicates that underlying cost efficiency improved over the period. As a result, the gap to frontier identified in 2023 should not be assumed to persist into 2024, since the observed reduction in real opex per passenger suggests that a material portion of the previously identified gap has already been addressed.

## 58. Ongoing Efficiency

In our business plan we included a frontier efficiency assumption of 0.5% together with an overlay of 0.2% to reflect the impact of our digitalisation programme to give an overall frontier efficiency assumption of 0.7% pa. The base frontier assumption of 0.5% was based on a report by Economic Insight that set out the efficiency challenges facing the UK as a whole, and evidence that Heathrow would not be expected to have a different ability to deliver efficiency improvements than the economy overall.

The CAA has assumed frontier efficiency of 1% per annum based on advice from European Economics that evidence from the KLEMS database and regulatory precedent supported an opex efficiency assumption at this level.

For the reasons set out in the Legal Annex, the CAA should adopt the CMA assumption for frontier efficiency as this is an appropriate regulatory precedent for Heathrow and is consistent with the evidence we provided from Insight Economics in our business plan.

## 59. Conclusion

As a result of the evidence provided above, we conclude that the CAA needs to increase the H8 total operating cost allowance by £818m in total for the H8 period as summarised in the table below. This is because of correcting the following inaccuracies, or outdated assumptions in their proposal:

Operating Costs (2024 CPI)						
	2027	2028	2029	2030	2031	H8
<b>CAA Initial Proposal</b>	<b>£1,556m</b>	<b>£1,590m</b>	<b>£1,583m</b>	<b>£1,570m</b>	<b>£1,563m</b>	<b>£7,862m</b>
<b>Baseline Adjustments</b>						
Security People Costs	£17m	£17m	£16m	£22m	£21m	£93m
Other Operational & Non-Operational People Costs	£17m	£17m	£17m	£17m	£17m	£86m
<b>Contracts</b>						
Passengers with Reduced Mobility	£12m	£12m	£12m	£12m	£12m	£60m
Cleaning	£1m	£1m	£1m	£1m	£1m	£5m
Utilities#	£18m	£18m	£18m	£18m	£18m	£91m
IT	£7m	£7m	£6m	£6m	£6m	£32m
<b>Overlays</b>						
Technology Support & Maintenance	£18m	£18m	£18m	£18m	£18m	£90m
Asset Resilience & Maintenance*	£7m	£10m	£14m	£17m	£21m	£69m
Data, Digital & Cyber Security Transformation	£8m	£8m	£8m	£8m	£8m	£40m
Interim Multi-story Car Park Terminal 4	£5m	£5m	£5m	£5m	£5m	£26m
Noise & Vortex	£38m	£38m	£38m	£38m	£38m	£189m
CAA Security Staff Adjustment	£3m	£3m	£3m	£0m	£0m	£8m
<b>Business Rates</b>						
Update logged up amount used in H7	£6m	£6m	£6m	£6m	£6m	£30m
<b>H8 Operating Costs Corrected for Updates and Errors</b>	<b>£1,713m</b>	<b>£1,750m</b>	<b>£1,745m</b>	<b>£1,738m</b>	<b>£1,734m</b>	<b>£8,680m</b>

*Figure 2.3.15 – Table summarising adjustments required ahead of CAA Final Proposal*

*#subject to update ahead of Final Proposal*

*\*subject to Final Proposal including full AMC capital scope, otherwise requirement increase to £82.6m*

## Section 2.3 summary - asks of the CAA

Heathrow asks that the CAA reflect the following in their Final Proposals:

### Baseline adjustments:

- To remove the incremental Security efficiencies applied; instead, use the established efficiencies within our H8 Submission already agreed with the airline community through the Capital Governance process. Furthermore, the additional “learning by doing” overlay should be removed as it is unsupported and double counts benefits already built into our plan.
- Remove the arbitrary and poorly evidenced 3.75% efficiency stretch from Other Operational and Non-Operational Staff Costs, retaining the overall 1% frontier efficiency stretch as proposed within the CAA’s IP.
- To revise the efficient baseline adjustment for our actual contract costs based on our retendered contracts with contract expiration lasting across H8.
- To consider external EEC forecasting on energy unit costs closer to Final Proposal when there might be greater certainty over the volatility of energy markets.

### Overlays

- To reflect the increased cost and scope overlay for MSCP4.

### Noise and Vortex:

- To reinstate the full Noise & Vortex investment of £242m (2024 CPI)

### Business rates:

- To amend the “logged up” adjustment for Business Rates to £74.4m from £104m to allow for 2026 being higher than what was allowed in the H7 Final Determination.

### Ongoing efficiency

- To apply a frontier efficiency assessment of 0.7%, consistent with the approach adopted by the CMA (see [REDACTED])

## SECTION 2.4 COMMERCIAL REVENUE

### 60. Executive Summary

The CAA's IP materially overstate achievable performance and understate the operational and structural constraints Heathrow faces.

The commercial revenue forecast set out in the H8BP of £5.3 billion is evidence-based, reflecting limited real growth due to capacity constraints, changing passenger behaviour, increased congestion, and the long-term impacts of structural shifts such as the loss of VAT-free shopping and stronger rail competition.

The commercial revenue forecast in the IP relies too heavily on optimistic baseline adjustments, benchmarking assumptions, and management stretch, while failing to account sufficiently for the physical environment required to sustain both consumer outcomes and commercial revenue.

Our central position is that recent outturn data and market evidence show weaker elasticity, greater competitive pressure, and lower realistic revenue potential than assumed by the regulator.

In addition, the omission of commercial revenue driving investments will worsen congestion, reduce passenger spend, and undermine service quality.

We ask the CAA to revise its proposals to better reflect actual market conditions, updated 2025 evidence, and the need for targeted investment to protect both passenger experience and long-term commercial performance. The changes that Heathrow is seeking are in passengers' interests and therefore further the CAA's primary statutory duty.

### 61. Heathrow's H8 Business Plan (H8BP) (July 2025)

Our H8BP forecasts around £5.3bn of commercial revenue across H8 in 2024 CPI, equivalent to c.2% CAGR over the period and c.1% growth against the 2024 outturn, or £12.14 per passenger. This is a deliberately measured forecast, based on applying 1% real growth across multiple categories plus CPI, reflecting the fact that Heathrow's commercial performance is constrained by capacity, regulation and structural changes since 2019, including the loss of VAT-free shopping, greater terminal crowding, stronger rail competition, a shift to digital payments and a reduced mix of higher-spend passengers. H8 investment is focused on protecting value and the consumer experience, with targeted interventions to optimise space, strengthen food and beverage, digitise advertising and evolve premium services where demand supports it.

## 62. Summary of the CAA's Initial Proposals for commercial revenues (2024 CPI)

In its IP, the CAA sets an H8 commercial revenue allowance of £5.5bn in the base traffic scenario, £197 million higher than Heathrow's proposals (2024 CPI). This difference is driven primarily by adjustments to the starting baseline for H8 rather than by higher long-run growth assumptions. Of the £197 million variance, £155 million (79%) arises from baseline adjustments to 2024 outturn, £36 million (18%) reflects differences in roll forward assumptions including price indexation and management stretch, and the remaining £6 million relates to bespoke category assessments.

## 63. Concerns with the CAA's approach

Across categories, the CAA's approach assumes that Heathrow can deliver additional efficiency and commercial uplift relative to recent performance, including through elasticity, pricing and management stretch, with these effects assumed from the start of H8. This places weight on comparative performance and perceived headroom, including from CAA benchmarking, while placing less emphasis on Heathrow's structural constraints, such as terminal capacity, passenger behaviours and the conditions under which improvements must be delivered.

The estimated H8 EBITDA impact of projects excluded from the CAA's proposed H8 capital envelope (mid-case) is around £280 million, based on our HBP, and could rise to £400 million as business cases mature further. This reflects not only the loss of future revenue upside, but also the risk of revenue erosion where underinvestment weakens the passenger environment, increases congestion and reduces spend per passenger. These effects are not reflected in the lower commercial capital allowance proposed by the CAA.

Our evidence indicates that consumer outcomes and commercial performance are closely linked through the physical environment in which passengers travel. In key departure areas, constraints in space, flow and seating are already affecting passenger experience, including increased queueing, reduced seating availability and pressure on F&B capacity. These pressures are expected to intensify with passenger growth. Planned H8 interventions, such as international departure lounge optimisation, are intended to improve circulation, reduce congestion and support more consistent passenger journeys.

This is relevant because the consumer outcomes Heathrow is able to deliver are linked to commercial revenue outcomes. Where congestion increases and the passenger environment deteriorates, passengers are likely to experience less choice, greater crowding and a weaker dwell environment, with associated pressure on spend per passenger (Figure 2.4.4). Commercial revenues should therefore be considered in the context of the passenger environment that supports them. Assumptions of stronger

commercial performance without the interventions needed to support consumer outcomes risk degrading performance over time.

Assumptions around management stretch and efficiency improvements therefore need to be considered in the context of the delivery environment. They depend, at least in part, on targeted capital interventions being in place to support the consumer outcomes on which commercial performance relies. The CAA's approach to the IP falls short of its duty to further the interests of consumers in relation to service quality, experience and value in this regard.

While some benefits of these investments extend beyond H8, deferral does not remove the underlying need. Evidence from benchmarking (Figure 2.4.2) indicates that Heathrow operates with relatively low commercial space per passenger compared with peers, and this constraint is expected to become more binding as demand grows. Deferring intervention would therefore not avoid the issue; it would risk poorer consumer outcomes and weaker commercial performance in the near term, while increasing reliance on more complex and potentially disruptive interventions later.

The sections that follow review each of the highlighted areas in the order presented in the table:

Commercial revenues £m	HAL	CAA 2024 baseline adjustment	Roll forward	Bespoke assessment	CAA allowances	CAA minus HAL
<b>Retail and Catering</b>	2,241	129	-72		2,298	<b>58</b>
<b>Bureaux de change</b>	62	0		10	72	<b>10</b>
<b>Surface access and car parking</b>	1,029	0	87		1,116	<b>87</b>
<b>TDOC</b>	282	0		-38	244	<b>-38</b>
<b>Service revenue</b>	376	1	0		376	<b>1</b>
<b>Rail</b>	613	17	-20		611	<b>-3</b>
<b>Property</b>	738	7	3		748	<b>10</b>
<b>Other commercial revenue</b>	0	0	38		38	<b>38</b>
<b>Cargo</b>	56	0		34	90	<b>34</b>
<b>Overlays</b>	-49.8				-49.8	<b>0</b>
<b>Total Revenue</b>	<b>5,347</b>	<b>155</b>	<b>36</b>	<b>6</b>	<b>5,544</b>	<b>197</b>

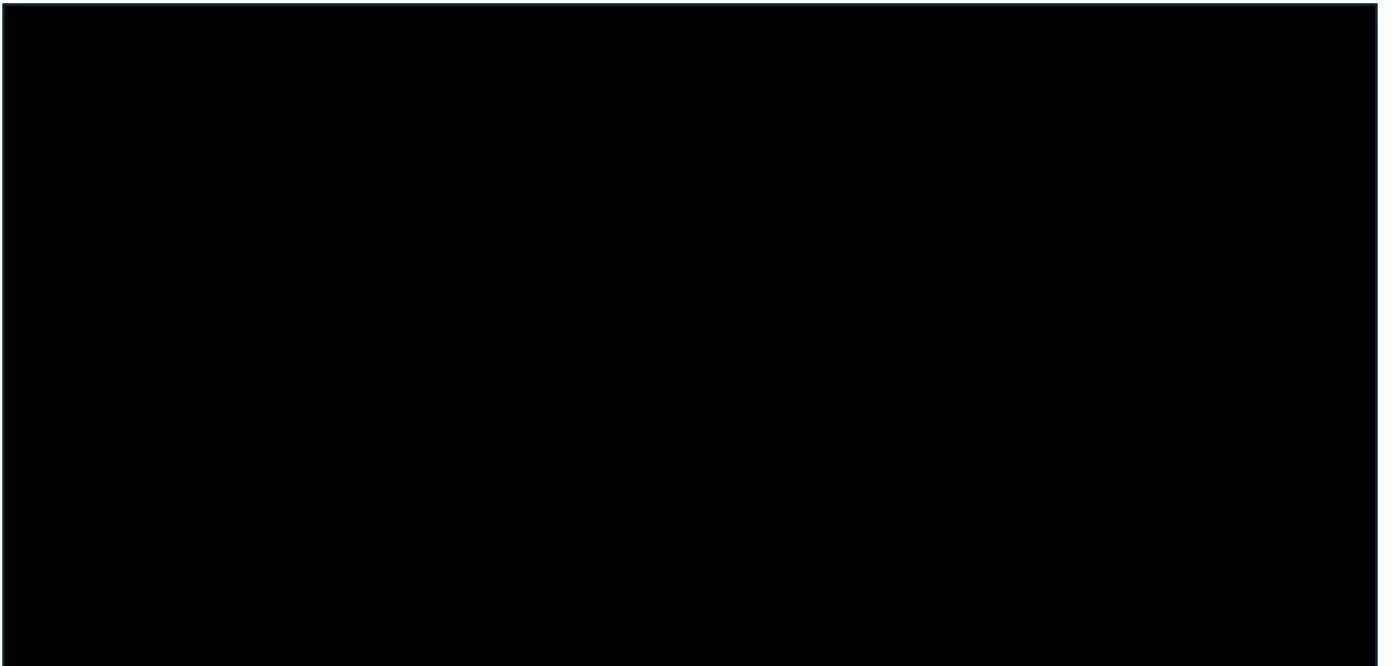
Figure 2.4.1 - Table 5.14 from cap3232b: CAA proposed deviation from Heathrow's commercial revenues proposals (base traffic scenario)

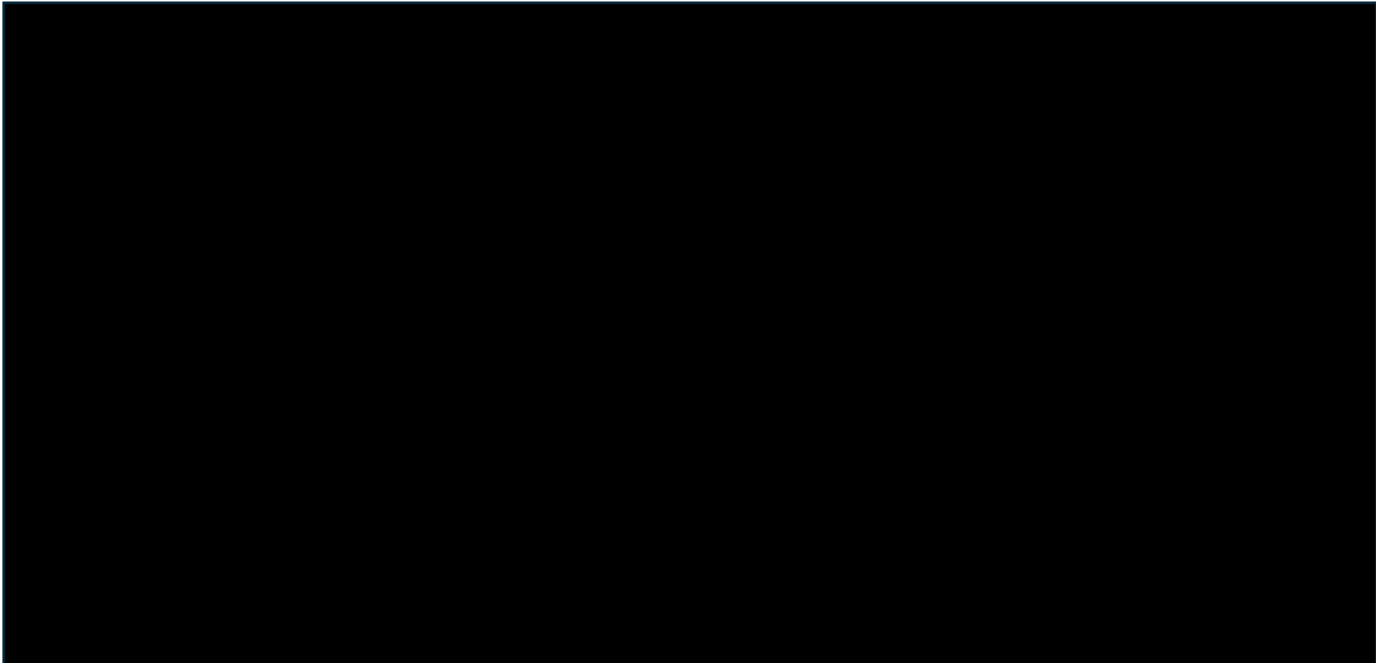
#### **64. Retail and Catering Revenues – CAA 2024 baseline adjustment of £129m**

The CAA has applied a £129 million uplift to Heathrow’s H8 Retail and Catering revenues by increasing the 2024 baseline and then rolling that higher starting point forward through H8. In its IP, the CAA explains that this reflects bottom-up benchmarking evidence which, in the CAA’s view, indicates Heathrow underperformed peers in 2024 and did not sufficiently adapt its Retail and Catering offer to post-covid passenger demand. The CAA also does not accept that crowding would materially constrain spend, and refers to Gatwick and other airports as evidence of stronger achievable performance.

We consider that the baseline adjustment should not be applied because: Heathrow is space constrained, already makes intensive use of its commercial estate, benchmarks strongly on a like-for-like basis, and Gatwick is of limited comparability.

*Note: Catering is also referred to as Food and Beverage (F&B)*





Retail and Catering at Heathrow operate as a unified commercial system, balancing yield, throughput, service quality and passenger experience within a terminal estate that is materially constrained for space. Heathrow also serves a larger and growing proportion of premium passengers, around 22 to 23% of traffic, than many major European airports (nearest comparator 17%). These passengers exhibit different dwell patterns and consumption behaviours, including lower propensity for high-throughput quick-service catering and greater preference for premium retail and services. In our view, these physical and passenger mix characteristics are relevant to assessing whether Heathrow could reasonably deliver materially higher revenues through changes in offer and throughput alone.

Evidence from our H8BP, Appendix A1, and independent benchmarking indicates that Heathrow operates close to the practical limit of Retail and F&B throughput given those constraints. Figures 2.4.2 and 2.4.3 show that Heathrow already utilises its Retail and F&B space intensively. Heathrow operates with materially lower commercial floorspace per million passengers than comparable hub airports, approximately 710 m<sup>2</sup>, yet continues to deliver Retail and F&B income per passenger that is in line with or above relevant benchmarks. This combination of lower space provision and strong income per passenger indicates that Heathrow is already generating high throughput from its existing footprint rather than carrying excess capacity.

Taken together, the evidence indicates limited headroom for further efficiency gains without changes to underlying space provision or wider operating conditions. Heathrow has already prioritised and expanded Retail and F&B where operationally deliverable.

## 64.2 Heathrow benchmarks well

The CAA's proposed uplift to the 2024 Retail and Catering baseline indicates a view that Heathrow underperformed in 2024 relative to what could reasonably have been achievable. We consider that the broader benchmarking evidence points to a more mixed picture. ACI benchmarking in **Error! Reference source not found.** indicates that Heathrow's combined Retail and F&B performance is comparatively strong relative to both global and regional peers, even allowing for the impact of the removal of VAT-free shopping. Heathrow's Retail income per passenger remains broadly in line with the global average, while F&B income per passenger has grown strongly and sits above the global average.

Heathrow retail income per passenger declined at around 6% CAGR from 2019 to 2024, but this primarily reflects the loss of VAT-free shopping rather than a failure to optimise performance. When that policy change is taken into account, Heathrow's underlying Retail performance compares favourably with peers.

F&B performance has strengthened materially. Heathrow's F&B income per passenger increased by around 6% CAGR from 2019 to 2024, compared with a global average decline of 1%. In 2024, Heathrow's F&B income per passenger was £1.06 versus a global average of £0.34. This indicates that Heathrow has already delivered strong performance within its existing constraints.

Overall, the benchmarking evidence does not indicate significant untapped efficiency in Retail or F&B at Heathrow. It instead shows a business that performs strongly despite physical constraints and the removal of VAT-free shopping. The CAA's proposals appear to be unsubstantiated, contrary to its legal duties.

## 64.3 Gatwick is not a like-for-like comparator on F&B throughput

We consider that Gatwick may have limited comparability for the purpose of setting expectations on Retail or F&B throughput at Heathrow, given the material differences in operating model, passenger mix and commercial capacity.

Gatwick's F&B income per passenger growth since 2019, including the 19% uplift cited by the CAA, is directly attributable to a £1.1 billion capital investment programme that materially expanded commercial capacity. This programme introduced new mezzanine floors, increased seating and dwell capacity, and comprehensively re-platformed the F&B estate, enabling higher throughput without compromising passenger flows or service quality. The resulting performance reflects capacity creation, not superior optimisation of existing space.

Heathrow has no equivalent ability to expand Retail or F&B floorspace under its current asset base. Materially increasing throughput from existing units would require higher

queue density, reduced seating or tighter circulation in already congested terminals, which would undermine passenger experience and operational resilience rather than deliver sustainable revenue uplift.

In addition, as stated above, Heathrow serves a significantly higher proportion of long-haul, premium and transfer passengers than Gatwick. Heathrow has a full-service airline customer base that provide food on board the aircraft whereas Gatwick's Low Cost Carrier customer base typically doesn't. Heathrow has a far higher level of airline lounge space per passenger, which is consistent with Heathrow having nearly twice the proportion of premium passengers than comparator airports. These passengers typically dwell, eat and drink in airline lounges, lowering the demand for airport provided F&B. Premium passengers exhibit different dwell patterns and consumption behaviour, including lower propensity for high-throughput, quick-service catering. Gatwick's predominantly origin-destination leisure model therefore confers a structural advantage in F&B throughput that is not replicable at Heathrow.

Taken together, Gatwick's Retail and F&B performance reflects capital-enabled expansion within a fundamentally different operating model, rather than a level of efficiency or throughput that Heathrow could reasonably achieve from its existing estate. Using Gatwick as a benchmark therefore overstates achievable performance at Heathrow and does not provide a sound basis for a baseline uplift.

## **65. Retail and Catering Revenues – roll forward retail elasticity of 1.0**

In its IP, the CAA proposes a retail and catering elasticity of 1.0, stating that a one-to-one relationship between passenger growth and revenue is appropriate for H8 notwithstanding that its own estimated range from historical outturns is below 1.0. The CAA acknowledges that historical elasticities were depressed by the loss of VAT-free shopping and by weaker recent retail performance, but considers those effects should not persist through H8 and rejects the view that crowding should materially reduce incremental spend. Heathrow considers that this overstates the evidence. Our own modelling explicitly captures the loss of VAT-free shopping and indicates an elasticity of around 0.8 across the full period, with lower values post-2021. This is broadly consistent with Europe Economics analysis and with Heathrow's observed 2023–2025 income performance, where passenger growth materially exceeded real retail and catering revenue growth. Taken together, the available evidence supports an elasticity below 1.0 and points to 0.8 as the more robust assumption for H8.

### **65.1 Impact of congestion on spend per passenger**

Heathrow's passenger spend modelling [REDACTED] shows a clear relationship between congestion and spend per passenger (SPP). As passenger

density increases, SPP declines across multiple categories, with the largest effects in discretionary retail.

The modelling indicates that each incremental increase in passenger density reduces SPP across key categories, including Food and Beverage [REDACTED] and World Duty Free [REDACTED] with larger impacts in categories such as Electronics, Specialist Shops and Luxury retail. This reflects reduced conversion in more constrained environments.

Passenger perception of crowding reinforces this effect. Increases in the proportion of passengers reporting the terminal as “very crowded” are associated with further reductions in SPP, particularly in impulse-driven categories. Behaviourally, this reflects a shift towards more functional or seating-led activity, with reduced engagement in discretionary retail.

Overall, congestion is estimated to already reduce SPP [REDACTED] with effects strongest in constrained terminals and peak periods.

[REDACTED]

[REDACTED]

## 65.2 Retail and Catering elasticity since tax free removal (post 2021) is still below 1.0

We have undertaken additional analysis to test whether the historical relationship between passenger volumes and retail and catering revenues remains valid in the post-pandemic environment.

Across the full sample period, including the removal of VAT-free shopping, estimated elasticity is approximately 0.8. Restricting the analysis to the post-2021 period (after removal of VAT-free) reduces this further to around 0.72, indicating a structural change in the relationship.

Applying an elasticity of 1.0 therefore risks projecting a pre-2021 relationship into a materially different operating environment. The removal of tax-free shopping has altered demand and retail mix, while tighter capacity and higher congestion have reduced the conversion of passengers into spend.

These findings are supported by observed outturn performance. As shown in Figure 2.4.6, between 2022 and 2025 passenger volumes grew at approximately 11.1% per annum, while retail and catering revenues (in real terms, excluding advertising) grew by only around 7.1% per annum. In some years, revenues declined despite continued passenger growth.

This divergence demonstrates that incremental passengers are no longer generating proportionate incremental commercial revenue, consistent with an elasticity below 1.0.

	Using 2022 - 2025 actual performance			
	2023	2024	2025	22-25 CAGR
<b>Passenger YoY Growth %</b>	28.5%	5.9 %	0.7%	<b>11.1%</b>
<b>Retail &amp; Catering YoY Growth % (excl. Advertising)</b>	20.4%	3.7 %	- 1.7%	<b>7.1%</b>

*Figure 2.4.6 - Retail and catering revenue growth versus passenger growth (real terms, 2024 CPI), using 2022–2025 actuals, excluding Advertising*

### 65.3 Additional considerations on revenue composition

The Retail and Catering category also includes elements that are not directly passenger-transaction-led. Advertising revenues, for example, are driven by advertiser demand and exposure value rather than a linear relationship with passenger throughput.

While not the primary driver of the observed decline in elasticity, this further weakens the case for assuming a uniform unit elasticity across the category.

## 66. Bureaux de Change Revenues

The CAA and Heathrow both agree that bureaux de change revenues are in structural decline due to reduced cash use and increased uptake of digital payment methods. The key difference is methodological: whilst our H8BP applied a negative price effect to reflect falling usage, the CAA instead uses a demand-based approach, assuming a 10% annual reduction in the share of passengers using bureaux services. This method directly links revenue decline to reduced passenger demand, rather than price, and forms the basis for the CAA's revenue forecasts for bureaux de change.

However, we consider that the scale and pace of decline assumed by the CAA understate current trends. Recent outturn shows usage is already falling faster than assumed.

### 66.1. 2025 outturn confirms accelerated decline in bureaux de change usage

Our H8BP Commercial Revenue Appendix (Appendix A1, pages 113–116), along with recent outturn data, shows that usage of bureaux de change services is declining, with 2025 figures indicating a faster decline than the CAA had previously assumed.

2025 outturn bureaux revenues are comparable to H7 outturn in our H8BP, highlighting a marked decrease in the proportion of passengers using these services. Bureaux revenues in 2025 are about 18% lower than the CAA's passenger-share reduction path,

suggesting usage has fallen more rapidly than the assumed 10% annual decline, and closer to 26%. If the CAA's 10% annual reduction from 2026 to 2031 is applied to the actual 2025 outturn, the resulting revenue profile aligns closer to our H8 submission, supporting the likelihood of our forecast. Based on observed data, our H8 bureaux submission may prove optimistic, even though it was considered a realistic forecast at the time. The CAA must adjust its approach in light of the actual evidence.

These findings confirm that bureaux de change revenues are persistently falling as fewer passengers use the service, and this structural decline is already reflected in our commercial revenue assumptions.

	2024a	2025a	2026	2027	2028	2029	2030	2031	H8 Total
CAA H8 IP - Share of passengers using bureaux services	1.00	0.90	0.81	0.73	0.66	0.59	0.53	0.48	-
<b>CAA H8 IP - Bureaux £m</b>	<b>23</b>	<b>20.8</b>	<b>19</b>	<b>17.1</b>	<b>15.6</b>	<b>14.2</b>	<b>12.9</b>	<b>11.7</b>	<b>71.5</b>
HAL using CAA method. - 10% decline from 2026 - Share of passengers using bureaux services	1	0.74	0.66	0.60	0.54	0.48	0.44	0.39	-
<b>HAL updated view using CAA method - Bureaux £m</b>	<b>23</b>	<b>17.0</b>	<b>15.5</b>	<b>14.0</b>	<b>12.7</b>	<b>11.6</b>	<b>10.6</b>	<b>9.6</b>	<b>58.4</b>
<b>£m vs. CAA H8 IP</b>	<b>0.0</b>	<b>-3.8</b>	<b>-3.5</b>	<b>-3.1</b>	<b>-2.9</b>	<b>-2.6</b>	<b>-2.3</b>	<b>-2.1</b>	<b>-13.1</b>
<b>% vs. CAA H8 IP</b>	<b>0%</b>	<b>-18%</b>	<b>-19%</b>	<b>-18%</b>	<b>-18%</b>	<b>-19%</b>	<b>-18%</b>	<b>-18%</b>	<b>-18%</b>
<b>HAL H8BP</b>	<b>23</b>	<b>16.8</b>	<b>15.7</b>	<b>14.4</b>	<b>13.3</b>	<b>12.3</b>	<b>11.3</b>	<b>10.4</b>	<b>61.7</b>

Figure 2.4.7 - 2024 CPI Bureaux revenue profile

## **67. Surface Access and car parking – roll forward adjustment of £87m**

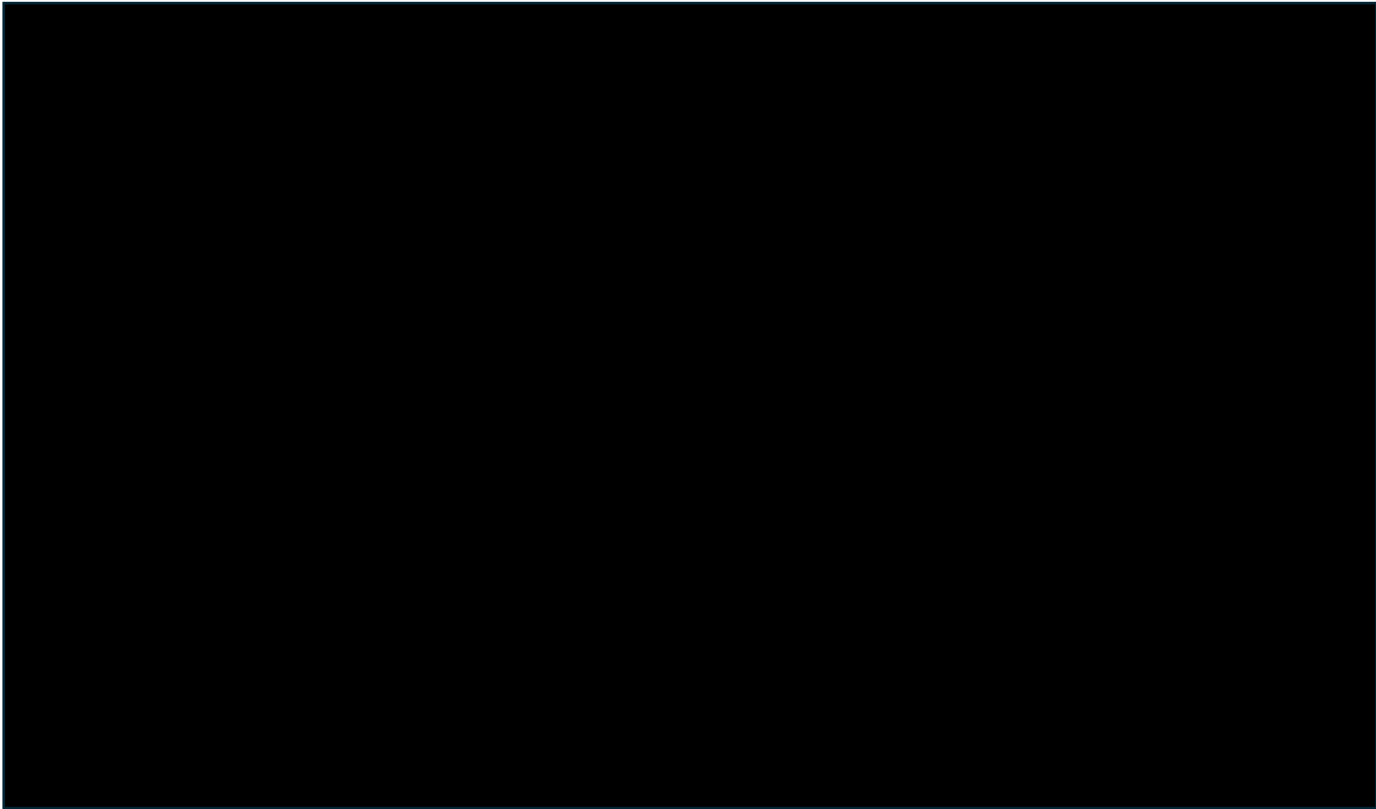
CAA's IP point to an overall £87m upside to our H8 surface access and car parking revenues, driven by three main differences to our Business Plan: CPI indexation (c. £34m), the application of management stretch to parts of the portfolio (c. £16m), and the treatment of mode share (c. £36m). The CAA's approach is to roll forward the 2024 baseline using price effects, management stretch and traffic assumptions, and that for surface access and car parking the £87m variance sits within roll-forward assumptions rather than any baseline reset. We consider a lower allowance better reflects observable market evidence and the operating constraints within the Heathrow surface access portfolio. The CAA's proposals must be grounded in evidence. Simply put - it is erroneous for the CAA to simply take a punt based on the previous price control, particularly where there is clear evidence to demonstrate a better approach.

### **67.1 CPI Indexation (c£34m)**

We accept that CPI indexation is consistent with regulatory practice and explains a material share of the variance (c.£34m).

### **67.2 The management stretch of 1% (c£16m) to long stay should not be applied**

We recognise that CPI indexation is aligned with standard regulatory practice. However, the additional 1% annual management stretch applied by the CAA for Long Stay and other surface access categories (circa £16m) is not realistic in the context of current market conditions. Demand for car parking is highly sensitive to price. Long Stay performance is managed through price-volume optimisation rather than straightforward price increases. With occupancy consistently high and available capacity fixed, there is limited scope to increase volume. In this environment, reducing prices does not generate additional demand but simply reduces revenue, while raising prices risks diverting customers to alternative transport modes or third-party parking providers. Consequently, the assumption that both CPI indexation and a further management stretch can be achieved does not reflect the operational constraints and competitive pressures present in the market.



Operationally, customer demand already exceeds the available 21,800 spaces, with car parks operating at 80–100% occupancy and limited capacity to accommodate peak periods. This leads to lost revenue and lower transactions per passenger during busy times. Additionally, the parking infrastructure remains largely analogue, lacking the digital enhancements expected by customers, further limiting opportunities for growth. Taken together, these factors confirm that a CPI-plus-stretch approach overstates the potential for revenue increases in H8 and does not accurately reflect market realities, where both pricing and volume are tightly constrained.

### 67.3 A £36m downward adjustment is required based on market shifts, seen in 2025 outturn

[REDACTED]

We consider that the CAA should revise this part of its allowance because the 2025 outturn already provides the best evidence of what is achievable under current market conditions. The remaining c.£36m difference is not a matter of Heathrow underperforming or leaving efficiency on the table; it reflects structural mode-share shifts now evident in the market, particularly in car rental and Long Stay, which the CAA's roll forward does not capture. Our forecast therefore starts from the latest observed run-rate rather than from a static 2024 baseline that has already been overtaken by passenger behaviour.

This is the right basis for forecasting because we are already actively managing these categories and the market evidence shows limited scope for further upside. From 2026, Heathrow applies observed relationships since the Elizabeth Line service stabilised in September 2023 to forecast Heathrow Express, car parks, third-party parking and taxi mode share.

[REDACTED]

The category evidence points the same way (**Error! Reference source not found.**). In car rental, carrying the 2025 mode share into H8 reduces the assumption [REDACTED] [REDACTED] which accounts for around £20m of the variance against the CAA's IP; this is supported by 2025 revenue falling from £27m to £26m in real terms despite

passenger growth. Long Stay has similarly been revised [REDACTED] with 2025 outturn showing lower real-terms revenue [REDACTED] and weaker transactions per passenger. Taken together, these trends indicate a structural reduction in demand per passenger, not a temporary dip that can reasonably be assumed away in H8. In order to ensure the robustness of the price control, CAA rely on the best available evidence to it.

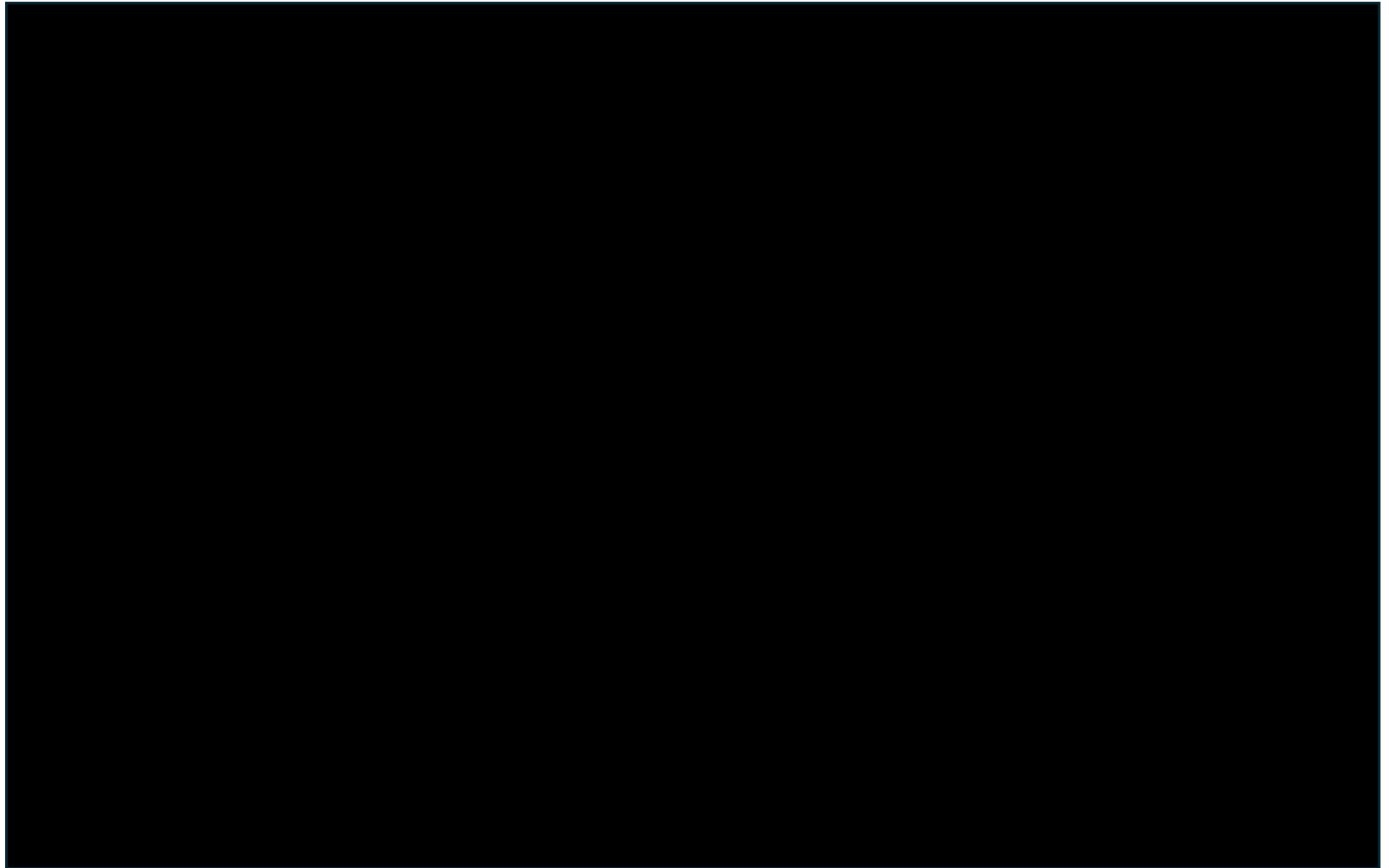
[REDACTED]

[REDACTED]

#### **68. Terminal Drop-Off Charge (TDOC) Revenues – bespoke adjustment of £38m**

We note that the CAA’s unique assessment of TDOC revenue results in an allowance £38 million lower than our H8BP due to the exclusion of Penalty Charge Notice (PCN) payment revenues. We consider that the CAA’s approach is incorrect given the available evidence and recommend highlighting omitted revenue streams to ensure the Final Proposals treat commercial revenues consistently and thoroughly.

## 68.1 Omission of PCN payment revenue



The CAA's IP does not include PCN payment revenues associated with non-payment. Using the same demand base, a PCN issuance rate of 3.5% and an average PCN payment value of £23.8 (based on 2025) results in PCN revenues of approximately £8 million per annum, or around £41 million nominal over H8. When included alongside charge revenues, total TDOC revenues increase to approximately £317 million nominal, equivalent to £282 million in 2024 CPI terms.

This implies that the omission of PCN payment revenues accounts for the £38 million (2024 CPI) gap between the CAA's IP and our H8BP TDOC allowance. On a like-for-like basis, once PCN revenues are included, the residual difference reduces to £0m (2024 CPI).

## 69. Rail Revenues (Heathrow Express) – CAA 2024 baseline adjustment of £17m

We observe that the CAA’s £17 million uplift to Heathrow Express revenue is based on assumptions about price sensitivity and the potential for discounted fares to drive demand. However, actual performance shows Heathrow Express demand is shaped by journey time and premium convenience, not price alone, especially since the Elizabeth Line’s launch. [REDACTED]

[REDACTED]

[REDACTED]

Discount strategies have already been applied in H7, with little impact on journeys and notable yield erosion. The market’s structural changes mean further discounting won’t deliver meaningful revenue growth.

### 69.1. Discounting reduces revenue faster than it increases journeys.

Heathrow Express has actively implemented targeted pricing and discount strategies during H7, including expanded advance purchase fares, digital channel promotions and price-led offers to stimulate demand. These interventions have been taken up by a proportion of price-sensitive passengers, contributing to a reduction in average transaction value. However, the impact on journey growth has been limited.

Further discounting would simply redistribute passengers or substitute from competing rail services, not generate new demand. [REDACTED]

[REDACTED]

[REDACTED] The market has reached a new equilibrium, and additional price cuts would further erode revenue without offsetting gains.

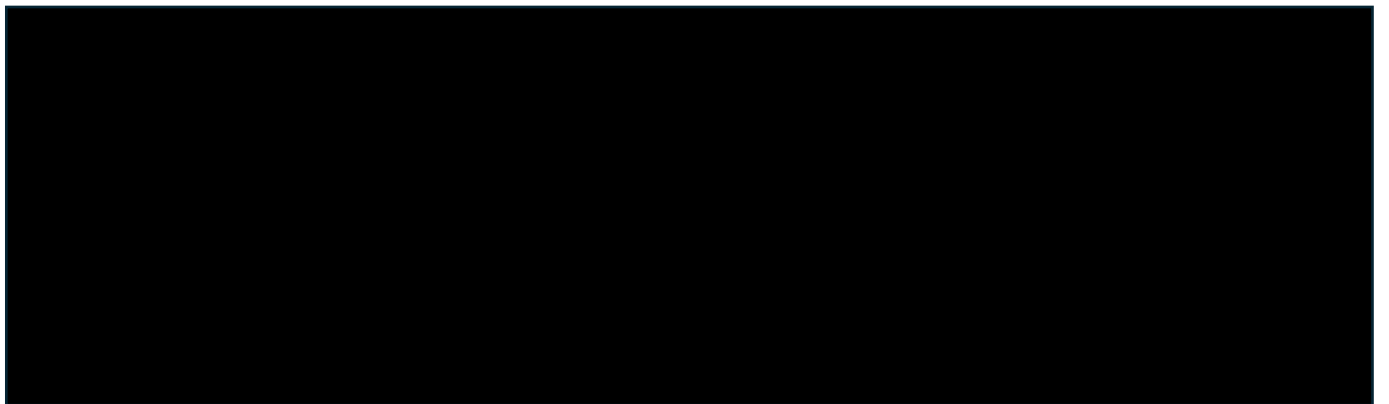
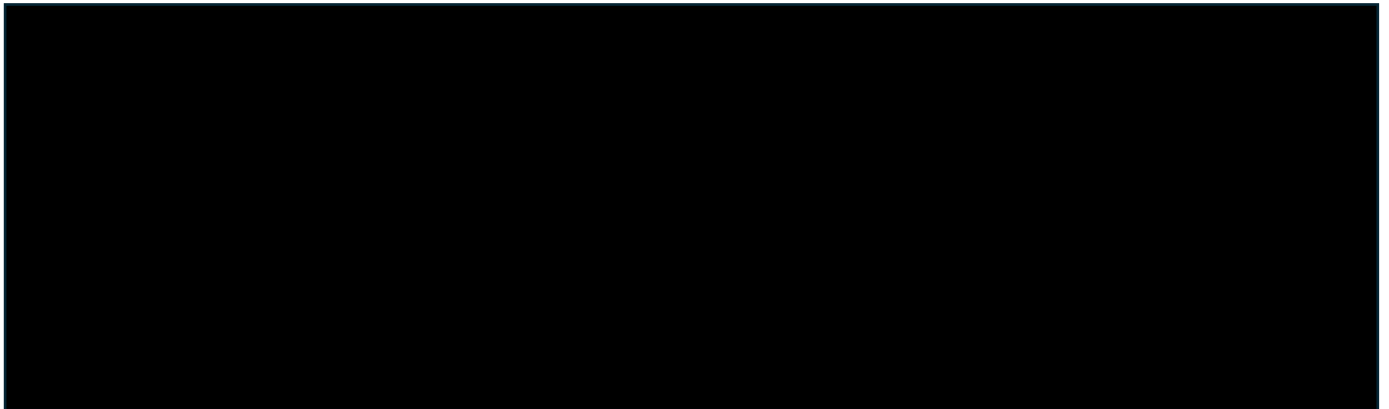
The CAA’s assumption that extra discounting could deliver materially higher revenue is not supported by actual outturns. The £17 million baseline uplift is theoretical and not achievable in the current market.

## 70. Other Commercial Revenue – roll forward adjustment of £38m

We consider the CAA’s £38 million increase to “Other Commercial Revenue” overstates sustainable income, as this category is comprised of miscellaneous revenue items that do not fall within the main business-as-usual revenue streams such as Retail, Catering, Surface Access, or Rail. These items are often one-off or temporary in nature and, crucially, lack the structural drivers that underpin the more stable revenue categories. The CAA’s method, which draws on recent figures including temporary items like Sustainable Aviation Fuel (SAF) accrual releases, risks basing future projections on revenue that is not expected to continue throughout the H8 period. This approach is incorrect.

### 70.1 Historic volatility shows 2024 does not offer a reliable baseline

**Error! Reference source not found.** highlights significant volatility in Other Commercial Revenue over the past decade, with no consistent trend or reliable baseline. This reflects the inherently episodic nature of the category.



[REDACTED]

[REDACTED]

Using recent outturns as a baseline overstates recurring income and demonstrates why this category is unsuitable for projection from a single year. [REDACTED]

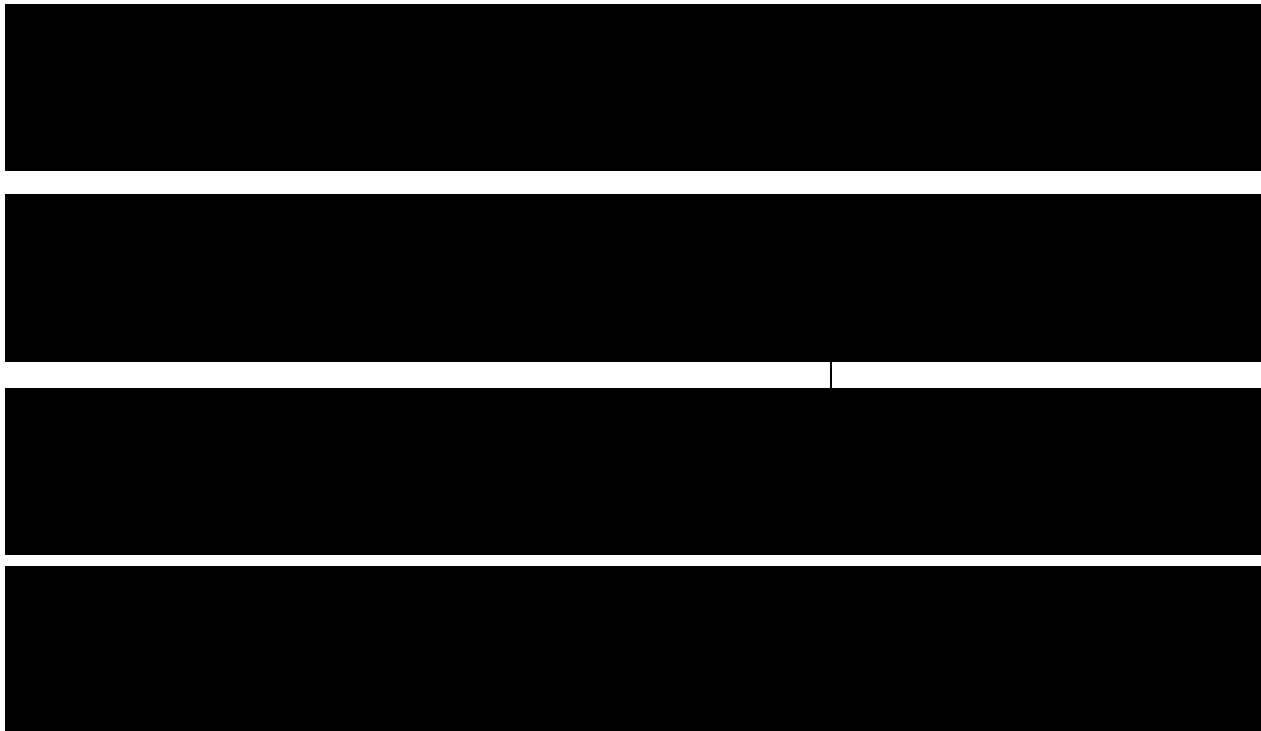
### 71. Cargo Revenues – bespoke adjustment of £34m

Our original H8 forecast was based on cargo ATMs with slots, reflecting the category with the clearest and most durable capacity basis at Heathrow. The CAA has taken a broader approach by also including ad-hoc cargo movements and other non-passenger ATMs. We agree that these categories should be included in the forecast. However, we consider that the CAA’s volumes are too high, because they do not sufficiently reflect the latest outturn evidence or the increasing scarcity of available airfield and slot capacity. The CAA’s approach must be grounded in evidence, otherwise it leaves its decision open to challenge.

Using 2025 outturn as the starting point, we have updated each movement category.

[REDACTED]

[REDACTED] This produces a forecast on the same category basis as the CAA, but at lower and more realistic levels grounded in 2025 evidence. Applying 2024 real yields, consistent with the CAA’s approach, results in total cargo and other non-passenger revenue of around £80 million across H8, compared with £90 million in the CAA’s IP (Figure 2.4.1).



Total Revenue £m (2024, CPI)	2027	2028	2029	2030	2031	Total H8
HAL H8BP	£11m	£11m	£11m	£11m	£11m	<b>£56m</b>
CAA IP	£20m	£19m	£18m	£17m	£17m	<b>£90m</b>
<b>HAL updated view</b>	<b>£17m</b>	<b>£17m</b>	<b>£16m</b>	<b>£15m</b>	<b>£15m</b>	<b>£80m</b>

Figure 2.4.1 - Cargo ATM and revenue profile HAL H8, CAA IP, and HAL updated view.

**72. Overlays – adjustment required to £50m MSCP4 overlay**

Commercial Revenues	2026	2027	2028	2029	2030	2031	H8
Heathrow BP submission	£-	-£18m	-£19m	-£19m	£3m	£3m	<b>-£50m</b>
May 2026 update	£-	-£18m	-£19m	-£19m	-£19m	-£19m	<b>-£94m</b>

Figure 2.4.2 - Updated H8 Revenue overlay

## Section 2.4 summary - asks of the CAA:

Heathrow asks that the CAA reflect the following in their Final Proposals:

### Retail and catering

- We submit that the £129 million Retail and Catering baseline uplift should not be applied. In our view, Heathrow's space constraints, the intensive use of its commercial estate, its comparative benchmarking performance, and the limited comparability of Gatwick indicate that the basis for the adjustment is not sufficiently supported.
- The CAA's use of 1.0 for elasticity for retail and catering revenue is not supported by detailed evidence and is contrary to a reasonable expectation. We ask the CAA to adopt an elasticity of 0.8 for retail and catering revenue consistent with Heathrow and Europe Economics analysis, direct evidence from real world outcomes and in line with reasonable expectations.

### Bureaux de change

- We ask that the CAA update its bureaux de change allowance to use 2025 outturn as the H8 baseline. This implies a downward adjustment of around £13 million to H8, reflecting the sharp drop already seen at the starting point in 2025 versus the CAA's assumed path.

### Surface Access:

- We accept CPI indexation as a reasonable regulatory baseline. However, we ask that the CAA remove the 1% stretch on Long Stay and apply lower mode share assumptions on parking and car rental to reflect the Elizabeth Line's impact since September 2023. This better reflects current market dynamics and reduces the CAA's IP by £53 million.

### Terminal Drop off:

- We submit that the CAA's bespoke TDOC allowance should be revised upward to reflect the inclusion of PCN payment revenues, which are an established and repeatable component of TDOC income. This results in a c.£38 million uplift (2024 CPI) relative to the CAA's IP and brings the TDOC allowance in line with our H8BP on a like-for-like basis.

### Rail revenues:

- We submit that the £17 million rail baseline adjustment should be removed. Heathrow Express has already discounted pricing, but this diluted yield with limited volume growth. The Elizabeth Line has reduced mode share in a way that pricing cannot realistically reverse.

Other commercial revenue:

- We submit that the proposed £38 million adjustment should be revised downwards to £15 million, representing a reduction of £23 million. This recommendation is supported by evidence indicating that only an average of £3 million per annum in Other Commercial Revenue is likely to be sustainable, with the remainder in previous years largely attributable to non-recurring, one-off items.

Cargo:

- We ask that a £10 million downward adjustment be applied to the CAA's IP, reflecting updated movement and revenue forecasts based on recent data and capacity constraints.

Overlays:

- The Terminal 4 multi-storey car park project (MSCP4) illustrates the link between capital delivery and commercial performance. Following airline engagement, the project was revised and extended across H8 to maintain an acceptable passenger experience, increasing the commercial revenue overlay from the £50 million included in our H8BP to c.£94 million. We therefore ask the CAA to adjust the overlay upward to reflect the updated revenue impact and associated operating costs arising from the revised delivery profile.

# **SECTION 3:**

# **OTHER CONCERNS TO ADDRESS**

## SECTION 3.1 PASSENGER NUMBERS

### 73. Introduction

The CAA has set out its passenger forecasts for the H8 period, supported by its consultant, Steer. The approach broadly aligns with our methodology, taking account of both demand- and supply-side factors, placing greater emphasis on Heathrow-specific supply constraints.

We agree with the overall conclusions of Steer's passenger forecast, which assumes that Heathrow will continue to experience modest growth in passenger throughput over the H8 period. This growth is expected to be driven by the following key factors:

- Small increases in annual PATMs, within the overall 480,000 ATM Limit.
- Further ongoing market mix shift towards Long Haul, including unwinding of recent conflict-related impacts.
- Ongoing evolution of seats/PATM and % load factors within individual market segments.

The shocked Steer forecast of 438.3 million passengers is higher than our shocked P50 (base case) forecast of 436.0 million passengers by 2.3 million passengers.

Passenger (millions)	2027	2028	2029	2030	2031	H8 Total
Steer	85.9	86.7	87.7	88.6	89.4	438.3
HAL P50	85.3	86.1	87.0	88.3	89.3	436.0
Airlines Base	87.0	88.1	89.2	90.3	91.4	446.0

*Figure 3.1.1 – Table showing passenger forecasts from Steer, Heathrow and the airline community*

There are, however, some key differences between the CAA and our forecasts. The following sections address the key input metrics driving this difference.

#### 73.1 Link to capacity

The forecast is demand-driven; it should be noted that growth will only be possible if there is sufficient terminal and airfield capacity available and that increasing passenger numbers is a growing challenge to delivering our Consumer Outcomes, as it drives congestion and negatively impacts passenger experience. As shown in our H8BP (Table 30), QSM departures is forecast to fall significantly from 4.26 in 2024 to 4.14 in 2031 as passenger numbers grow with additional capacity added at Heathrow to keep pace with demand.

### 74. Passenger Air Transport Movements (ATMs)

Steer’s assumptions on passenger ATMs are marginally higher than our P50 forecast. However, considering observed performance in 2025, we agree an annual level of 475k passenger ATMs represents a reasonable and realistic reflection of expected flying levels over the H8 period.

	2027	2028	2029	2030	2031
Steer	474.24	474.50	474.63	474.77	474.95
HAL P50	473.82	474.50	473.85	473.85	473.90
HAL P30	472.60	473.10	472.60	472.64	472.70
HAL P70	474.90	475.70	474.90	474.90	474.90
Airlines	474.00	474.00	474.00	474.00	474.00

Figure 3.1.2 – Table showing PATMs forecast from Steer, Heathrow and the airline community

2025 was a record-breaking year for movements however historic analysis demonstrates that annual movements do not always increase year-on-year and we have already seen January and February underperform versus last year.

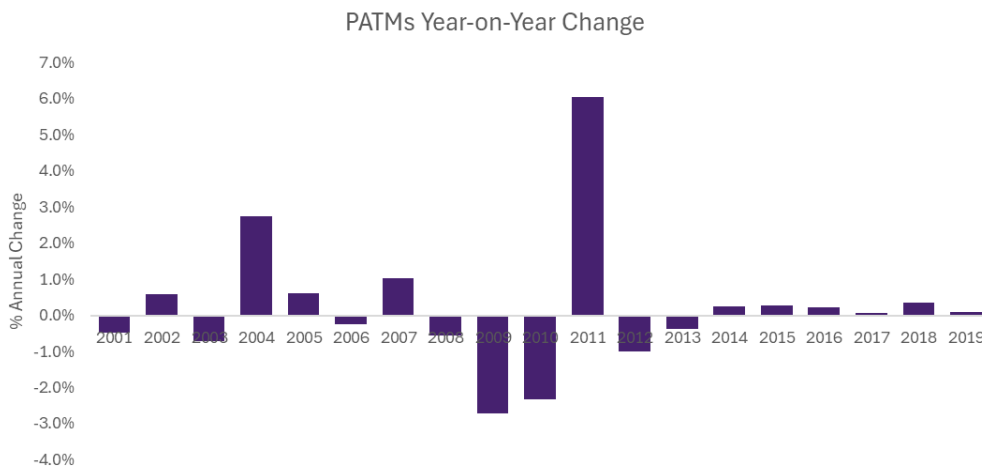


Figure 3.1.3 – Graph showing PATMs Year-on-Year Change

We therefore continue to consider it unlikely that movements will increase materially beyond 475k PATMs given the 480k ATM cap and unavoidable on-the-day cancellations (e.g. weather events, technical issues etc.).

### 75. Seat Factors / Load Factors

We are aligned with Steer that, despite moderate growth, Heathrow’s average annual seat factors will reach their highest level to date by the end of H8.

	2027	2028	2029	2030	2031
Steer	81.1%	81.3%	81.5%	81.7%	81.9%
HAL P50	80.6%	80.8%	80.9%	81.1%	81.2%
HAL P30	79.7%	79.9%	80.0%	80.2%	80.3%
HAL P70	81.5%	81.8%	81.9%	82.0%	82.1%
Airlines Base	82.0%	82.7%	83.3%	84.0%	84.7%

Figure 3.1.4 – Table showing forecasts for Seat Factors/Load Factors from Steer, Heathrow and the airline community

We consider that the chances of the average annual seat factors materially exceeding 82% are unlikely, which is a reflection of Heathrow’s traffic mix and the operation of airport slot rules. This is due to the prevalence of multi-cabin aircraft and the absence of a large low-cost carrier which naturally constrain average seat factors at Heathrow.

In addition, the requirements of the 80/20 slot utilisation rule limits airlines’ ability to fully align capacity with demand, resulting in sustained levels of flying during off-peak periods despite lower underlying demand. Airline revenue management can be used to influence seat factors; however, its primary objective is to maximise revenue rather than to maximise seat utilisation.

Figure 2.1.5 below shows that in most cases Heathrow’s seat factors are the lowest compared to other EU hubs.

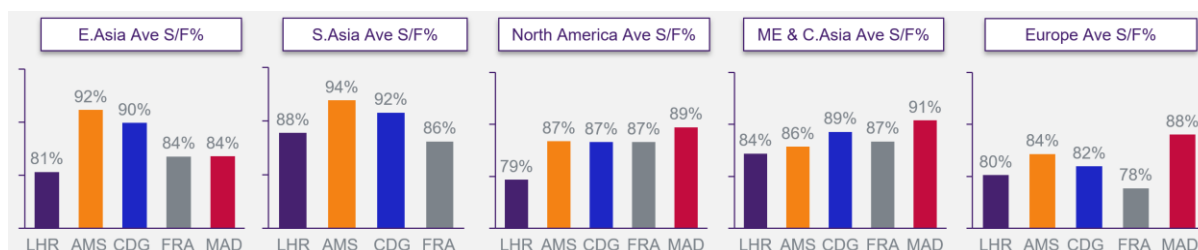


Figure 3.1.5 – Charts showing seat factors at Heathrow compares to other EU hubs. Source: 2025 data, AirportIS, OAG Analyser and Heathrow Airport

Another consideration is the inter-dependencies between seat capacity and seat factors. Any significant injection of seat capacity will dampen seat factor growth. In 2025 seat capacity grew by 1.3% versus 2024 however average seat factors declined by 0.5 percentage points to 80.2%. Historically Heathrow has not seen significant seat

factor growth whilst seat capacity is significantly increasing as illustrated in the Figure 3.1.6 below.

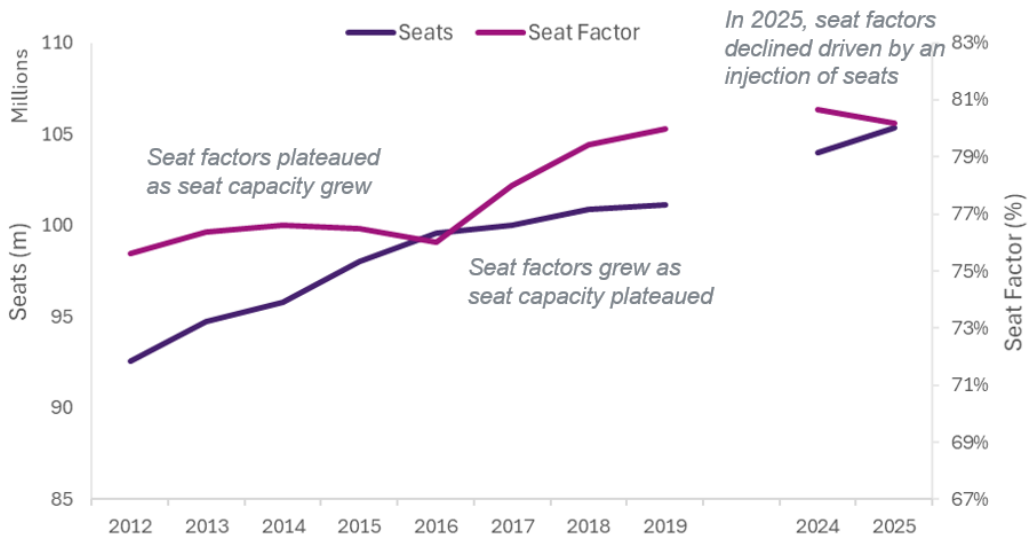


Figure 3.1.6 – Graph showing Seat Factor v Seat Capacity at Heathrow

It is therefore important for the CAA to be mindful of this under any re-forecast and if seat capacity is set to significantly grow then seat factors will be dampened further than what is currently being assumed.

### 76. Seats per Movement

The biggest area of difference between our forecast and Steer’s passenger forecast is the assumed growth in seats per movement.

	2027	2028	2029	2030	2031
Steer	226.1	227.6	229.5	231.2	232.8
HAL P50	225.2	226.6	228.9	231.9	234.1
HAL P30	224.3	225.5	227.6	230.2	232.3
HAL P70	226.1	227.7	230.4	233.6	236.0
Airlines Base	223.8	224.8	225.8	226.7	227.8

Figure 3.1.7 – Table showing forecast for Seats per Movement from Steer, Heathrow and the airline community

Our forecast was developed in February/March 2025 whereas Steer’s forecast was generated in September/October 2025 and therefore had the benefit of more up-to-date information at the time of forecast development.

During this period several fleet changes / retrofit programmes were announced from major Heathrow operators which were not captured within our forecast and have a significant impact on H8 seat capacity. It is therefore unsurprising that by 2031 Steer's forecast is lower than our P50 forecast. Examples of the changes are:

- Virgin Atlantic increasing the size of their premium cabins on their B787-9 and A330s fleet resulting in 30 fewer seats per aircraft<sup>63</sup>
- American Airlines newest B787-9 have an ultra-premium configuration with 40 fewer seats (with a further 19 on order)<sup>64</sup> and are increasing premium cabins on their B777-200ER fleet by 25%<sup>65</sup>
- United Airlines announcing the B787-9 Elevated seat configurations which will have the highest number of total premium seats in United's fleet<sup>66</sup>

It is notable, however, that over the period 2027 to 2029, the Steer forecast's assumed seats per movement are higher than those underlying our P50 forecast. This appears somewhat optimistic, particularly given that our forecast does not incorporate the premiumisation programmes referred to above – see below for our updated calculations.

Since Steer generated their forecast, indicators suggest that fleet deliveries have been further delayed<sup>67,68,69</sup> and Heathrow carriers continue to make fleet changes to prioritise premium products over seat capacity e.g. Qatar Airways' additional frequency this Summer is being operated with a B787-9 rather than an A380, Singapore Airlines are deploying their A350-900 aircraft on their Heathrow route rather than their typical B777s due to an enhanced premium product (resulting in 11 fewer seats) and Air India has recently announced retrofits resulting in lower capacity levels<sup>70</sup>.

Further, in terms of additional actual information, 2025 seats per movement (221.1) were lower than the predicted levels within the Steer forecast (221.9) indicating that the forecast is already starting from a higher base. January and February have also highlighted the slowing rate of growth in long-haul seats per movement with c2 seats less per aircraft compared to the same period in 2025. [REDACTED]

<sup>63</sup> [From terminal to touchdown Virgin Atlantic - A premium experience](#)

<sup>64</sup> [American's Premium 787-9Ps With New Cabins: Which Routes Do They Fly? - One Mile at a Time](#)

<sup>65</sup> [American Boeing 777-200ERs Getting New Cabins, Viasat Wi-Fi, And More - One Mile at a Time](#)

<sup>66</sup> [United Unveils the Elevated Aircraft Interior: Higher Standard of Premium International Travel Includes New Business Class Suites, Caviar Service and Largest Seatback Screens in the U.S. on new 787 Dreamliners](#)

<sup>67</sup> [This Bad Already? Airbus's Worrying 2026 Delivery Numbers](#)

<sup>68</sup> [Airbus Delivered 60 New Planes In March, But Overall Q1 Output Lags 16% From Last Year](#)

<sup>69</sup> [March 2026 Commercial Aircraft Production and Projected Airbus & Boeing Deliveries - Flight Plan Airbus Q1 Deliveries Fall 16% To 114 Jets, Lowest Since 2009](#)

<sup>70</sup> [Air India Boeing 777 & 787 Cabin Retrofits Underway, Finally - One Mile at a Time](#)

All these factors indicate a lower seats per movement than indicated by the Steer report.

We have reviewed the latest fleet information and market mix against the assumptions used to generate our P50 forecast including 2025 performance. The key changes for consideration being:

- Seats per movement in 2025 were lower than expected
- Further delivery delays particularly to the B777x
- Airlines prioritising premium offerings on new aircraft and retrofit programmes
- Airline fleet deployment prioritising premium product over capacity i.e. choosing to deploy smaller aircraft with better premium products
- Fleet delays impacting pace of long-haul ATM growth

This updated information has resulted in us revising down our P50 seats per movement position by c3 seats per movement.

	2027	2028	2029	2030	2031
Steer	226.1	227.6	229.5	231.2	232.8
HAL P50	225.2	226.6	228.9	231.9	234.1
HAL P30	224.3	225.5	227.6	230.2	232.3
HAL P70	226.1	227.7	230.4	233.6	236.0
Airlines Base	223.8	224.8	225.8	226.7	227.8
<b>HAL P50 updated</b>	<b>223.3</b>	<b>224.3</b>	<b>225.5</b>	<b>227.1</b>	<b>229.6</b>

Figure 3.1.8 – Table showing updated P50 forecast from Heathrow

The reduction in seats per movement is not just attributed to fleet choices but also changes in the underlying market mix which drives a different mix in aircraft type and therefore seats. In 2025 we had fewer than expected long-haul movements due to delivery delays and network changes.

Our updated seats per movement assumptions indicate more limited scope for passenger growth. As a result, Steer’s passenger forecast now appears optimistic: the CAA’s decision must be supported by the evidence. For the reasons set out above, we ask that Steer reviews its seats per movement growth assumptions, which are a key driver of the higher levels of passenger demand currently forecast in H8.

## 77. US/Israel-Iran Conflict

Since the forecasts were generated, a significant global event — the evolving US/Israel–Iran conflict — has impacted the aviation sector and introduced further downside risks to aviation demand. Impacts are evident through airspace closures, rising fuel prices, jet fuel supply concerns, increasing air fares, and weakened consumer confidence. While the shock factor absorbs a degree of this short-term disruption, a prolonged conflict would likely result in an above-average shock and spill over into H8. 10% of Heathrow’s traffic was to the Middle East in 2025. We have already seen our home-carriers cancel their Middle East schedules for the remainder of the year<sup>71,72</sup> and current demand has softened – April’s demand fell by 5% compared to last year. The Government is planning contingencies such as allowing airlines to cancel flights without losing their slots which will impact overall passenger volumes<sup>73</sup>, and the number of flights at least in 2026 and Q1 of 2027. It is likely that recovery will take at least a couple of seasons once the conflict has stabilised<sup>74,75,76</sup>. The Head of the International Air Transport Association has noted that even if the Strait of Hormuz were reopened tomorrow, the impact of disruption could still be felt into next year<sup>77</sup>. We therefore urge the CAA and Steer to consider the impacts of the conflict on H8 demand, in particular 2027 and 2028.

The need to set the forecasts at an appropriate level is particularly important given the CAA’s primary duties, as set out in the Legal Annex, including the requirement to ensure that Heathrow can finance its activities and remain resilient in the face of unknown events. Given that forecasts regarding passenger numbers are a critical input to the airport charge, this means that the CAA’s forecasts must be updated to reflect the realities faced by the airport.

## 78. Conclusion

In summary we are supportive of the methodology and approach used to generate the passenger forecast however since the passenger forecast is a key driver in determining the maximum level of allowed airport charges it is imperative for the most up-to-date information available to be used for the final determination particularly considering the level of change there has been since the Steer forecast was generated.

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<sup>71</sup> [British Airways drops key Middle East route and cuts flights to Dubai and Doha | The Independent](#)

<sup>72</sup> [Virgin Atlantic scraps flight route only a year after its launch | The Independent](#)

<sup>73</sup> [Government sets out plans to protect summer holidays from disruption - GOV.UK](#)

<sup>74</sup> [When Airspace Becomes the Front Line: Recovery Scenarios for Middle East Aviation — and Why We're Doubling Down | LinkedIn](#)

<sup>75</sup> [Middle East aviation faces turbulent months ahead as war, fuel shocks test airlines](#)

<sup>76</sup> [Airline Impact from the Middle East | IBA Group](#)

<sup>77</sup> [Warning higher Europe air fares 'inevitable' due to Iran war - BBC News](#)

### **Section 3.1 summary - asks of the CAA:**

Heathrow asks that the CAA review their input assumptions to consider in the Final Proposals

- 2025 and 2026 YTD performance – taking into account the interdependencies between seat capacity and seat factors alongside historic trends
- the increasing impact of premium prioritisation – with fewer seats on replacement aircraft, fleet delivery delays and changing market mix on seats per movement
- the impact of the US/Israel-Iran conflict on H8

## SECTION 3.2 MEASURES, TARGETS & INCENTIVES

### 79. Executive summary

Our Measures, Targets and Incentives (MTI) framework is designed to focus delivery on outcomes that matter most to consumers; working closely with airlines and driven by our consumer engagement strategy to identify the key areas. But in H8 will only be able to meet the MTI's consumers expect with the appropriate capex and opex envelopes to deliver the Consumer Priority initiatives, which the Final Proposal must address.

We welcome the CAA's support, as set out in their IP, for a number of our proposed evolutions to the framework for H8 to deliver better alignment with consumer interests, in particular:

- Retention of the six H7 Consumer Outcomes
- The CAA are minded to support our proposals for financial incentives for baggage delivery and passenger assistance satisfaction

However, the IP does not support our proposals to increase the strength of financial bonuses and instead retains the H7 rebate and bonus financial incentives.

We accept the CAA's concerns that our proposals involved too many simultaneous changes to security MTI and in response we propose retaining the H7 security rebate measure.

Remaining key issues that are important for the CAA consider in forming their Final Proposals are:

- IP targets are appropriate in line with consumer preferences. However, IP expenditure decisions do not support delivery of these targets. Inadequate opex and capex in the face of ageing assets and growing passenger numbers and expectations make delivering IP service quality targets unachievable;
- H7 incentive rates should be evolved to more closely align with consumer priorities, taking the bonus range to 2% by adding an overall satisfaction bonus;
- Eligibility criteria for rebates should be introduced for baggage (departures management and reclaim), security passenger queues and passenger assistance to reinforce collective working in meeting consumer priorities, reflecting the operational reality of airports and the collective role of the wider airport community in delivering for passengers and cargo owners;
- Exclusion definitions should be tightened to ensure a fair and effective system for rebates.

This section provides additional evidence on each of these points in turn. Our approach in each area maps to the CAA's statutory duties (in relation to which quality is a key consideration); direct evidence of what matters to consumers is, of course, crucial in

that. The section concludes with more detailed MTI issues that it is important for the CAA to consider in its Final Proposals.

**80. Targets are set at the right level for consumers but the IP opex and capex allowances do not support their delivery**

Our H8 Business Plan (July 2025)	CAA’s IP (March 2026)	Our asks of the CAA
<ul style="list-style-type: none"> <li>Targets set in the context of expenditure and growth.</li> </ul>	<ul style="list-style-type: none"> <li>Retains H7 level targets but substantially reduces expenditure envelopes.</li> </ul>	<ul style="list-style-type: none"> <li>Reinstate expenditure allowances to enable delivery of MTI targets.</li> </ul>

*Figure 3.2.1 – Table showing difference in targets across the H8BP and IP*

Our H8BP maintains H7 rebate targets and proposes limited changes to reputational targets to sustain service performance as passenger demand grows. Targets are evidence based, drawing on consumer insight, Constructive Engagement, and Heathrow Passenger Forum feedback.

Research confirms the targets are appropriately calibrated, with AAT research showing over 90% acceptability across key measures including departure punctuality, security queue times, PAS services, baggage misconnection rates and carbon.<sup>78</sup> This is confirmed by new research that we have undertaken with our Horizon passenger community following the publication of the IP. In this research we quantitatively tested the targets of the financial measures which are most relevant to consumers to understand views on minimum service levels. The research showed that at least two thirds of participants felt each target we tested was either about right or too high, further evidencing that the targets are set at appropriate levels<sup>79</sup>.

However, our ability to deliver these targets is critically dependent on funding. The IP materially reduces both capex and opex allowances, constraining our ability to meet the MTI targets against a backdrop of ageing infrastructure and risks undermining the objective of maintaining stable service performance as demand increases.

Capex, opex and service targets are interdependent. Reducing the capital envelope increases reliance on opex mitigations (overlay costs) and together they determine the MTI outcomes for consumers. The IP treats these in isolation and does not reflect

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<sup>78</sup> Savanta, 2025. Heathrow Acceptability Testing. Other measures include in the AAT research are digitisation (covering enhancing check in, dropping off bags, faster boarding and reduced immigration queue times), enhancing space and reducing waste.

<sup>79</sup> Human8, Minimum Service Levels Research, 2026

Constructive Engagement discussions with the airline community, where trade-offs between expenditure and targets were explicitly recognised.

This failure to ensure consistency between the different parts of the decision – spending envelopes and quality measures – is not consistent with the CAA's legal duties and in particular with the requirement for consistency.

Key risk areas with examples are provided below:

### 80.1 Asset renewal investment

Heathrow operates c.650,000 physical assets that underpin safe, reliable and resilient passenger journeys. Reduced proactive capital investment increases service failure risks, operating costs and unplanned capital expenditure, compounded by the effects of past underinvestment and ageing terminals.

The average asset life of our physical assets has declined from 56% to 34% since 2019 and is forecast to fall to 20% by 2031 without H8 investment.

This materially increases the likelihood of service affecting failures. At the same time, the assets will support an additional c.2 million passengers per annum, accelerating degradation, reducing operational resilience and increasing the impacts of failure. Changes in passenger mix (including a 46% increase in PRS passengers) and evolving baggage requirements further increase operational stress.

Many H8 capex assets are directly consumer-facing (e.g. airbridges, lifts, escalators, toilets, baggage systems and security infrastructure), meaning degradation has an immediate impact on passenger experience. Recent 2026 MTI performance demonstrates this link between funding and outcomes: Heathrow has failed several asset-based MTIs in recent months alongside broader declines linked to asset condition (e.g. LEPC), reflecting sustained underinvestment during H7.

In response to these issues, and in alignment with our capex plan, our H8BP included an opex overlay of £63.0m (CPI 2024) to address the rising trend of reactive and proactive maintenance. This is evidenced by a clear upward trend in maintenance work orders, which increased by an average of 2.2% per annum between 2023 and 2025, and 2026 performance projecting this trend to continue.

Constrained asset renewal funding in the IP increases the likelihood of MTI failures, particularly across baggage, reliability, queuing and availability measures over the H8 period. Airbridges illustrate this issue clearly. Heathrow failed to meet the airbridge MTI target in T5 in April 2026, primarily driven by ageing Hyundai airbridges beyond their 15-year asset life. Due to constrained investment and the need to prioritise other terminals, none of the T5 airbridges have yet been replaced.

Across the airport, 46 out of a total of 192 airbridges (24%) now exceed their asset life. A natural replacement rate (based on a 20-year asset life) would be 9-10 airbridges a year. In contrast, during H7 17 airbridges have been replaced or refurbished, leading to a growing backlog of ageing assets, increasing performance risk and a declining trend in MTI performance.

The trade-offs inherent in the proposed allowances are further illustrated by the explicit discussion with airlines on the availability of lifts, escalators and travelators measure. Given the ageing nature of these assets, we proposed a reduction in target to 98%. The airlines requested retention of a 99% target, requiring an additional £1 million per annum in opex. We accepted this higher target and incorporated the associated cost in our plan. The IP retains the higher target but removes the corresponding element of the opex overlay. This is a specific example of why the full opex overlay is required as in H8 we will place significant pressure on these assets where MTI availability data is already showing a downward trend.

## 80.2 Technology

Our technology assets underpin the provision of all our services and MTIs. The importance of technology to service delivery – both direct passenger experience and supporting systems is increasing over time as systems become increasingly digitised. Examples of this include moves towards digital wayfinding (meeting passenger experience expectations and providing resilience through real time flow management in the event of disruption). Similarly, provision of our Wi-Fi infrastructure delivers direct passenger experience and also wider consumer outcomes as it is used to deliver by wider onsite systems such as by ground handlers.

The removal of our technology operating cost overlay presents material risks to Heathrow's operational resilience and our ability to deliver MTIs. Digital transformation across the technology estate is increasingly delivered through hybrid and cloud-based solutions, which underpin core systems such as the Airport Operational Database (AODB). Removal of the opex overlay would therefore constrain our ability to sustain and develop these capabilities, with direct impacts on MTI performance, including baggage system reliability, security processing, check-in infrastructure, and stand availability.

A further example is investment in our Foreign Object Debris (FOD) detection radar system. This capability is critical to maintaining runway operational resilience. Without appropriate investment, the absence of FOD detection would require increased separation between aircraft movements to mitigate safety risks. This would reduce runway throughput, leading to increased delays and adverse impacts on airline operations and passenger experience.

## 80.3 Security

The opex reductions in the IP for security equate to £101m (2024 CPI) or circa [REDACTED] fewer FTE against the 2024 base, a 10.3% reduction in Security Officer Headcount.

We are disappointed that both York Aviation and the CAA have considered cost efficiency of security at Heathrow in isolation, without regard to the passenger outcomes we deliver through our security operation.

Security is one of the most critical passenger touchpoints at Heathrow. It represents both a necessary regulatory process and, for many passengers, a psychologically significant moment in the journey, often associated with heightened anxiety and a clear sense that travel commences once security is cleared.

Heathrow has engaged constructively with the airline community on security performance management for H8. Options involving opex evolution have been discussed, and airline representatives have supported retaining the current approach. We also agreed savings associated with the move to NGS with the airline community through the capital governance process and embedded this in our H8BP proposal. Material reductions in security opex would force trade-offs that may conflict with airline and passenger expectations.

A summary of the impact of the IP on our MTI targets is shown below. The measures are coloured to reflect the extent of the impact, with red being largest and orange some impact. Our revised business cases contain further detail on the line of sight to the MTI measures and targets.

Outcome	Largest impacts	Medium impacts	Minimal impacts
An airport which I want to fly from and helps provide me with good value flight options	Carbon emissions		
I am confident I can get to and from the airport	Ease of access to airport		
I have a predictable and reliable journey	Customer effort; Airport departure management; Departure punctuality; Wayfinding; Security (CSA, transfer, staff search and control posts); Lifts, escalators and travellers; Availability of jetties; Arrivals reclaim; Runway operational resilience; Availability of stands	Airport arrivals management, Immigration queues; Stand entry guidance; Check-in infrastructure.	Availability of TTS
I feel comfortable and secure at the airport	Pier service	Feel safe and secure; Passenger injuries; Cleanliness, Wi-Fi; Timely delivery of departure baggage; baggage misconnect rate.	Pre-conditioned air; Availability of Fixed Electrical Ground Power (FEGP)
I have an enjoyable experience at the airport	Enjoy my time at the airport		
I feel cared for and supported	Passenger Assistance Service (PAS) – Overall satisfaction		Airport staff – helpfulness and attitude; Security staff – helpfulness and attitude

Figure 3.2.2 – Table showing a summary of the impacts of the IP on Heathrow’s MTI targets.

## 81. Financial incentives should be evolved to more closely align with consumer priorities

We are disappointed that the IP retains incentive rates at H7 levels. We firmly believe that the incentive framework should focus on driving performance for consumers and closely reflect their priorities, which didn't occur in H7 when we moved to Outcome Based Regulation but is important that this is addressed to ensure incentives align with consumer priorities. In our view this is the best way to ensure that user interests, as identified in the legislation, are furthered. Issues that require resolution in the Final Proposals are:

Priority issues:

1. Incentive rates should more closely align with consumers' preferences
2. Extending the bonus range to incentivise performance beyond the plan
3. We welcome further consideration of overall satisfaction as a bonus and ask the CAA to include this bonus as part of addressing the above point.

Detailed issues:

1. The incentives for wayfinding remain strong and account for the range of evidence
2. We welcome the CAA position on the airline proposal of a bonus for check-in infrastructure.

### 81.1. Summary of incentives issues

Our H8 Business Plan (July 2025)	CAA's IP (March 2026)	Our asks of the CAA
<p><b>Bonus range</b> of 2.85%</p> <p>Consisting of:</p> <ul style="list-style-type: none"> <li>• 1.53% for five rebate measures</li> <li>• 1.32% for three reputational measures</li> </ul>	<ol style="list-style-type: none"> <li>1. Retain H7 at 1.44% covering five rebate measures.</li> <li>2. Exclude three reputational measures bonuses but will consider a bonus for overall satisfaction</li> </ol>	<ul style="list-style-type: none"> <li>• Bonus range of 1.53% for the five measures included in the IP.</li> <li>• Extend range to 2.0% to cover additional bonus for overall satisfaction.</li> </ul>
<p><b>Incentive rates</b></p> <ul style="list-style-type: none"> <li>• Proposed new rates to evolve rates from H7 based on evidence.</li> </ul>	<ul style="list-style-type: none"> <li>• Retain H7 rates.</li> </ul>	<ul style="list-style-type: none"> <li>• Implement rates that have been revised for this response based on the CAA feedback.</li> </ul>
<p><b>Wayfinding incentives</b></p>	<ul style="list-style-type: none"> <li>• Retain H7 rate.</li> <li>• Queries the deprioritisation.</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction of rebate.</li> </ul>

<ul style="list-style-type: none"> <li>Reduced the rebate incentive and removed bonus.</li> </ul>		<ul style="list-style-type: none"> <li>Bonus for overall satisfaction to cover wayfinding.</li> </ul>
<p><b>Airline propose bonus for check-in infrastructure</b></p> <ul style="list-style-type: none"> <li>Not in plan</li> </ul>	<ul style="list-style-type: none"> <li>Do not support bonus as limited opportunity for outperformance.</li> </ul>	<ul style="list-style-type: none"> <li>Retain the IP of no bonus.</li> </ul>

Figure 3.2.3 – Table showing summary of concerns for MTIs

### 81.2. Extending the bonus range to incentivise performance beyond the plan

Our H8BP proposes a rebate range of 7% of aeronautical revenue and an expanded bonus range of 2.85%. This includes 1.53% to balance incentives across five financial rebate measures, and further 1.32% linked to three sharing success measures - overall satisfaction, departure punctuality and baggage misconnect rate.

The CAA’s IP retains H7 bonus incentive range of 1.44% across the five rebate measures. The CAA conclude they have not seen any evidence that the current bonus range is inconsistent with the principle of a ‘fair bet’, noting that Heathrow has earned more in bonuses than paid in rebates since the start of H7 (April 2023) (IP paragraph 3.56). It also recognises that some measure changes (e.g. control posts and staff search) reflect prior alignment with airlines and indicates that bonus thresholds remain under review.

We consider that the CAA’s assessment places undue weight on a limited H7 timeframe and does not reflect the longer-term operation of the regime. Across both Q6 and H7 (2014 to now), cumulative MTI rebates have materially exceeded bonuses, illustrating that the MTI framework has historically operated as a downside-led compliance mechanism, rather than one skewed toward reward. As set out in paragraphs 2.11 to 2.17 of Heathrow’s response to CAP3195, MTIs should be interpreted in context, with particular regard to periods of disruption and recovery, and should not be used mechanistically to infer structural imbalance in incentive calibration.

Bonuses are intended to incentivise outperformance beyond plan expectations. They required delivery above stretching thresholds that set beyond the rebate targets, to drive superior outcomes for consumers. This reflects the underlying service–cost trade-offs embedded in the targets framework that underpins our plan. Without sufficient upside, incentives to drive continuous improvement and innovation, particularly in areas requiring coordinated action, are weakened.

Our proposed increase in the bonus range is targeted and proportionate. It focuses on outcomes that matter most to passengers and airlines, particularly where Heathrow

plays a coordinating role across infrastructure, systems and operational partners. Importantly, the H8BP proposals includes safeguards, such as clearly defined measures and Eligibility Criteria, to ensure that bonuses are not earned solely on the performance of third parties and remain consistent with the “fair bet” principle. Interpreting recent bonus outturns in isolation risks overlooking this design intent and weakening the effectiveness of the MTI framework in driving the collaborative, passenger-focused outcomes required in H8.

We welcome the CAA’s view to consider overall satisfaction as a bonus. While we recognise the CAA’s position not to proceed with bonuses for departure punctuality and baggage misconnect, the inclusion of an overall satisfaction bonus strengthens incentives across the full passenger journey. It provides a flexible, outcome focused mechanism that is aligned with evolving passenger needs and the CAA’s guidance for a more coordinated framework that the proposed MTI should ‘remain responsive to consumers’ and airlines’ evolving needs throughout the H8 period’.

The measure should be applied at an airport-wide level to reflect the end-to-end passenger experience, which typically spans multiple terminals. A terminal-level approach would require a lower bonus threshold than proposed in our H8BP to account for variation between terminals and terminal specific constraints associated with growth and when linked to the capital benefits framework makes further investment in higher performing terminal difficult to justify which has a disbenefit to consumers.

### **81.3. Rates should more closely align with consumers’ preferences**

Our H8BP proposed revised rebate and bonus rates using a structured principles-based three step approach, drawing on the fullest available evidence including consumer insight, airline feedback and benchmarking. In line with CAA guidance.

The CAA’s IP retain H7 rates, but signal openness to refinement. We welcome this, but note that H7 incentive rates carried forward into the IP are legacy positions from Q6 and do not reflect updated evidence on consumer priorities.

Our H8 priorities consumer research shows that whilst a predictable and reliable journey is the most important outcome for consumers, it is over-represented in the MTI rebates framework compared to other outcomes. This misalignment is illustrated by comparing the distribution of the H7 rates with consumer priority data from our H8 quantitative priorities research.

To address this, our H8BP proposal (also shown in Figure 3.2.4 below) rebalances rebate weights within the existing 7% rebate range. It reflects the introduction of two new rebate measures (timely delivery of baggage and PAS satisfaction) and the removal of the outdated hygiene measures. This results in reduced rebate rates for seven

measures and increased rates for three measures better aligning incentives with consumer priorities.

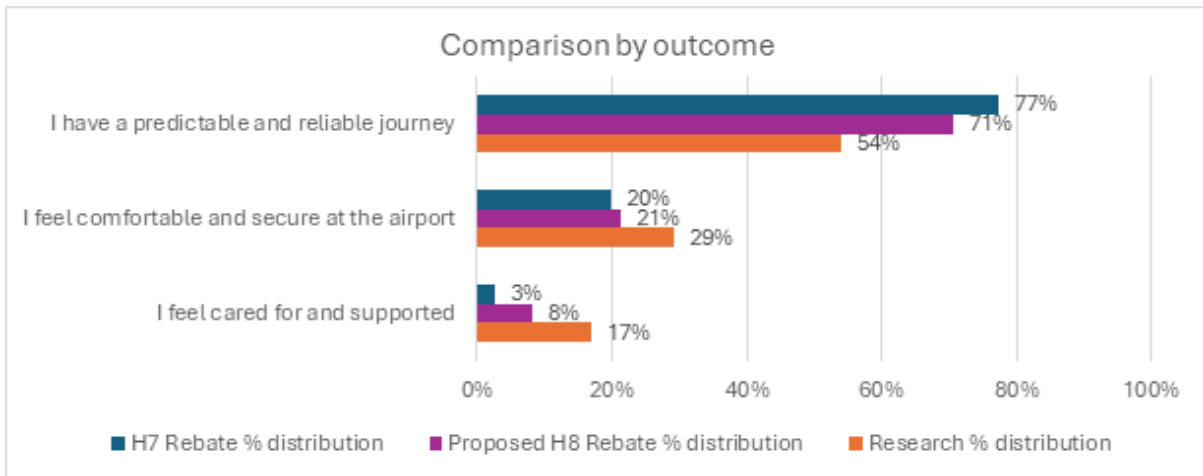


Figure 3.2.4 – Chart showing comparison of rebate weighting

### 81.3.1 Revised weighting

We welcome the opportunity to work with the CAA to address their concerns, drawing on our full evidence base. We have refined our methodology to better reflect the CAA’s views on combining evidence across the lenses.

Specifically, we have re-weighted the evidence to place a higher weight on the consumer lens (50%) and airline views (30%) and reduce the weight on HPF (10%) and the benchmarking lens (10%) that includes both Gatwick rates comparison and the findings from comparator and competitor airport service comparisons.

We have incorporated historic evidence, including where rebates have been triggered, to rule out reductions to rates. This increases the prominence of the line-of-sight to the H8BP and performance lens which was previously weighted equally with the other lenses. As a result, we are no longer proposing changes to check-in infrastructure, Wi-Fi, security control posts, and runway operational resilience, where rebates have been triggered.

In response to CAA feedback we have applied a change of +/- 20% of the existing H7 rates, except for the new measures - timely delivery of baggage (0.45%) and PAS satisfaction (0.25%). All rates are rounded to the nearest 0.05%.

Changes based on revised weighting	Measures	Revised proposed rate (and change from H7 levels)
Increases	Timely delivery of baggage (new rebate measure)	0.45% (+0.45%)
	PAS- overall satisfaction (new rebate measure)	0.25% (+0.25%)
	Security staff – helpfulness and attitude	0.25% (+0.05%)
	Availability of PCA	0.25% (+0.05%)
	Availability of FEGP	0.20% (+0.05%)
Decreases	Availability of Lifts, escalators, travelators	0.55% (-0.15%)
	Wayfinding	0.30% (-0.10%)
	Security central search	0.80% (-0.20%)
	Security staff search	0.30% (-0.10%)
	Cleanliness	0.30% (-0.10%)

*Figure 3.2.5 – Table showing changes based on revised weighting*

We also note that the CAA commented on the approach to bonuses being different to rebates. Our approach used the outturn rebate rates as an input when determining the bonus rate. This is to ensure consistency between rebates and bonuses and avoid unintentional consequences of setting the rates in isolation based on unrelated H7 starting rates.

#### **81.4. Wayfinding incentives remain strong and account for the range of evidence**

The CAA has raised concerns regarding the deprioritisation of wayfinding in our plan, through a reduced rebate rate (from 0.4% to 0.3%) and removal of the associated bonus.

We recognise the importance of wayfinding to consumers and have refined the incentive to reflect the available evidence. The adjustment to the rebate is driven by stakeholder evidence, including airline preference for a 0.2% rate and benchmarking against Gatwick (0.2%). Strong ASQ performance on ease of finding check-in, alongside stable historic performance with no incentive triggers, also supports a lower rate.

The wayfinding bonus has been removed in line with constructive engagement with airlines. We consider the incentive remains appropriately captured within the overall satisfaction bonus, which reflects broader passenger experience and is supported by key driver analysis.

#### **81.5. We welcome the CAA position on a bonus for check-in infrastructure.**

The CAA do not support the airline proposal for a bonus, given the limited outperformance potential (as target is 98%), but are open to further discussion. We agree with the CAA that there is limited room for out-performance, and this measure should not have a bonus.

### **82. Airline Eligibility Rebate Criteria**

Our H8BP sets out Eligibility Criteria for airlines for five financial rebate measures that are partially outside of our control and require a joint effort for success (see table below).

The Eligibility Criteria recognises the part that the airlines and ground handlers/contractors play in the achievement of the targets, and their part in any potential service failure. Our plan proposes two types of criteria: operation focused and information focused.

Each eligibility requirement has an associated airline target. If the target is not met by the airlines and we do not meet the target for the associated measure, the airlines will not be eligible for their proportion of the rebate. The Eligibility Criteria are applied at a terminal level.

The CAA set out their view that they are open to Eligibility Criteria, particularly where they support specific measures identified as consumer priorities such as baggage, and support delivery of a resilient operation. The CAA note that the HPF supports the broad approach and the CAA will further consider the HPF views, alongside Heathrow and airline views for Final Proposals. To inform their thinking, the CAA are seeking further evidence on: a) consumer benefits and the material impact on overall performance for all measures; b) the impact on rebate incentives; c) the need for Eligibility Criteria for the PAS overall satisfaction measure.

Financial Rebate Measure	Eligibility Criteria	CAA Feedback
<b>Timely delivery of baggage</b>	<ul style="list-style-type: none"> <li>- Percentage failure to tip &lt; 2%</li> <li>- Short connect (less than two hours) – 85% within 25 minutes of ‘on chocks’</li> </ul>	<ul style="list-style-type: none"> <li>- Appears to be consumer benefits in reflecting airline and ground-handler performance within the overall departing baggage process where it can impact performance.</li> <li>- Unclear extent Eligibility Criteria would have a material impact on overall performance.</li> </ul>
<b>Baggage Systems Reclaim Availability</b>	<p>Arrivals Delivery Performance (ADP) - 85% of flights fully off loaded (i.e. last bag) to the reclaim belt:</p> <ul style="list-style-type: none"> <li>- Small aircraft – 35 mins</li> <li>- Medium aircraft – 45 mins</li> <li>- Large aircraft – 50 mins</li> </ul>	<ul style="list-style-type: none"> <li>- Withholding rebates are unlikely to be triggered due to the likelihood of Heathrow not meeting its (MTI) target being relatively low (based on historical performance).</li> <li>- Arrivals baggage delivery waiting times are a priority for consumers.</li> </ul>
<b>Security CSA &amp; Security transfers queue time</b>	<ul style="list-style-type: none"> <li>- Accurate booking data to be shared with Heathrow in a standard format</li> <li>- Data must be shared at least twice weekly</li> </ul>	<ul style="list-style-type: none"> <li>- Appears to be consumer benefits in airlines providing passenger forecasts to inform Heathrow’s security staffing plans.</li> <li>- Extent it would have a material impact on overall performance is unclear.</li> </ul>
<b>Passengers Requiring Support – overall satisfaction</b>	<ul style="list-style-type: none"> <li>- 65% Pre-notification rate</li> <li>- At least 36hrs prior to departure</li> </ul>	<ul style="list-style-type: none"> <li>- The need and benefit is unclear. Airlines already have a strong commercial incentive to provide notification as early as possible. Level of Heathrow’s charges for these services is already predicated on the pre-notification information from airlines. Therefore potential for additional consumer benefit appears to be relatively low.</li> </ul>

Figure 3.2.6 – Table showing summary of CAA feedback on eligibility criteria for financial measures.

## 82.1. Our feedback on the CAA's IP for eligibility criteria

### 82.1.1. We welcome the CAA openness to consider Eligibility Criteria, and we highlight their role in driving the right outcomes for consumers

The Eligibility Criteria drive better consumer outcomes by incentivising joint performance and a collective approach. They recognise that the airline community, and third parties such as ground handlers, have a key role to play alongside Heathrow to deliver good service to consumers in key areas that matter to consumers.

The CAA H8 guidance requires us to propose an updated MTI framework that drives a boarder coordinating role.

*“HAL should propose updated MTI for the H8 period that should focus on elements of operational service performance that are important to consumers, including those passengers' requiring assistance, and airlines and cover areas both within HAL's control and where HAL can play a broader coordinating role with other service providers (for example, airlines, UKBF, NATS, special assistance services, other transport providers)”* (CAP3038A)

The introduction of the proposed Eligibility Criteria meets this regulatory requirement by aligning incentives across the supply chain in consumers best interests. We have proposed Eligibility Criteria to avoid perverse incentives and believe they are an essential part of driving a collaborative approach.

### 82.1.2. We propose a revised approach to forgone rebate payments to ensure that we do not benefit from the introduction of Eligibility Criteria and that the incentives for coordination are retained.

We do not want the Eligibility Criteria to reduce the rebates being paid. The process set out in our plan is that, if the Eligibility Criteria target is not met by the airlines and we do not meet the target for the associated rebate measure, the airlines will not be eligible for their proportion of the rebate. As the Eligibility Criteria are applied at a terminal level, this has raised questions from the airline community about how rebates that are not paid will be treated.

In response we are proposing that where a rebate is triggered, and the airline does not meet the Eligibility Criteria target then the foregone rebate is redistributed. The approach to this will vary depending on the number of airlines operating in a terminal:

- Where there are greater than two airlines in a terminal then the rebate that would have been paid but is now foregone will be reallocated to the other airlines servicing that terminal;
- Where there are two or fewer airlines in a terminal the rebate foregone will be passed back to all airlines as part of the annual bonus true-up.

This will ensure that Heathrow does not financially benefit from the introduction of the Eligibility Criteria and the airline will face strong incentives to meet the Eligibility Criteria.

**82.1.3. We propose a revised approach to forgone rebate payments to ensure that we do not benefit from the introduction of Eligibility Criteria and that the incentives for coordination are retained.**

#### Timely delivery of bags

Baggage is a high priority for consumers. It is important that consumers bags reach their destination at the same time as they do. IATA's 2024 Global Passenger Survey identifies baggage as a top-three passenger priority<sup>80</sup>. Baggage is also the most frequently discussed topic in our social media mentions, highlighting the emotional impact on passengers when baggage misconnects occur.<sup>81</sup>

It is our view that Heathrow needs to coordinate across the airport community to ensure that everyone collaborates together in order to meet this basic expectation. Whilst the baggage process and system are complex and interlinked, analysis on the causes of baggage missing flights shows that the proposed Eligibility Criteria are a key component in achieving this outcome.

Data from 2023 to 2025 (post Covid) shows that 13% of bags missing their flight are attributable to failures within the baggage system<sup>82</sup>. The majority arise elsewhere:

- 32% from bags not being load on to the aircraft after successful system processing.
- 33% due to connection issues:
  - 17% due to late arrival of aircraft
  - 16% due to late input of transfer bags for flights that arrive on time<sup>83</sup>.

Issues such as appropriate bag input and makeup planning (for T5) are also key contributors. The Eligibility Criteria therefore target the primary causes of failure.

The 'failure to tip' eligibility criteria improve consumer outcomes by strengthening transfer of bags from the baggage system to the aircraft. Failure to tip can cause baggage to back up within the system and potential baggage system congestion. This creates the inefficient outcome where, if Eligibility Criteria are not implemented, we

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<sup>80</sup> IATA, Global Passenger Survey, 2024

<sup>81</sup> Sprinklr research and insights report, March 2025

<sup>82</sup> Assessment covers process areas where bags are missed not the accountable party. Baggage system failure can be due to airlines not clearing bags.

<sup>83</sup> Assessment covers process areas where bags are missed not the accountable party. Late delivery of bags can be due to baggage system shutdown.

could pay a rebate due to system congestion impacting on the MTI measure. This causal effect relationship does not work in reverse. It is not possible for how we operate the baggage system to cause the airlines to not meet the Eligibility Criteria as there is a clear delineation in the way data is captured. The failure to tip measure covers the first failure to tip (which is not driven by baggage system failure) and not subsequent bags. This means that the baggage system failure cannot impact on the failure to tip measure and our performance cannot lead to airlines failing the Eligibility Criteria for failure to tip.

The 'short connection times' eligibility criteria also improve consumer outcomes by helping to ensure timely input of bags into the system. This increases the likelihood that bags exit the system within the 20 minutes required for airline ground handlers, reducing misconnection and smoothing system flow, particularly at peak periods.

#### Baggage Systems Reclaim Availability

Our insight evidence shows that consumers place a high value on baggage reclaim and do not accept long wait times. Performance at arrivals therefore remains a key driver of overall satisfaction, and poor delivery can have a significant impact on Heathrow.

Responsibility for the end-to-end arrivals process is shared. Heathrow's role is to provide reliable reclaim infrastructure, including fully functioning carousels and effective allocation of flights to reclaim belts. Airlines are responsible for delivering the baggage from aircraft to carousel. The proposed Eligibility Criteria is intended to align accountability across this end-to-end system in the interests of passengers, ensuring the incentives reflect the shared nature of delivery.

Historically, the carousel MTI performance has been consistently strong, with availability exceeding 99%. While we acknowledge the CAA's view that the likelihood of triggering a rebate is low, past performance is not a reliable guide to the future where the outlook is different.

Passenger growth will increase pressure on the reclaim system and require more efficient utilisation. At the same time, improvements in immigration processing mean passengers are reaching reclaim halls more quickly, increasing the risk of misalignment between passenger arrival and baggage delivery. This places greater strain on the system and heightens the importance of maintaining performance. Longer dwell times in reclaim areas also increase potential health and safety risks.

#### Security information is essential to optimise our operations and deliver for consumers

Airline's providing booking data in the correct format for security is critical to optimise operations and manage passenger flows, particularly given that airlines have identified

security queues are a key priority for H8. Whilst many of the airlines supply reasonable data, provision is inconsistent and not mandatory.

In the absence of this data, Heathrow relies on historic averages and short term trends, which has serious limitations as it cannot reliably capture changes such as airline booking strategies or local disruption for the airlines. This can lead to significant variations in passenger arrivals -f up to 15% in a day and 20% within an hour – creating increased queue times, particularly at peak periods that have significant impact on passengers.

Currently, Heathrow mitigates this risk through planning, strong operational management and building in resource to provide resilience. Any reduction in data provision would add additional costs, so increasing coverage would both improve service and reduce longer term cost.

More granular booking data would in addition support service improvements in more than just Security and support the full departures passenger journey. i.e. check-in planning, retail resourcing, passenger assistance, etc

If the security measures remain as financial, the airlines incentives are not fully aligned. Airlines do not incur material loss if they fail to provide booking data, despite this contributing to congestion and underperformance. This creates an inefficient outcome in which Heathrow bears the financial rebate for failures partly driven by data gaps. Introducing eligibility requirements would better align incentives and encourage all parties to support improved passenger outcomes.

Eligibility Criteria for PAS align with regulatory requirements, strengthen compliance with legal requirements and address perverse incentives

The need for Eligibility Criteria for the PAS satisfaction measure builds on the points set out in our earlier response (see the Measures sub-section), where we highlight Heathrow's role in enabling the PAS service and the extent to which this is funded through the aeronautical charge in addition to the ORC framework.

The ORC payment reflects the day-to-day costs of third-party service delivery. Although there is currently a tiered charging structure to incentivise pre-notification, it does not cover the wider enabling services funded through the aeronautical charge. This supports the case for the PAS satisfaction measure to operate as a financial rebate supported by clear Eligibility Criteria.

Without Eligibility Criteria, Heathrow would be required to pay rebates in circumstances where through poor rates of prenotification airlines have contributed to worse consumer outcomes, creating an inefficient and distortive outcome. This remains true even with existing commercial incentives, so additional protections are necessary.

Pre-notification is strongly correlated with PRS service outcomes. When notification is provided within the required time limits, Heathrow must deliver the service within 20 minutes; without timely notification, the standard extends to 45 minutes.

A further benefit of incorporating the measure as a financial rebate within the MTI framework is that payments to airlines are made more promptly. MTI rebates are settled monthly, compared with the at least annual lag associated with the annual ORC pricing cycle, improving transparency and strengthening incentives for all parties to support high-quality PAS services.

### **83. Exclusions**

Heathrow considers it important that the Final Proposals retain the proposed new service exclusion set out in H8BP Appendix A1, Chapter 9 (page 85), which applies where Heathrow is prevented from accessing an asset because the stand is occupied. This clarification is increasingly material for FEGP and PCA assets, where fault rectification is inherently dependent on physical access to an operational stand and cannot be progressed where an aircraft is required to remain in position for airline reasons. In such circumstances, Heathrow does not have unilateral control over access and should not be exposed to financial penalties for service unavailability that it is unable to remedy without an adverse impact on airline's operations.

While this exclusion has not been material during H7, operating conditions in H8 will be materially different. As recognised by the CAA in the OBR Mid-Term Review, the rollout of new PCA assets and the airport's decarbonisation strategy are driving materially higher utilisation of PCA, with associated short-term operational and maintenance challenges as new equipment is embedded and usage increases. This increased utilisation reflects positive behavioural change by airlines and their ground handlers, delivering reductions in aircraft auxiliary power unit usage, carbon emissions and local air quality impacts. The CAA's H8 passenger forecasts further indicate Heathrow operating closer to full capacity throughout the period, constraining maintenance access windows.

In this context, the proposed exclusion is proportionate and consistent with the principles underpinning Outcome Based Regulation. It avoids perverse incentives, supports continued progress towards Net Zero through higher PCA and FEGP utilisation, and ensures that MTI exposure remains aligned with outcomes within Heathrow's reasonable control as operational intensity and asset criticality increase during H8.

## 84. Additional Concerns - Measures

The H8 MTI framework is largely fit for purpose and aligned with consumer priorities. However, five issues require resolution in the Final Proposals:

Priority issues:

1. Coverage of consumer priorities: The existing framework of IP covers consumer priorities. A standalone seating measure is not required. Instead, we propose an annual Heathrow Passenger Forum (HPF) review of seating.
2. Security – while we accept retention of H7 measures for rebates, daily measures for bonuses are appropriate to drive an excellent consumer service and more stretching target following the roll-out of Next Generation Security Screening machines.

Detailed issues:

1. Definition changes: We welcome the CAA position that refinements are needed to timely baggage delivery and the Track Transit System (TTS) measures
2. Airline proposals: We do not support changes to check-in infrastructure (due to risk of duplicate rebates) or PCA (due to added complexity).
3. Measurement location (Airport wide vs Terminal): The proposed measurement locations are misaligned with the H8BP and should be corrected to provide a clear consumer line of sight to the capital benefits framework.
4. Measure changes: Safeguards in the form of eligibility criteria are required to support the proposed IP.

Our H8 Business Plan (July 2025)	CAA’s initial proposals (March 2026)	Our asks of the CAA
<p><b>Coverage of the MTI framework</b></p> <ul style="list-style-type: none"> <li>H8 MTI measures cover the six passenger outcomes and strengthen focus on key consumer priorities.</li> </ul>	<ul style="list-style-type: none"> <li>Heathrow has provided a comprehensive review of the existing H7 OBR measures.</li> <li>Flags gaps against consumer priorities, particularly seating.</li> </ul>	<ul style="list-style-type: none"> <li>No new measures are required.</li> <li>Introduce an annual HPF review of seating.</li> </ul>
<p><b>Security</b></p> <ul style="list-style-type: none"> <li>Move security passenger queue measures from monthly to daily.</li> </ul>	<ul style="list-style-type: none"> <li>Retains the H7 monthly measures and rejects an airline-proposed backstop measure.</li> </ul>	<ul style="list-style-type: none"> <li>Daily security measures for bonuses.</li> <li>Express trigger for the new per-passenger standard in licence as ‘12 months post roll out of XOVIS’.</li> </ul>

<p><b>Measure definition changes</b></p> <ul style="list-style-type: none"> <li>• Switch track transit (TTS) to a ‘service days’ metric.</li> <li>• Change timely delivery of departure baggage threshold from 30 minutes to 20 minutes.</li> </ul>	<ul style="list-style-type: none"> <li>• Retains H7 TTS measures, to be replaced at a later date.</li> <li>• Supports change to timely delivery of baggage, asks for analysis on sensitivity of the measure and rejects airline proposed backstop.</li> <li>• To consider two airline proposed definition changes.</li> </ul>	<ul style="list-style-type: none"> <li>• Refine TTS Measure</li> <li>• Retain IP position for timely delivery of baggage and do not include the airline proposed backstops for baggage.</li> <li>• The airline proposals for PCA and Check-in infrastructure are not appropriate.</li> </ul>
<p><b>Measurement location</b></p> <p>Updates whether a measure is terminal or airport wide to reflect end to end passenger experience.</p>	<ul style="list-style-type: none"> <li>• Level differs to the H8BP in Appendix E and the draft licence list for five measures.</li> </ul>	<ul style="list-style-type: none"> <li>• To apply airport wide measurement for three of the measures listed as terminal in the IP.</li> <li>• Ensuring a clear link to the capital benefits framework and ensure consumer priority investments are clearly made</li> </ul>
<p><b>New and removed measures</b></p> <ul style="list-style-type: none"> <li>• Removal of three measures; introduction of a carbon measure.</li> <li>• Reclassification of two reputational measures to financial (timely delivery of baggage &amp; Passenger Assistance Service (PAS) satisfaction).</li> </ul>	<ul style="list-style-type: none"> <li>• CAA is minded to support removal of the three measures.</li> <li>• Supports the carbon measure, in line with the mid-term review.</li> <li>• Supports moving the two reputational measures to financial.</li> </ul>	<ul style="list-style-type: none"> <li>• To retain the changes to these measures set out in the IP.</li> <li>• Include Eligibility Criteria for timely delivery of baggage and priority services to avoid perverse incentives.</li> </ul>

Figure 3.2.7 – Table summarising H8BP position on additional MTI concerns vs CAA IP MTI position vs current ask from Heathrow.

### **84.1. The MTI measures cover consumer priorities including seating**

Drawing on Steer's review of consumer research and engagement, the CAA raises concerns that there may be gaps in the MTI framework against consumer priorities in relation to seating.

Our H8BP demonstrated that the proposed H8 MTI measures cover the six passenger outcomes and strengthens focus on key consumer priorities such as baggage and passengers requiring support. The HPF has confirmed in their submission to the CAA, that the proposed MTIs appropriately cover all elements of the passenger journey, and the CAA's IP recognise the coverage of our cargo customer's priorities through the security staff search and control post measures.

A stand-alone seating measure is not appropriate. Seating is already captured as a key driver within the overall satisfaction measure. Introducing a separate measure would create duplication and risk double counting. Our ability to improve seating is strongly linked to our capital expenditure (see Appendix D) and operational constraints. Physical limitations, including fixed gate sizes and increased passenger volumes leading to greater congestion over H8, restrict the scope for change. A seating measure would also create perverse incentives, such as encouraging the reallocation of terminal space away from retail, which would increase passenger charges under the single till model. An MTI measure is not the appropriate way to manage that trade-off.

Given the complexities and nuances of seating, a more effective approach is to adopt an annual review with the HPF. This would provide structured oversight and assurance that Heathrow's approach continues to act in consumer interests. This approach would enable consideration of a broad range of evidence, including qualitative data, rather than focusing on a single specific measure that could drive inefficient activity.

### **84.2. Security move to daily - We propose a balanced approach to address CAA concerns and act in consumer interests**

The H8BP proposed a move from monthly to daily measurement of passenger queue times to improve performance, increase alignment between transfers and central search measures, and enable a future transition to a per-passenger standard, via XOVIS.

The CAA proposes retaining H7 monthly measures, citing risks of unintended consequences and the interaction with other security changes to targets and incentives. It also notes that the full impact of Next Generation Security (NGS) programme may not have been captured and that, under daily measures queue times between 5-10 minutes would no longer count as a breach.

We consider daily measures to be in consumers interests as they support improved performance by increasing transparency and driving more consistency in delivery of

passenger-facing standards. However, we recognise the CAA's concerns about the scale of change.

A balanced approach is therefore appropriate. Retaining the H7 framework for rebates addresses proportionality concerns, while introducing daily measurement of bonuses incentivises excellent service through targeting zero breaches of the five-minute queue time threshold which is a more stretching bonus target than in H7 and reflects the improvements seen since the introduction of Next Generation Security machines.

With the planned rollout of XOVIS, the airline community has requested that the licence include a commitment for Heathrow to move to a per-passenger standard. We support this approach and propose that the licence specifies a trigger of '18 months post roll out of XOVIS conditional on all parties agreeing to the new measure and target' rather than '1st January 2028', to ensure alignment with delivery timelines.

We welcome the CAAs position not to include the security backstop proposed by the airline community. We agree with the CAA assessment that the proposal is disproportionate. It is therefore our view that the proposal does not align with the principle of a 'fair bet'.

## **84.3 Measure definition changes**

### **84.3.1. A new TTS underpinned by an updated measure**

The CAA state they are minded to accept the move to a 'service days' measure. They retain the H7 measures in the short term, with the expectation that these will be replaced with a newly agreed service day measure. The CAA expects to include an overall availability measure as a backstop in the Final Proposals.

We remain committed to working collaboratively towards a shared position ahead of the H8 Final Proposals. The TTS is a critical component of the passenger journey within Terminal 5, enabling efficient, quick and reliable passenger connections. The added-value of TTS is likely to be further enhanced as One Stop Security progresses though this creates some technical challenges in the short-term. A service-day measure better aligns incentives with actual service availability and passenger demand patterns. It also supports more efficient asset utilisation by aligning operating profiles with demand, thereby reducing unnecessary wear and avoiding the degradation of asset life (and consequent costs) relative to the current measure.

### **84.3.2. The timely delivery of baggage measure adequately captures resilience**

The CAA supports our proposed reduction in the threshold for measurement from -30 minutes to Scheduled Time of Departure (STD) to -20 minutes to STD, aligning with airline minimum connection times for transfer passengers. In the IP the CAA has

requested further analysis to assess the sensitivity of the measure to significant baggage outages and their impact on resilience.

Over the 12-month period from April 2025 to March 2026, timely delivery performance was significantly impacted by four major operational incidents, each resulting in a failure to meet the monthly target of 98%. These incidents occurred in July 2025 (Terminal 5 PSS and Terminal 2 Main Hall East Sorter outage), December 2025 (Terminal 2 Main Hall West Sorter outage), and January 2026 (Terminal 5 system congestion).

Analysis indicates that adjusting the measurement threshold would not have altered the outcome in any of these cases, as affected terminals would still have missed their targets. This confirms that performance shortfalls were driven by substantial operational disruptions rather than measurement sensitivity.

In addition, we welcome the CAAs position not to include the airline proposed backstop for baggage. We agree with the CAA assessment that that the backstop would not provide us with an opportunity to meet or out-perform the measure. It is therefore our view that the proposal does not align with the principle a 'fair bet'.

#### **84.3.3. We do not believe the airline proposals for changes to check-in infrastructure and PCA are appropriate**

In the IP, the CAA state they will consider the two airline proposed definition changes for check-in infrastructure (to include baggage input belts) and PCA (to include serviceability) ahead of Final Proposals.

For check-in infrastructure, including baggage belts in the definition would lead to double counting with the Timely Delivery of Baggage measure. As rebates apply to both measures, the airline's proposal would expose us to duplicate rebate payments. Avoiding double counting is a fundamental principle of effective incentivisation.

For PCA, our definition of serviceability is that the asset is working as intended. Our Asset Standard states, "*PCA Systems are required to provide heating, cooling, and ventilation to an aircraft's cabin while parked on a stand for passenger comfort.*" Since there are many variables that we do not control (such as the effectiveness of the aircraft ventilation system, the setup, and the size of the plane, which in some cases are larger than the original design standard for our current units), it would not be appropriate to specify a temperature or flow target to be pumped into the aircraft. This is further compounded by the ability to check the temperature and differing personal views on comfort.

In line with other assets, if the PCA is not working or meeting standard, a fault should be raised, and downtime will be triggered. Any temperature range can be agreed and tested outside of the MTI if the community feels the unit is not working and we believe it is as part of business as usual processes.

#### 84.3.4. Changes are required to the measurement location

Our H8BP proposed updates to whether a measure would be assessed at terminal or airport wide level, as set out in Table 76 of our H8BP. In Appendix E of the IP and in the draft licence, the CAA list whether each measure is terminal or airport wide. This differs to the H8BP for five measures:

- Four measures are listed as terminal that were proposed as airport wide (overall satisfaction, customer effort, enjoy time at the airport, help and attitude of airport staff).
- PAS is listed as airport wide which we proposed as a terminal measure.

We ask the CAA to align Final Proposals with our H8BP by applying airport wide measurement to three measures ('Overall satisfaction', 'Customer effort' and 'Enjoy my time at the airport').

For these measures, it is important to assess the outcomes at an airport level to reflect the end-to-end passenger experience, which covers multiple terminals. Targets set at an airport level will also differ from terminal level targets due to averaging effects, with terminal levels targets lower. This change is also required so that we can effectively link capital benefits framework to the MTI as without this change we are only able to justify improvements in the lowest performing terminals at the detriment of consumers in other terminals. This is addressed further in the incentives sub-section when considering overall satisfaction bonus thresholds.

#### 84.3.5. We welcome the IP changes to new and removed measures

The CAA's IP broadly supports our H8BP proposed changes, including the introduction of the carbon measure and the removal of three outdated measures that no longer provide meaningful insight. This simplification strengthens the focus of the MTI framework on core consumer outcomes. This simplification strengthens the focus of the MTI framework on core consumer outcomes.

The CAA also supports reclassifying timely delivery of baggage and PAS satisfaction as financial measures, recognising their importance to consumers and, for PAS, alignment with Equality Act 2010 duties.

However, financial incentives should only be applied to timely delivery of baggage and PAS satisfaction where they are accompanied by appropriate Eligibility Criteria to avoid perverse incentives. Further details on this are set out in the sub-section on Eligibility Criteria above.

While airlines do not support a financial incentive for PAS on the basis of existing contractual service levels with the PAS service delivery provider, the CAA has rightly noted that this does not preclude inclusion in the MTI framework. We agree that PAS satisfaction should be a financial measure. This is consistent with the CAA's charging obligations and does not conflict with its Equality Act 2010 duties.

PAS satisfaction is one of series of measures in the established KPI and SLA framework. Elevating it to a rebate mechanism within the MTI framework enhances transparency and strengthens the incentives across all parties to maintain high service standards that are consistent with the CAA’s accessibility framework and the current requirements for ‘Very Good’. It is therefore consistent with the MTI framework driving a boarder coordinating role (as required in the H8 MTI methodology guidance).

Whilst the on the day PAS service is delivered a third-party provider and funded through ORC, Heathrow also plays a direct enabling role through the provision of digital products and supporting infrastructure, including enablement hubs. These enabling services are funded through the aeronautical charge and are reflected in our regulatory asset base, providing a clear line of sight between investment funded by the aeronautical charge and PAS outcomes, and underpinning shared accountability.

We also note that the CAA intends to revisit “an airport that meets my needs” through future Constructive Engagement, and we will continue to engage constructively in that process.

## 85. Additional Concerns - H8 Targets

### 85.1. Summary of issues

Our H8 Business Plan (July 2025)	CAA’s IP (March 2026)	Our asks of the CAA
<b>Timely delivery of baggage</b> <ul style="list-style-type: none"> <li>Target set at 98%</li> </ul>	<ul style="list-style-type: none"> <li>Agree with plan</li> <li>Airlines raised 99%</li> </ul>	<ul style="list-style-type: none"> <li>Retain 98% target.</li> </ul>
<b>Reputational targets</b> <ul style="list-style-type: none"> <li>Different targets for six measures</li> <li>New targets for three further measures</li> </ul>	<ul style="list-style-type: none"> <li>Retains H7 level targets</li> <li>Minded to accept revised targets for personal injury and baggage misconnect.</li> <li>No target for carbon but supports inclusion.</li> <li>Inconsistent presentation of targets as 2031 targets.</li> </ul>	<ul style="list-style-type: none"> <li>Engagement on reputational targets linked to the expenditure allowances.</li> <li>Licence references clarified as to be met in 2031.</li> </ul>
<b>Arrivals management target</b> <ul style="list-style-type: none"> <li>Set at H7</li> </ul>	<ul style="list-style-type: none"> <li>Set at mid-term review level.</li> </ul>	<ul style="list-style-type: none"> <li>Set at H7 level to reflect actual operational feasibility</li> </ul>

Figure 3.2.8 – Table showing summary of issues in H8BP vs CAA’s IP vs Heathrow’s current asks of the CAA.

## **85.2. Timely delivery of baggage**

Airlines have proposed increasing the H8BP target from 98% to 99%. We do not agree. This would require additional maintenance and operational mitigation, increasing opex and ultimately passenger costs.

To increase baggage system performance, operating practices within the terminals would need to be realigned, shifting the risk towards airline operations, where the likelihood missed bags is higher. This would also constrain passenger service initiatives such as all-day check-in and off-airport collection, and affect Heathrow's role as a sortation hub, with downstream impacts on onward journeys. Repatriation times may increase, and opportunities to deliver cost-effective improvements by balancing operational risk with investment would be reduced. All of which would mean that the passenger has an increased risk of not travelling with their baggage.

## **85.3. We welcome the opportunity to engage with CAA on the reputational targets.**

The CAA has retained H7 level reputational targets, noting that our proposed changes are largely marginal and indicating an intention to engage further ahead of Final Proposals.

We remain confident that our proposed targets are set at the right level versus H8BP levels of investment and represent a stretching but achievable level of ambition. They are grounded in evidence of past performance and have been developed to balancing ambition with value for money, taking into account key constraints, including ageing assets and forecast passenger growth.

## **85.4. Arrivals management target needs to be updated to reflect operational feasibility.**

The CAA has set the target in line with the Outcomes Based Regulation (OBR) mid-term review decision, which is more stretching than the target the H8BP, which retains H7 levels. The mid-term review sets targets based on average H7 and comparator airport performance.

We request that the target for Arrivals management is increased from 10 minutes to 15 minutes in alignment with H7 levels. This measure is closely linked to taxi time, and as it is applied at a terminal level, the underlying airport structure places constraints on what can be operationally achieved. A target of 10 minutes is not achievable at certain terminals (e.g. T4).

## Section 3.2 summary - asks of the CAA

Heathrow asks that the CAA reflect the following in their Final Proposals:

### Operating and capital expenditure:

- To reinstate the expenditure allowances to enable Heathrow deliver against consumer priorities and to meet the MTI targets.

### Incentives:

- To ensure that rebate incentive rates align with consumer priorities by adopting the rebate incentive rates proposed in this response based on revised weightings.
- To retain the position for wayfinding and recognise the overlap with overall satisfaction.
- To retain the IP view that an airline bonus for check-in is not appropriate
- To include bonus range of 1.53% for the five measures included in the IP (an incremental evolution from the current H7 1.44% level) and extend the bonus range to 2.0% to cover additional bonus for overall satisfaction.

### Eligibility Criteria for Rebates:

- To include our revised approach to forgone rebate payments in the Final Proposals.
- To implement airline eligibility rebate criteria for timely delivery of baggage and arrivals reclaim.
- To include Eligibility Criteria to support the security queue rebate measures.
- To include Eligibility Criteria to support the PAS overall satisfaction rebate measure.

### Measures:

- To support the proposal of an annual review with the HPF on seating.
- To move to daily security measures for bonuses; to include a trigger for the new per-passenger standard for rebates in the licence expressed as '18 months post roll out of XOVIS conditional on all parties agreeing to the new measure and target'; to retain IP position to exclude the airline proposed backstop for security.
- To retain IP position to change the definition for timely delivery of baggage and not include the airline proposed backstops for baggage in final proposals.
- To exclude the airline proposed changes for check-in infrastructure and PCA in their H8 Final Proposals.
- To apply airport wide measurement for three measures ('Overall satisfaction', 'Customer effort' and 'Enjoy my time at the airport') and make PAS satisfaction a terminal measure.

- To retain the position set out in the IP to move timely delivery of baggage and priority services to financial rebate measures and include Eligibility Criteria to avoid perverse incentives.
- To move to a move to a 'service days' measure for TTS.

Targets:

- To retain the target of 98% for timely delivery of departure baggage.
- To engage in further discussions on reputational targets and that the references to the reputational measures are updated to clearly state that reputational targets are to be achieved by 2031.
- To set the arrivals management target at 15 minutes due to operational feasibility.

## SECTION 3.3 GOVERNMENT POLICY

The following section sets out our concerns with Government policy on Business Rates and Value Added Tax.

### 86. Business Rates

The H8BP proposed recovering business rates through Other Regulated Charges (ORC) rather than airport charges, reflecting our understanding that this approach was supported by the airline community. This change was intended to ensure a transparent pass through of business rates and to minimise the risk of windfall gains or losses arising from changes in rates. As noted in the Legal Annex, the CAA’s primary duty under the Civil Aviation Act 2012 (CAA12) is to further the interests of consumers. In discharging that duty, it must have regard to the need to secure that Heathrow is able to finance its licensed activities. Both limbs of this duty are engaged by the appropriate regulatory treatment of business rates.

#### 86.1 Scale of Business Rates

The H8BP in July 2025 initially estimated total business rates of £722 million (2024 prices). Following further engagement and the Valuation Office Agency’s (VOA) provisional rateable values, alongside government policy announcements in November 2025, Heathrow updated its estimate in December 2025 to £1,071 million (2024 prices).

The IP recognises that business rates are driven by factors that are unique and do not lend themselves to inclusion within its standard “baseline, roll-forward and overlays” methodology. As a result, the CAA carried out a bespoke assessment of business rates rather than treating them in line with the other cost categories.

In doing so, the CAA considered Heathrow’s updated estimate of £1,071 million (2024 prices) to be appropriate. This reflected the latest information available to Heathrow at the time, including provisional VOA rateable values and recent government policy decisions.

The CAA then made a downward adjustment to this figure to reflect the fact that the H7 Final Decision allowance for business rates had been £85 million (2020 prices) too high and that this amount had not been utilised. The CAA therefore netted off this “logged-up” amount, resulting in a revised H8 IP for business rates at £967 million (2024 prices).

#### 86.2 Treatment of Business Rates to minimise future exposure

Whilst Heathrow supports the CAA’s acceptance of its business rates forecast, and understands the approach taken to net off the logged-up amount from H7; it considers

it necessary for an appropriate regulatory mechanism to be put in place to ensure that Heathrow and consumers are not exposed to windfall gains or losses.

We also acknowledge the CAA's view that business rates should not form a part of ORCs; and while we do not comment in detail on the IP not to move business rates to ORCs, we continue to strongly consider that our original proposal improves transparency and minimises the risk of windfall gains or losses arising from changes in business rates, and this would be the suitable course.

Specifically, the CAA will be aware of the significant risk surrounding Heathrow's exposure to business rates from 2029 onwards.

In 2023, the Government implemented a change to the business rates calculation methodology, moving from an assessment based on the value of the estate to one based on revenue and receipts. This change has materially increased business rates exposure for UK businesses, with a particularly pronounced impact on Heathrow.

As a result of this methodological change, Heathrow's business rates liability increased but transitional relief granted by Government has so far protected both consumers and Heathrow from the full impact of this increase. However, this transitional relief is due to expire in 2029, after which Heathrow faces a material risk of significantly higher business rates exposure.

Heathrow anticipates that, without transitional relief, its exposure to business rates between 2029 and 2031 could increase by up to £2.4b in total over H8, representing a 137% increase relative to the H8 IP. This increase would be material and profound, if not dealt within H8, it will have significant and worrying impact on Heathrow's cash flows and in future airport charges (i.e. H9 charges will have to adjust to recover £2.4b of rates costs). This is not in the interest of consumers, who prioritise receiving value for money, and we have a simple solution.

Heathrow agrees with the CAA's current approach that the risk from changes in rates cost is outside Heathrow's control and should therefore be allocated to consumers. In H7 this risk was managed through an end of period adjustment. However, the scale of this risk based on the current Rateable Value at is too large to be appropriately managed in this way, and therefore a regulatory mechanism that enables material changes in rates payable to be reflected during H8 itself is required.

Such an approach is not novel. We note other regulators, such as Ofgem and Ofwat, have applied similar solutions to address known cost exposures. Our simple solution is 1) not novel; 2) builds on the CAA's guidance and good regulatory practice, which therefore helps protect trust in the regulatory contract; and 3) helps to protect consumer interest by protecting against unnecessary and sudden airport charge increases.

The CAA should take forward Heathrow's suggestion, and consider it alongside its obligation under s.1(3)(a) CAA12 to secure that Heathrow is able to finance its licenced activities. Failure to provide a recovery for a liability of this scale and character would be inconsistent with that duty.

## 87. Value Added Tax

The CAA will be fully aware that the majority of Heathrow's aeronautical revenues are zero rated for Value Added Tax (VAT), consistent with long standing precedent across UK airports. Notwithstanding this, in March 2026, HMRC began challenging whether the passenger element of Heathrow's aeronautical charges and PRM services should be zero rated for VAT, with similar reviews being undertaken in respect of other UK airports. HMRC are currently of the view that passenger service charges should attract VAT and they plan to retrospectively claim the costs from (2023) onwards together with interest on the delayed amounts. The current exposure to retrospective recovery for VAT prior to H8 is anticipated to be around £1bn in VAT and £200m in interest. We understand HMRC are also considering their approach to PRM charges.

Heathrow is currently disputing HMRC's new interpretation that these services are subject to VAT and we are preparing a full technical response to HMRC on this basis. We are working with the industry through Airports UK and our airline community via the Joint Steering Board (JSB) on both the appropriateness of the change in treatment and on the appropriateness of applying a new policy retrospectively. Heathrow has complied with all HMRC guidance to date.

In the event that HMRC concludes that the passenger element of aeronautical charges and PRM services are subject to VAT, Heathrow would be required to apply VAT to these services charged to airlines on a backdated basis. Our intention would be to attempt to recover the back-dated VAT from airlines<sup>84</sup>, however the liability for payment of interest on this VAT may be applied to Heathrow. The liability for interest costs will continue to increase until the matter is decided. Note that these costs would be treated as opex from an accounting perspective.

This potential liability represents an exogenous cost and meets the criteria established by the CAA in Q6 for pass through items, namely that the cost is of uncertain magnitude and one over which Heathrow has little or no control. The outcome is dependent on HMRC's assessment and therefore sits outside Heathrow's ability to manage or mitigate through operational or commercial decisions. We consider that the CAA's duty under s1(1) CAA12 to further the interests of consumers is best discharged by providing a pass

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<sup>84</sup> Note that as airlines are zero rated, they will be able to reclaim this VAT from the Government so it will not materialise as an additional cost to them. They will however have to finance the timing differences between payments and receiving refunds from Government

through mechanism (absorbing this liability into the opex allowance would transfer an uncontrolled Government policy risk to Heathrow and ultimately to consumers in a less transparent and predictable way).

### **Section 3.3 summary - asks of the CAA**

Heathrow asks that the CAA reflect the following in their Final Proposals:

#### Business rates

- To include a recovery mechanism for Business Rates within the framework that allows material increases in rates to be recovered within H8 that helps protect future consumers from significant and known cost increases that could have been dealt with before.

#### VAT:

- To reflect that the cost exposure meets the threshold for inclusion within a pass-through mechanism and is treated as such in its Final Proposals in preparation for the risk materialising.
- To work in conjunction with Heathrow to develop the detailed design and implementation of an appropriate pass-through mechanism to address this uncertainty.

## SECTION 3.4 OTHER REGULATED CHARGES

### 88. Introduction

Heathrow's response to the CAA's IP on Other Regulated Charges (ORC) focuses on three priority areas:

1. Treatment of H8 ORC fixed costs
2. Scope of ORCs for H8 (including Noise and Vortex [N&V])
3. Cost reporting / oversight

We also comment on other pertinent issues outlined within the IP including the reconciliation of non-airline fixed costs from H7.

### 89. Treatment of H8 ORC fixed costs

The CAA proposed to retain the H7 structure of keeping non-airline fixed costs within the ORC framework but to introduce a cap in relation to Heathrow's water and wastewater charges at a level of 100% of direct costs.

For all-airport ORCs, both airline and non-airline fixed costs must be included to ensure costs are allocated appropriately across all users. Airline fixed costs for these facilities being picked up in the aeronautical charge, as proposed by the CAA, would result in airlines continuing to bear a portion of non-airline fixed costs through the application of matched pricing, consistent with the approach adopted in H7. By including the recovery of both airline and non-airline fixed costs within all-airport ORCs, the need for matched pricing would be removed, ensuring a more transparent and cost-reflective framework in which each party pays its appropriate and fair share.

Heathrow acknowledges the ambition of limiting the scale of the water charge and believes this can benefit the consumer. However, the difference resulting from the calculated water and wastewater fixed costs and the capping of these fixed costs must be reallocated to the aeronautical charge.

### 90. The scope of ORCs for H8 (including Noise and Vortex)

The CAA proposed no change to the scope of ORCs in terms of the Specified Facilities included or excluded for H8. We note that the CAA's decision to make no change to the scope of ORCs for H8 is itself a regulatory decision that requires justification by reference to the CAA's statutory duties. We flag that CAA has not provided that justification in the IP. Heathrow's Legal Annex addresses this point in further detail.

## 90.1 Noise and Vortex

Heathrow's noise insulation scheme, Quieter Neighbourhood Support (QNS), is necessary to deliver a legally required commitment under Heathrow's 2024–2028 Noise Action Plan at a scale and pace that is credible and effective. Heathrow's proposed level of funding (£241m) supports completion within around 15 years, whereas materially lower funding would extend delivery into the next century, undermining policy compliance and scheme credibility.

Adequate investment enables a controlled, programme-led approach that delivers real reductions in annoyance and sleep disturbance for affected communities, reducing reliance on more disruptive measures. Under-funding increases the risk of future operating restrictions on aircraft movements, as seen at other European airports, which would impact passengers, airlines, and the UK's connectivity.

Heathrow acknowledges the CAA's position regarding our proposal to treat Noise and Vortex costs as capex for H8, and the CAA's view that this should be treated as opex in line with statutory accounting policies [REDACTED]

Two of the key drivers behind our proposal to classify these costs as capex were the additional oversight that airlines would have as a result, and the flexibility of capex so that only actual expenditure is reflected and the mitigation this would provide to uncertainty around activity levels and timing.

Designating the opex expenditure as an ORC would also allow additional airline oversight and a mechanism to ensure cost recovery was in line with activity. It is also consistent with the ORC framework principles. Heathrow therefore considers that the allocation of N&V costs within the ORC framework is the most appropriate mechanism for H8. Bringing N&V costs within the ORC framework will ensure the full cost of services is directly attributable to those users causing associated noise. In addition, the framework can enhance oversight, scrutiny and transparency of spend.

Given the inherent uncertainty around the spending profile over the course of the H8 period, the ORC framework offers a proportionate and flexible approach, enabling updates to the cost base during the regulatory period, subject to annual consultation.

Designating N&V as a specified facility would ensure appropriate ring-fencing of costs directly associated with delivering the intended benefits. In addition, the transparency afforded by the ORC framework provides clear visibility and opportunity for scrutiny of both spend and outcomes for the airline community, as well as for local communities affected by aircraft noise. Through ongoing collaboration and consultation with airlines, the ORC framework can ensure that those aircraft impacting the community bear an appropriate share of costs commensurate to the noise they are creating. N&V costs

being designated as a specific separate charge to fund a package of noise measures is common practice at other comparator airports, such as Frankfurt.

A potential concern of allocating N&V costs to ORCs is that it would reduce the incentives for efficient delivery. In practice, the key drivers of cost will be the number of properties insulated and the delivery contracts in place with third party providers. The ORC framework itself will allow any uncertainty about volume of activity to be managed, and we consider that the cost risk in delivery can be managed through an appropriate approach to procurement. Such an approach could involve airlines in a similar manner to the recent PRM contract. Therefore, we consider this risk can be effectively managed and does not outweigh the other advantages of designating N&V as a specified facility within the ORC framework.

Moreover, as noted in the Legal Annex, it is the CAA's duty to have regard to the need to secure that Heathrow is able to take reasonable measures to reduce, control and mitigate adverse environmental effects. This is relevant to the treatment of N&V costs. Designating N&V costs as a Specified Facility within the ORC framework is a targeted and proportionate mechanism for discharging that duty.

## 90.2 One Stop Security (OSS)

Following approval of the UK–USA bilateral agreement (December 2024), Heathrow has successfully implemented One Stop Security (OSS) on a trial basis for passengers connecting via Dallas/Fort Worth and Atlanta. This has demonstrated that OSS can be delivered safely and compliantly using clean departure flows while maintaining equivalent security outcomes.

Eastbound OSS was introduced in February 2025, with Westbound OSS commencing in July 2025. OSS delivers for passengers, as it removes one of the most significant pain points for connecting passengers – namely uncertainty and security-related friction – by eliminating the need for repeat transfer screening. This results in a faster, more predictable, and more reassuring passenger journey.

In line with the updated capital business case, OSS uptake is expected to grow progressively throughout the regulatory period, reflecting both operational success to date and increasing passenger demand for more seamless connections.

Heathrow sees there being a strong argument for designating OSS as a specified facility, consistent with the principles of the ORC framework. Heathrow is the sole provider of services for OSS, and the ORC framework can ensure that users pay the full cost of the services and enhance transparency and governance.

As acknowledged by the CAA, the future growth model for OSS remains uncertain, and as such defining a full cost envelope remains challenging. In this context, the ORC

framework is suitable in providing the necessary flexibility to scale and adapt OSS in line with the evolution of the product throughout the regulatory period. Following engagement with airlines we consider it appropriate, during its development stages for OSS to be introduced on a per passenger basis attributable to all airlines. This would allow the cost of OSS to be passed directly through to and spread equitably across all airlines, considering the higher potential risk cost and broader benefit as the product is in its development. Throughout the regulatory period Heathrow proposes to review moving towards a direct cost per passenger model as the product develops and matures.

This approach is demonstrably in the interest of consumers, it is consistent Heathrow's H8 principles, supporting improvements to the passenger experience and facilitating the unlocking of growth at Heathrow. The ORC framework also enables appropriate governance, scrutiny, collaboration and flexibility as the scale and scope of OSS evolves over the H8 period.

### 90.3 Baggage system and screening

Heathrow agrees with the CAA's proposal to retain baggage systems & screening within the ORC framework. Baggage systems and screening is a fundamental component of the airport journey, and the ORC framework provides the most appropriate mechanism for cost recovery, with Heathrow the sole provider of services and able to directly pass cost through to users, alongside clear transparency and scrutiny of costs via ORC governance.

Removing these costs from the ORC framework could reduce this transparency and weaken existing oversight arrangements. The current model for cost scrutiny is well-established and robust, with the ORC framework providing appropriate governance and protections to ensure that spend is monitored and managed effectively. From 2023 to 2025, direct cost changes were lower than the proportionate year-on-year uplift in number of bags. Furthermore, the cost-per-bag approach within the ORC framework offers clear visibility of baggage-related expenditure and its impact on customers, and adapts to the significant year-on-year changes in baggage throughput.

Airlines operating at Heathrow adopt a range of different baggage models, with significant variation in strategies and usage across carriers, airlines in the same aeronautical PSC charging category can have a 100% difference in their bags per pax ratio. Baggage throughput is a key driver of the baggage cost profile, as such including baggage costs within the airport charge would risk outcomes that are inconsistent with the user-pays principle, as airlines and passengers would be required to pay for baggage systems they may not use. The current model is in the interests of consumers; it provides clear transparency over the costs of Heathrow's baggage systems and

security screening operations. This transparency supports informed consumer decision-making across a wide range of airline baggage charging models.

**90.4 Taxi Feeder Park**

Heathrow remains of the view that removing the Taxi Feeder Park (TFP) from the ORC framework is in the interests of consumers. The TFP is the designated holding area for hackney carriages (black taxis), located on the Northern Perimeter Road and providing a facility for taxis to wait until the system allocates them to a terminal for passenger pick-up.

The operational cost of the TFP consists of the IT system which manages the entry and exit system, a supplier to manage the holding area and wider maintenance.

The application of the ORC framework has resulted in significant TFP tariff volatility, limiting Heathrow’s ability to provide pricing certainty to TFP users and undermining their ability to plan effectively for the future. Figure 3.4.1 below shows the significant variation for the TFP tariff over the past five years, with the fee moving more than 50% in four out of the five years.



*Figure 3.4.1 – Graph showing Taxi-Feeder Park gate fee*

This level of volatility is not conducive to the stable and predictable operation of the TFP and does not deliver positive outcomes for consumers. In comparison, tariffs for Authorised Vehicle Area, managed successfully outside the ORC framework, remained flat, whilst seeing continued growth in usage. In addition, the current arrangements mean that airlines may be required to fund elements of capital spend for the TFP without any clear ability of airlines to influence usage or recover investment from the facility.

Removing the TFP from the ORC framework would support greater certainty, more appropriate risk allocation, and outcomes that are better aligned with the user-pays principle and consumer interests, delivering an outcome more consistent with the CAA’s primary statutory duty.

**91. Cost reporting and oversight**

The CAA proposed to introduce a licence requirement for Heathrow to provide an annual written explanation to the CAA and ORC users where the outturn real unit charge of any ORC, or any of its components, increases above inflation compared to the previous year.

Heathrow recognises and acknowledges the CAA’s objective of ensuring appropriate cost scrutiny and transparency for ORC users. However, Heathrow considers that any amendments to the existing arrangements must remain proportionate, targeted and practical in their application.

In Heathrow’s view, any additional focus should be directed towards changes in underlying direct costs, rather than on movements in charges that may arise as a consequence of ORC mechanisms, such as over or under recoveries. Focusing the requirement on underlying cost changes would ensure that scrutiny is applied to movements in the actual cost base of ORCs, rather than outcomes driven by reconciliation effects, and would more effectively align with airlines’ objectives for enhanced oversight of costs.

Heathrow provides all ORC users with detailed justifications for material cost changes across all specified facilities through the annual ORC consultation process. This includes clear articulation of cost drivers and is supplemented by detailed feedback provided in the initial and final consultation report.

In addition, the H7 ORC protocol, developed collaboratively with the ORC community, includes provisions requiring the sharing of business cases for material out-of-cycle cost increases, providing further assurance on transparency and governance.

As set out in the Legal Annex [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

## 92. Other ORC matters

Heathrow welcomes the CAA's position of removing the requirement for us to undertake an Independent Review, being replaced with a more general requirement to do so when requested by the CAA. We note that this should include a reference to doing so within a reasonable timeframe.

Heathrow welcomes the opportunity to work constructively with the CAA on the reconciliation of H8 fixed costs. However, Heathrow notes that non-airline fixed costs during H7 were recovered fully in accordance with the requirements of the H7 licence. We further note that the proposed introduction of a cap on water and wastewater charges in line with the CAA's proposals would significantly exceed any level of over-recovery paid by non-airline users during H7. Amending the recovery of non-airline fixed costs would result in the implementation of matched pricing and bring significant unnecessary complexity to charges for the regulatory period. As such, and to ensure clarity and simplicity for all parties, we consider it appropriate that no amendment is made for H8.

### Section 3.4 summary - asks of the CAA

Heathrow asks that the CAA reflect the following in their Final Proposals:

#### Treatment

- To include the recovery of both airline and non-airline fixed costs within all-airport ORCs. Upon this inclusion, and an appropriate allocation of the capped differential to aeronautical charges, Heathrow agrees to the capping of water and wastewater fixed costs.

#### Scope

- To designate the following as a specified facility:
  - Noise and Vortex
  - One Stop Security
  - Baggage systems / Hold Baggage Screen (HBS), as is today.
- To remove Taxi Feeder Park as a specified facility.

#### Reporting and oversight

- To remove the revised licence obligation C2.8.
- To explore amending the H7 ORC protocol, when updated for H8, to include an explicit requirement for Heathrow to share a clear and transparent business case outlining key drivers of change with the airline community where any pricing cycle

direct cost exceeds certain thresholds such as 5% of the size of the relevant specified facility or £1 million.

- To engage with the airline community as part of the process to update the protocol, ensuring that the proposed amendment is implemented in a proportionate and practical manner and continues to support effective scrutiny and transparency.

## SECTION 3.5 COMMERCIAL PROPERTY

### 93. Introduction

In our H8BP, Heathrow set out our view that the framework of the single till risked creating unintended, but clear disincentives in commercial property, to the detriment of consumers, airlines and the airport. We highlighted:

- The lack of commercial property investment by Heathrow – over the last 20 years there has been no significant investment in commercial property development. Eastern Business Park is the limited exception, but was only agreed in 2025, and which had unique characteristics for investment.
- Competitive pressure – The lack of investment by Heathrow is contrasted with significant investment made by 3<sup>rd</sup> parties around our perimeter (taking advantage of high value of land as a result of Heathrow’s success) and the examples of investment made across our competitor hubs in Europe.
- Quality of built environment – our consumer research shows that passengers and consumers value the high-quality built environment of the buildings in and around the airport.

We also proposed a range of models that could be explored and set out an approach that put consumer benefits at its heart through the impact on charges and affordability.

We note the CAA’s statement in its IP that “*HAL has not yet made a strong case for change or a sufficiently developed proposal*”. Since submitting the H8BP, we have provided additional information to the CAA to help address these concerns. The CAA must have regard to this material and take it into account in its decision-making prior to the publication of the Final Proposals.

We welcome the CAA’s continued openness to considering an appropriate model. Building on constructive engagement at both senior and working levels, we have also discussed the potential for a time-limited trial project through which a mechanism could be tested in practice. We would ask that the CAA engage fully with the material and form a view as to whether the interests of users – both passengers and cargo owners – would be well served by an improved development environment at Heathrow.

In this section of our response, we:

1. Summarise new information and how it helps address the CAA's concerns.
2. Set out the case for a trial of Heathrow's proposed approach.
3. In light of the CAA's feedback, set out key commercial projects that Heathrow proposes adding to the capex envelope.

## 94. New Information and Responses to the IP

Since the H8BP was submitted in July 2025, Heathrow developed and submitted information within the CAA-Heathrow bilaterals on Commercial Property Development in November 2025 and April 2026 (see Appendix F.vii and F.viii of this response), as well as illustrative modelling scenarios.

These provided more detail on the rationale behind our suggested changes, and also dealt with a range of issues highlighted by the airline community in discussions during Constructive Engagement. These included:

### 94.1 Airlines do not want charges to increase and do not want to take risk on property development.

We have outlined and illustrated step-by-step the design principles that ensure that a sharing agreement used *if and when* on-RAB development is rejected offers a win-win approach – with no possibility of the charge increasing as a consequence of these investments, with Heathrow taking on construction and revenue risk.

### 94.2 Property development business cases cannot deliver a charge that is flat (or pays back in five years).

We have modelled the sharing agreement’s financial results (and provided underlying calculations) to show that development risks would be taken by Heathrow Propco securing benefits to the till and airlines, with no charge increase.

### 94.3 An alternative model for commercial property development would create additional regulatory burden in negotiating inputs

The model would be market-led, with the “sharing rate” determined objectively by an independent third party(s) – not an additional burden to regulatory engagement.

### 94.4 More information is required on why consumers could benefit (aside from the impact on the charge).

We have shared new consumer evidence highlighting that passengers want landside improvements, in line with standards offered by European competitor airports.

### 94.5 The sale of land to third parties is not in the consumer interest.

We have provided examples across Heathrow’s airport perimeter and within the airport campus where giving critical land to 3<sup>rd</sup> party impacts operations, misaligns incentives, and continues to see under investment.

## 95. Proposed Next Steps

Against this context, we consider that an alternative model is required. Our H8BP set out potential mechanisms and, through subsequent engagement with the CAA and airlines, we have developed a set of key principles to inform any proposed model and/or trial. These principles are further outlined below.

Heathrow continues to believe that there is significant value to continue to work together to implement a change to the regulatory framework, and it is prepared to do so with both the CAA, and our airline community. Heathrow has also had positive but limited further discussions with airline stakeholders, to understand more the challenges and concerns, and seek solutions. We intend to further build on these discussions.

This is consistent with our approach throughout: proactive engagement, responsiveness to feedback, and a focus on developing a solution that commands customer support and delivers clear consumer benefits.

Our proposed model would introduce property programmes and projects through the normal capital governance lifecycle, but, if rejected by the airline community, Heathrow has the option to pursue investment by taking on full construction and revenue risk. The single till receives an income (a ground rent) proportionate to the residual land value of the development site.

This proposed model satisfies a number of design principles established to respond to airline and CAA feedback.

### 95.1 Preserve the Single Till

Property programmes and projects are introduced to the capital governance lifecycle as normal. Customers (airlines) have effective right of first refusal on those projects to be developed as normal, “on RAB”. In the event of refusal at any stage through the lifecycle, Heathrow has the *option* to proceed under a different model that reallocates risk entirely to itself. This does not break the principle of single till regulation; rather, it creates optionality once the incentives and/or constraints of the single till are exposed and, in the counterfactual, where investment would not take place. The proposed process is outlined indicatively below:

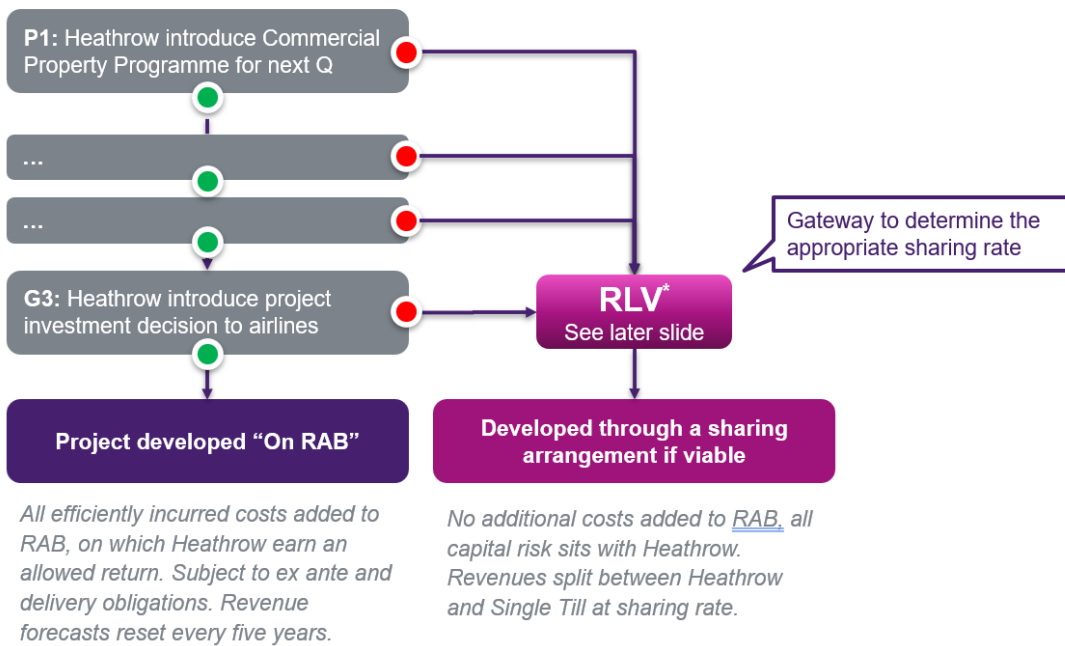


Figure 3.5.1 – Diagram showing the proposed programme process for property development

**95.2 No Worse Off**

Once rejected, the development does not leave customers any worse off, the RAB does not increase and any future capital and revenue risks are borne exclusively by Heathrow.

**95.3 Market-led**

The “sharing rate” (or the ground rent) should be objectively determined by a third party(s) – not an additional burden to regulatory engagement. This would involve a robust and market-led approach such as ascertaining residual land valuation, and from that, the appropriate sharing rate – a process recognised by the Royal Institute of Chartered Surveyors (RICS) and procured from external, independent valuation agents

**95.4 Fair Bet**

The “sharing rate” for properties should not retrospectively be reopened, and nor can properties be retrospectively added to the RAB.

## 95.5 Trial

H8 is an opportunity to test any alternative property model, and a trial can be limited to a defined number of sites. The value of continuing or adjusting the framework can then be determined for the H9 Price Control.

Heathrow urges the CAA to review our bilateral presentations from November 2025 and April 2026, where these principles are supported by more evidence and information.

## 96. Capital investment in property being added to capital investment envelope

As outlined above, Heathrow remains committed to working with the CAA and airlines to develop and, where appropriate, trial alternative approaches for commercial property development projects during H8.

In our H8BP, Heathrow proposed that commercial property should sit outside the single till. This was in response to airline feedback regarding prioritisation of projects and the inclusion of commercial property development within the capital plan, and whilst we continued to develop our proposal for an alternative approach. Despite there being a need for commercial property investment, this was presented as a choice, with certain business cases to be brought back into the envelope should an alternative model not be agreed.

Given the CAA's position in its IP to not accept the proposed approach of removing commercial property from the regulatory single till, we believe the CAA should now demonstrate openness to including previously out-of-scope commercial property investments within the H8 programme. As outlined in Section 2.1 on capital investment, Heathrow has developed needs cases for two commercial property developments proposed for H8.

The CAA should review and support these two projects, along with their detailed business cases, and adjust the capital envelope accordingly. Failure to do so would mean that these projects risk not proceeding, resulting in clear consumer harm by entrenching capacity constraints and operational efficiencies.

Without additional cargo capacity, forecast demand cannot be met; in the absence of new CTA workspace, demand for space will continue to be unmet.

In both cases, the impact for consumers would be poorer service quality, reduced connectivity and higher long-term costs, driven not only by worsening capacity and operational constraints, but also by forgoing material incremental commercial revenues that would otherwise contribute to the single till.

Should the CAA not support their inclusion in the H8 capital envelope, it is also the case that these projects could be considered amongst a portfolio of sites for a trial of our proposed alternative model in H8.

We welcome CAA analysis of these projects and have outlined the high-level business cases below. (NB. specific needs cases for both projects can be found attached to Heathrow's response to the IP).

### 96.1 Cargo Southside - East

Capex: Additional in H8 £141.5m (Total £200.7m including project K01)

Value: Investment creating 440k t/yr cargo handling capacity, generating incremental commercial property revenue of £20m p.a.

Reason for Project: Additional cargo processing capacity is required by 2031 to meet forecast demand. Cargo East development presents the opportunity to develop Heathrow land to create commercially let cargo terminal(s) to grow our first-line handling capacity, enabling more efficient cargo operations and facilitate sustained and scalable airline route economics. Failure to deliver additional cargo capacity will further increase Southside congestion, impacting both cargo handler, and passenger, consumer groups. This project directly engages the CAA's primary duty under s.1(1) CAA12: "users" of air transport services include those with "a right in property carried by the service" (s.69(1)(b) CAA12), and "airport operation services" expressly includes services for the arrival or departure of cargo (s.68(1)(d) CAA12).

Scope: Development of approximately 360k sq ft of cargo warehousing facilities. This represents an addition to the enabling works scope included in the H8BP.

### 96.2 CPC Office

Capex: Additional in H8: £133m (additional to project C037 and additional Control Post Central [CPC] – Security scope)

Value: Investment creating ~150,000 sq ft of office space, delivering ~£13.5m p.a. incremental rental revenue.

Reason for Project: Commercial development above CPC offers a unique opportunity to deliver new office accommodation in the CTA; unlocking vital capacity and generating incremental rental revenue. The CTA is at >97% occupancy, leaving little capacity for new or displaced tenants, resulting in inefficient space utilisation and many unfulfilled requests for accommodation. Existing spaces risk becoming non-compliant with energy

efficiency standards, further constraining capacity and failing to meet expectations for high-quality, future-ready facilities. If development is not realised now, it will be significantly more costly and disruptive to deliver later due to operational complexities of building in a live environment once CPC is in operation, and this opportunity will be surrendered.

Scope: Development of a multi-storey office building above the control post, maximising land and airspace utilisation within the CTA. This represents an addition to the CPC scope included in the H8BP.

## 97. Justification for H8 trial of alternative model

In addition to the two business cases outlined above for reconsideration within the H8 capital portfolio, Heathrow has identified a broader pipeline of viable commercial property development opportunities across the estate.<sup>85</sup> If developed, these sites could provide new amenities and upgraded infrastructure for passengers and other airport users, improving service quality while generating incremental revenue for the single till.

### Lower complexity, nearer-term availability:

- **Heathrow Academy:** c.1.5 acres, available from ~2027, with potential for office or hotel development.
- **Customs House:** c.2.2 acres in the Northern Gateway, also available from ~2027, with potential for office, hotel, or light industrial use.

### Higher complexity, longer-range availability:

- **Colndale Road (Poyle):** Larger-scale industrial redevelopment opportunity, with a more complex lease profile and dependencies on wider business decisions on use.
- **Aviation House:** Smaller-scale, office-led redevelopment opportunity, with availability extending into the late H8 / H9 period.
- **Three Magpies:** Longer-term opportunity with greater delivery constraints, but with potential to deliver an identified EV charging solution.
- **E2 Car Park:** Large site with significant high-bay industrial warehousing potential; availability is constrained in the near term due to its role in supporting growth activities.

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<sup>85</sup> The sites have been assessed at a high level based on factors including location, development viability, site availability, delivery complexity and strategic fit, whilst also considering the value created when considering developed lettable space potential, illustrative cost range and indicative rental revenue potential.

- **Sanctuary Road:** Irregular-shaped site suitable for industrial/logistics or EV charging; similarly constrained in the near term due to its planned use for growth activities.

This list demonstrates that there is no shortage of investable opportunities. Several of these sites could be progressed within H8 but are not being developed into business cases or included in the capital portfolio under the current model. However, the incentives driven by the current regulatory framework limit their progression. This is not an issue of project-level prioritisation. Instead, the framework creates a structural, programmatic disincentive – both for Heathrow (given the finite capital envelope) and for airlines (given charge and payback considerations) – to bring forward discretionary commercial property investments. As a result, otherwise viable opportunities are not progressed or presented for inclusion in the H8 portfolio. Their absence therefore reflects framework constraints, rather than a lack of opportunity or ambition.

This reinforces the case for establishing an alternative, optional route for progressing commercial property projects where they cannot be advanced through the traditional regulatory governance process. Where there is limited appetite to progress these projects through the regulated route, the sharing agreement model provides a credible and investable alternative.

	A - Heathrow Academy	B - Customs House	C - Aviation House	D - Three Magpies Roundabout	E - E2 car park	F - Sanctuary Road
Location	North (N)	North (N)	South (S)	North (N)	East (E)	South (S)
Site size (acres)	1.5	2.2	0.6	1.4	11.3	5.9
Use Options	Office / Hotel	Office / Hotel / Light Industrial	Office / Light Industrial	EV Charging / Light Industrial	Industrial Warehouse	Industrial / EV Charging
Net Lettable (sqft)	40,000 – 80,000	100,000 – 150,000	80,000 – 115,000	12,000 – 18,000	300,000-400,000	125,000-170,000
Indicative Cost (£m)	██████████	██████████	██████████	██████████	██████████	██████████
Indicative Rent (£m p.a.)	██████████	██████████	██████████	██████████	██████████	██████████
Availability	H8 (subject to relocation)	H8 (subject to relocation)	H8 / H9 (phased)	H9+	H9+	H9+
Key considerations	Operational users to relocate	Tenant relocation required Single access point	Multi-tenant (leases to 2030) Potential airside adjacency consideration	Long lease in place Complex location / access	Near-term use for alternative purposes supporting growth activity	Irregular shaped site Near-term use for alternative purposes supporting growth activity

*Figure 3.5.2 – Table showing shortlisted opportunities and the potential benefits they could deliver if progressed through this model.*

In aggregate, considering only the shortlisted sites viable for H8 development (A, B & C above), developments could generate approximately ██████████ in annual rent (if fully developed and once stabilised). Under the proposed sharing agreement, this could translate into ██████████ p.a. of incremental single till revenue<sup>86</sup>, without exposing the RAB to additional risk or upward pressure. Beyond revenues, these developments would

<sup>86</sup> Assuming, for illustrative purposes only, an indicative sharing rate of 10%, to be validated and established independently on a site-by-site basis. Specific sharing rates would need to be discussed and agreed on, supported by specific evidence on the detailed business cases of these projects.

also enhance the built environment and improve the availability and quality of facilities supporting passengers and other airport users.

On this basis, we continue to encourage the CAA to support a time-limited trial in H8 to test the sharing agreement model alongside the traditional regulated approach. This would allow the model to be assessed in practice and inform decisions for H9 and beyond. More programmatic opportunities – typically with longer lead times and likely delivery in H9+ (e.g. CTA redevelopment) – further strengthen the case for trialling this approach in H8. A structured trial across a small portfolio of sites would enable a systematic assessment of the model and support its potential wider application in future periods.

### 98. The CAA's statutory and public law duties

The CAA's approach (as reflected in the IP) has led to underinvestment in commercial property and does not properly align with its statutory and public law duties (see REDACTED).

### Section 3.5 summary - asks of the CAA

Heathrow asks that the CAA reflect the following in their Final Proposals:

#### New information

- To ensure full and proper consideration of all relevant material submitted as part of the H8BP and submitted subsequently.
- To explain clearly how its statutory duties, including consideration of consumer interests, have informed its assessment of the proposed approach.

#### Next steps:

- To acknowledge the principles are acknowledged, accepted, and taken forward to develop a portfolio of trials, across several sites, to test a proposed model during the H8 period.

#### Capital property added to needs assessment and H8 envelope

- To review new and additional commercial property investment projects, as outlined above, and include via an updated needs case, as part of wider assessment of prioritisation, within the overall H8 capital envelope.

## SECTION 3.6 BUSINESS PLAN INCENTIVE

### 99. Need for certainty and clarity in regard to the proposed Business Plan Incentive (BPI)

In Heathrow's response to the CAA's H8 draft method statement, we set out the need for certainty and clarity in regard to the proposed Business Plan Incentive (BPI):

*“Heathrow considers that more clarity is required on how the BP will be specifically “measured” and what criteria will be used to categorise aspects in the range from very high quality to low quality...Heathrow consider that to implement this incentive, the CAA needs to set out these criteria well in advance of the submission date of the plan – to ensure Heathrow has time to consider, reflect and implement<sup>87</sup>”*

This response supported the CAA's initial intention in their draft method statement to set out the final criteria for assessment, but that this was required in advance of the H8BP to allow Heathrow a fair bet to deliver against it.

The CAA approach was to set out high level criteria only, with the rationale that *“there would be potential difficulties with more detailed criteria and categorisation, including signalling an unduly mechanistic approach to the evaluation”*.

**Since the publication of the CAA's IP, the CAA have measured the H8BP against a more detailed list of assessments and metrics – which were not clear at the start of the business planning development process. Against this, they have judged the H8BP to be of “low quality”.**

Heathrow remains concerned with this approach and disagrees with the CAA's rating of our H8BP.

We have set out below our initial responses to each of the criteria that the CAA has suggested there was a failure against and demonstrate where in our response to the IP more information has been provided.

In light of this, we ask that the CAA review our responses, as well as the vast amount of information provided since the H8BP was submitted, in response to airline and CAA questions and clarifications, and update the status of our H8BP.

Doing so will align with the CAA's intentions in the IP to *“consider all relevant material received since 10 July”*, at a cut off period Heathrow believes should be the closure of the IP process itself (i.e. any information sent post H8BP, Heathrow's response to the IP, and any qualifying questions from the CAA as a result of Heathrow's response).

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<sup>87</sup> Heathrow response to CAP3044, Page 18, Point 55 - [https://www.caa.co.uk/media/dcfg54gq/heathrow-airport-ltd-response-caa-h8-draft-methodology\\_december-2024.pdf](https://www.caa.co.uk/media/dcfg54gq/heathrow-airport-ltd-response-caa-h8-draft-methodology_december-2024.pdf)

As a result, and at a minimum, Heathrow believes that our plans meet the threshold for ‘high quality’. This should be based on:

- The CAA’s analysis shows that there is evidence of how consumer (airline and passenger) needs have informed the H8BP, and how they will be further enhanced (for example the 15 stated objectives);
- Clear business case information, (and that nearly ¾ of the proposed capital envelope had strong business case needs identified);
- An initial review of Appendix F of the CAA’s IP has shown that Heathrow “met” over 70% of the BPI requirements listed in the BP guidance and methodology.

**It should also be noted that Heathrow only received Appendix F, the CAA’s detailed analysis appendix on the BPI, on 30<sup>th</sup> April 2026 – halfway through Round 4 of Constructive Engagement and the window of time to provide a response to the CAA’s IP. This constrained timeframe impacts our review and response.**

## 100. Heathrow response to CAA criteria

**100.1 Criteria 1: “HAL’s plan meets the requirements that we have set out in our business plan guidance, particularly on areas that are material and where high-quality information will be important for us to be able properly to develop our proposals for H8”**

Response:

Heathrow provided “Appendix A9”, alongside our H8BP, which detailed how Heathrow had responded to each request/requirement of the CAA’s H8 Method Statement and the locations within the H8BP they could be found.

This Appendix has not been referenced or reflected upon by the CAA in their IP – despite Appendix A9 providing clear evidence that Heathrow has “met the requirements of the BP guidance”. This is further supported by Appendix F of the CAA’s IP which an initial review suggests Heathrow has fulfilled/met 70% of the requirements listed.

In addition, the criteria refers to a distinction for “areas that are material”; however, this was not defined further ahead of our submission. The CAA only set out which areas it considers material in its IP, eight months after the H8BP submission. As noted above, we would have expected the CAA to provide this clarity in advance of the H8BP submission date, enabling us to align our submission accordingly.

Taken in turn, our response to each material issue raised by the CAA:

Opex – Heathrow responded to questions from the CAA on the approach to forecasting vs the granularity requested, at both a bilateral meeting on 5<sup>th</sup> August 2025 and with the CAA’s consultants, on January 29<sup>th</sup> 2026. We would urge the CAA to reflect on the

responses given to these Qs, and particularly the ability of Heathrow to overhaul our forecasting methodology to conform excel spreadsheets that had only been shared a few months before H8BP submission date.

In summary:

- The H8BP is a complex, multi-layered strategy. Forecasting at a granular line-item level is time-intensive and risks false precision. Our top-down approach, anchored to the 2024 baseline, focuses on material cost categories, key drivers, and strategic levers.
- Granularity in forecasting is inherently subjective. We aim for a level of detail that supports strategic relevance and operational feasibility, rather than exhaustive breakdowns that add noise without value.
- Disaggregated cost lines often span multiple activities and overlap with various categories, making direct mapping impractical and potentially misleading. Grouping into major categories supports clarity and strategic focus.
- We use historical cost allocation ratios, functional cost drivers, and activity-based assumptions to apportion costs. This ensures consistency with regulatory reporting while maintaining strategic integrity.

Credit rating – The CAA noted that “*HAL presented analysis of the benefits of achieving an A- credit rating rather than a BBB+ credit rating, it did not present a rounded assessment of the overall net cost or benefit of the higher rating*”. However, we believe both our H8BP and supporting documentation confirm this assessment to be incorrect.

Heathrow submitted a KPMG report - “*An analysis of the target credit rating for the H8 price control*” – alongside our H8BP. This gives a detailed account of our thinking around credit ratings. Chapter 2 of that report specifically covers the cost of debt at different rating levels: A-, BBB+ and BBB. We also included a section of this report in the H8BP itself – under the title “*Relationship between credit rating and cost of debt*”.

Furthermore, we responded to follow-up questions from the CAA after our Business Plan submission via the RfI and via bilateral sessions.

Overall, our Business Plan proposed that the H8 review should target a BBB+ credit rating for the notional company. The CAA’s IP also align and conclude that the notional company should be financeable at BBB+ but are not supporting by analysis of the costs and benefits of various alternative credit ratings.

Heathrow believes the CAA should reflect on the information provided, and the fact that there was alignment on the final outcome and revisit this element of the criteria.

Consumer outcomes – see responses to Criteria 3 below.

ORCs – as outlined above, our top-down approach to forecasting was robust and with precedence. Whilst this is something we can and will reflect on for future price control processes, we still support the approach taken in our H8BP and the challenge of the

information requested and associated timescales. However, as outlined in the 6<sup>th</sup> August 2025 bilateral with the CAA, we proposed a “percentage breakdown” mapping in relation to ORCs. This reflected:

- Where costs can be clearly linked to specific cost lines, we directly pulled this data to understand the apportionment by cost category. This provided a transparent view of how ORC-related costs are distributed.
- Some ORC costs aren’t directly linked to specific cost lines. To account for these, we took the 2024 ORC revenue (which includes fixed costs) and excluded the fixed portion (~£38m). We then applied a ratio (approx. +14%) between this adjusted figure and the directly attributable costs to uplift and reflect the full scope of variable ORC costs.
- The percentage allocation is then derived by comparing the adjusted ORC direct cost figure (post-uplift) against the actual 2024 operating costs.

### **100.2 Criteria 3: “The way in which the plan benefits consumers is clearly demonstrated”**

#### Response:

Aligned to our response to Criteria 1 above, the CAA did not set out the specifics of what constitutes “*clearly demonstrated*” ahead of our H8BP submission. However, a failure against this criteria does not align with how the CAA (supported by Steer) have characterised our consumer research and engagement, or the CAA findings across Appendix F that relevant guidance (such as “*Designed to reflect consumers’ views and preferences to the fullest extent practicable*”, and MTI “*demonstrate how it has taken account of consumer insights...*”) has been met.

In addition, Heathrow was clear from the outset in its H8BP of the six consumer outcomes, and 15 objectives and priorities – ranging from clear baggage metrics objectives, to security, to passenger experience scores. Furthermore, every section of the consumer research carried out where we identified clear consumer priorities, we highlighted H8 initiatives that help to support this (see Section 1.2 on Consumer Engagement, where Heathrow has mapped these objectives against consumer priorities and those identified by Steer). The guidance required “*a clear ‘line of sight’ as to how consumer priorities have been taken into account*” it did not require a documented sequential capital options screening process of the kind described in the CAA’s IP assessment.

Heathrow disagrees that we did not clearly demonstrate consumer benefit of the H8BP. Given the above, it is our view that the threshold for a high quality plan that “*there is some evidence of how consumers’ needs have informed the development of the*

*business plan and how they will be furthered by the implementation of the business plan” has been met.*

The CAA also suggests that charges “*were not expressed the ‘headline’ impact of its plan on the level of airport charges on a ‘like-for-like’ basis*”. However, Figure 85 on page 267 of the H8BP clearly presents a waterfall of the H8 passenger charge, highlighting the differences between including and excluding business rates. This not only demonstrates that Heathrow was open and transparent about the impact of each option, but also reflects that our position would have been undermined had the charge breakdown not been aligned with our proposed treatment of business rates.

### **100.3 Criteria 5: “The plan is appropriately challenging in the targets it sets”**

#### Response:

The CAA provided no guidance on what “appropriately challenging” would mean in practice, and is basing the failure of this criteria on their own updated IP, not on our the proposed and submitted H8BP.

As an example, the CAA suggests that their own view on the starting 2024 baseline efficiency on opex means that Heathrow’s 1.2% efficiency targets are not challenging or ambitious. However, given Heathrow disagrees with the starting baseline adjustment (see Section 2.3 for further information) we ask that the CAA revisits this to reflect that our targets have been ambitious in size and scope from the outset (regardless of CAA adjustments)

Furthermore, on other issues, Heathrow has sought to develop innovative solutions to issues outlined in the H8BP – only for these to be rejected by the CAA and/or by airlines. Where these were supported, for example a change on baggage MTIs to a financial rather than reputational measure, we believe this demonstrates our openness to challenging key aspects of operational delivery.

Alongside this, many of Heathrow’s sustainability and net zero capital plans were not supported by the CAA within their capital envelope prioritisation exercise. This sits in contrast with the CAA calling out net zero as a priority area for inclusion and consideration in their Final Method Statement (Heathrow has also provided more information on these projects as part of our response to the IP).

### **100.4 Criteria 6: “There is evidence of third-party assurance”**

#### Response:

The CAA’s rationale for scoring this as a “fail” is unclear. Heathrow provided and outlined how 3<sup>rd</sup> party assurance was delivered, both in the H8BP itself and cross-

referenced in Appendix A9. The CAA did not confirm where and how 3<sup>rd</sup> party assurance should be given.

As such, Heathrow followed a similar approach to H7. However, to demonstrate clearly how we have met this criteria, we explained further in Table 198 in the H8BP – with each Building Block having a mixture of either 3<sup>rd</sup> party review or independent reports to inform our H8BP.

On consumer research assurance in particular, since the H8BP was submitted, the CAA have received independent peer reviews of the key research projects, including the Acceptability and Affordability Testing. Heathrow has always committed to and agreed to sharing this information with the CAA *after* the H8BP was submitted.

If the CAA required a certain level of 3<sup>rd</sup> party assurance on our plan, Heathrow believes this should have been outlined clearly before or during the IP development. Applying a failure on this criteria – despite the clear and substantial 3<sup>rd</sup> party assurance listed – should be revisited.

#### **100.5 Criteria 8: “HAL responds to follow-up information requests in a timely way”**

##### Response:

Heathrow believes this criteria in particular should carry significant weight in any final determination of the BPI.

For example, alongside the H8BP submission and to ensure an efficient flow of questions from the CAA to Heathrow, the CAA set up a Request for Information (RfI) excel spreadsheet, with questions on the H8BP sent to Heathrow on a weekly basis.

At the end of this process, the RfI document had 356 questions, spanning an 8-month period between June 2025 and March 2026. This equates to over 44 questions a month, all of which were closed and completed. This was also supported by a series of bilaterals between the CAA and Heathrow during Constructive Engagement Round 3 and Round 4 covering various topics of the H8BP and IP.

Furthermore, Heathrow has provided a significant level of material in various formats throughout the Constructive Engagement process with our airline partners, the Heathrow Passenger Forum and the CAA. See below the statistics to reflect this:

*Constructive Engagement Statistics as of 18<sup>th</sup> May 2026, including engagement with the airline community and the HPF:*

Classification: Confidential

## H8 CONSTRUCTIVE ENGAGEMENT STATISTICS

2024-2026, 18<sup>TH</sup> MAY 2026

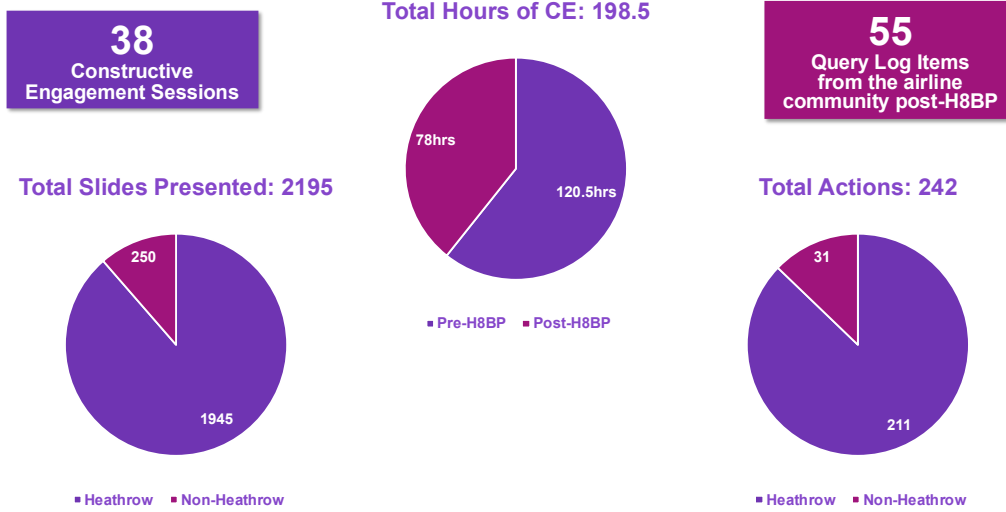


Figure 3.6.1 – Charts showing volume of engagement throughout the H8 Constructive Engagement process

### Section 3.6 summary - ask of the CAA:

Heathrow asks that the CAA reflect the following in their Final Proposals:

- To review and revisit the designation of Heathrow’s plan as “low quality” – taking into account the quality, timing and extent of information provided by Heathrow since July 2025. Heathrow believes after this review, the H8BP should be classed as high quality, at a minimum.

### SECTION 3.7 PRICE CAP PROFILE AND 2027 HOLDING CAP

In the IP, the CAA propose a “step-flat” approach to setting charges for H8, with equal increases from 2026 to 2027, and from 2027 to 2028, followed by flat charges.

We are concerned that in practice, a key aspect of a “step-flat” approach is that charges for 2027 will be based on the IP before any representations on them are taken into account. By the time of the final decision, the CAA will be setting a flat charge for 2028 to 2031 only as the 2027 charge will already be in place.

As such we have some specific concerns about adopting an IP “step-flat” approach for setting the 2027 Holding Cap and consider that a more appropriate approach would be to use the flat (in real terms) H8 charge profile.

Firstly, the stepped increase results in a 2027 charge that is below the building block level for 2027. In the context of expansion, in which considerable additional expenditure is required in 2027 to meet the target of a 2029 DCO, this could put additional financial strain on Heathrow, potentially contrary to the interests of consumers. To avoid this, as a minimum the charge for 2027 should not be set below the building block level in 2027.

Secondly, as set out in this response, we consider several areas of the IP that need correcting, and that once addressed would lead to a materially higher charge. In this case, using the “step-flat” approach for setting the price cap for 2027 would result in revenue significantly below the building block level. Moreover, if charges in the Final Decision are higher, then using the flat charge value for H8 in the 2027 cap would in practice lead to a “step-flat” approach anyway as subsequent years would have higher charges.

Finally, we note that the holding cap will need to take account of expansion expenditure. Early costs incurred in 2025 and 2026 will start to be depreciated in 2027, so the price cap will need to include the return and depreciation on this expenditure. Expenditure on expansion in 2027 could be very high, particularly if there is significant purchase of property. The 2027 holding cap will need to take into account the return on this expenditure.

From a consumer perspective, it is not in their interest to:

- Set a charge that is below the cost of operating the airport, in particular not in the context of a significant expansion, as it undermines the airport's ability to finance its activities efficiently.
- Set a charge below the cost of operating the airport as ultimately it will have to be adjusted, creating the need for an unnecessary price increase

To meet its Financing Duty the CAA should not only ensure that Heathrow's able to finance its activities in theory but do so efficiently in practice. This includes by not overburdening any single year with a new financing requirement that is so large as to inflate pricing of Heathrow's debt at issuance.

### **Section 3.7 summary - asks of the CAA:**

Heathrow asks that the CAA reflect the following in their Final Proposals:

- To agree that the most appropriate approach for setting the holding cap in 2027 is to base it on the flat H8 IP charge profile.
- To note that, in addition to the 2027 IP charge, the holding cap will need to include:
  - The return on early costs incurred in 2025 and 2026;
  - Recognise that depreciation of these early costs will commence from 2027; and
  - The return on Expansion expenditure forecast for 2027.

**SECTION 3.8 – ASYMMETRIC RISK**

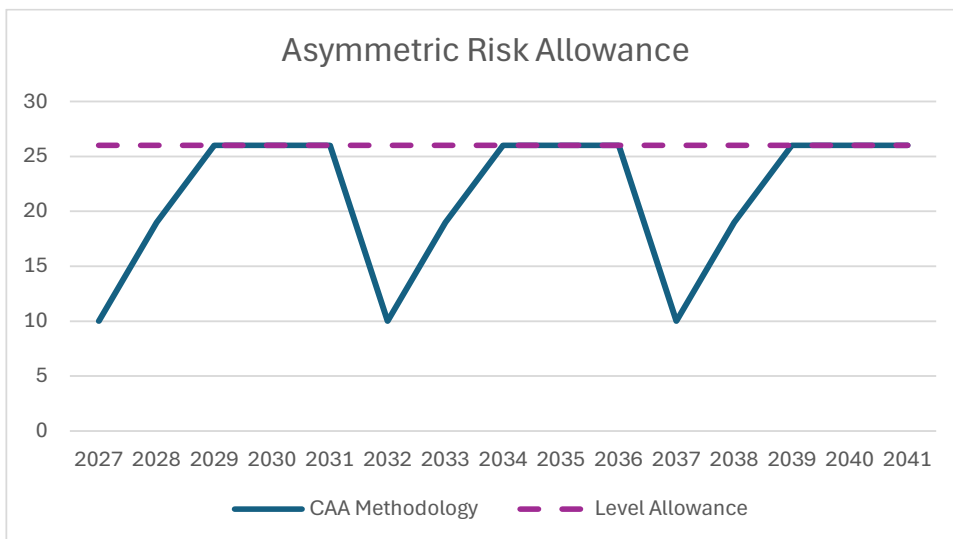
In their IP, the CAA included an allowance for asymmetric risk.

	2027	2028	2029	2030	2031	H8 Total
Asymmetric risk allowance	10	19	26	26	26	106

*Figure 3.8.1 – Table showing CAA’s proposed allowance for asymmetric risk. Source: CAA IP, Table 10.1*

The CAA calculated this allowance in a manner consistent with the approach in H7, assuming a pandemic risk of 3.5% per annum, and that the impact on passenger numbers will be the same as that as occurred in 2020 to 2022.

We agree that this approach is correct for the later years of the period (2029-2031). However, we are concerned about the implementation of this approach in 2027 and 2028, where the allowance is reduced because the year 2 and 3 effects of a pandemic are excluded from 2027, and the year 3 effects of a pandemic are excluded from 2028. Constant repeating of this approach would result in the revenue from the asymmetric risk being under-recovered over time. This is illustrated in Figure 3.8.2 below.



*Figure 3.8.2 – Graph showing asymmetric risk allowance*

The CAA’s approach changes the asymmetric risk allowance from being a pure ex-ante allowance for the additional risk to a partly ex-post approach for the early years of a period. This effectively results in the allowance being systematically lower than the actual ex-ante risk over time. As such it can be likened to an approach where insurance premiums are only paid in the years a claim is made. This is clearly an inappropriate approach and therefore it fails to give the effect of its intended policy outcome of fully compensating Heathrow to asymmetric risks exposure.

### **Section 3.8 summary - ask of the CAA**

Heathrow asks that the CAA reflect the following in their Final Proposals:

- To adjust their approach so that the allowance is £26m in each year so that the mechanism correctly reflects the underlying risk. The adjustment will also need to reflect the level of charges in the CAA's Final Proposals and Final Decision.

## SECTION 3.9 LICENCE MODIFICATIONS

The draft Licence modifications fall into four main categories:

1. The set of changes necessary to implement a new price control and associated provisions;
2. Modifications required to implement certain policy changes included in the IP;
3. Changes that are necessary to ensure the Licence remains fit for purpose;
4. Changes that are not necessary to ensure that the Licence remains fit for purpose.

We also set out some specific response regarding the proposed changes to Condition F, where we request a full version of the revised conditions to allow a proper review.

### 101. Changes necessary to implement a new price control and associated provisions.

Heathrow have made representations on each building block making up the proposed price cap, such as the value of the “X” factor and the weighted average cost of capital, and updated forecasts of total capex and traffic volumes that are used in the allowed capex adjustment and the traffic risk sharing adjustment (see Sections 2.2, 3.1 and 2.1 respectively). We ask that the CAA take these submissions into account in their Final Proposals and ensure they are reflected in the next set of draft modifications.

Heathrow agrees that the CAA should:

- Change the main price cap parameters but in line with Heathrow’s view on each building block that translates to the price cap calculation;
- Update the references to particular years or time periods, so that they refer to years within the H8 period rather than H7; and
- Delete aspects of the price control that were specific to the H7 period, such as the additional correction factor and the parts of Schedule 1 that deal with pre-May 2023 bonuses.

### 102. Modifications required to implement certain policy changes included in these Initial Proposals.

Heathrow agrees to:

- The deletion of three of the existing measures (hygiene safety testing, airport that meets my needs and the percentage of the population of the United Kingdom within three hours of the airport by public transport);
- Switching two other measures (PRM – overall satisfaction, and timely delivery from departures baggage system) from reputational to financial incentives;
- Expanding the scope of bonus scheme to include two measures (security queue time – staff search, and control posts vehicle queuing time) that currently do not attract bonuses; and

- Changes to some of the targets, bonus thresholds and the level of rebates or bonuses applying to individual measures.

Please refer to Section 3.2 for further detail on modifications to licence.

Heathrow agrees to other proposed policy changes that will require Licence modifications include, i.e. to:

- Change the inflation index used from CPI to CPIH to be consistent with the approach taken by the CAA in their IP;
- Change the evidence that is required in relation to adequacy of resources in relation to operational resources from a report by Heathrow’s auditors to a form and level of detail approved by us, with confirmation from Heathrow’s Board of its accuracy. We agree the condition for H7 was unworkable and support this proposed change.

### **103. Changes that are necessary to ensure the Licence remains fit for purpose**

Heathrow agrees to the changes that are necessary to ensure the Licence remains fit for purpose and that ensures the Licence is proportionate and workable, but do not of themselves change CAA’s current policy. They include:

- Changes to paragraph numbers and cross-references to other parts of the Licence, including consequential changes where sections of the Licence have been added or removed and a small number of corrections;
- Some consequential changes to definitions in the Licence (for example, removing the definition of H7 and inserting a definition of H8);
- Removing some duplicate or redundant text, including Condition C1.9 and some sub-paragraphs of paragraph 5.7 of Schedule 1.

However, we note the CAA in Amended Condition C1.1 have updated the year reference from 2023 to 2027 to define the price cap for 2027. But it has not set the amount that shall be levied for 2027. We will work with the CAA to understand the approach for setting 2027 charges.

### **104. Changes that are not necessary to ensure the Licence remains fit for purpose**

Heathrow does not agree that all of the proposed changes to the Licence will make it more fit for purpose, nor that the proposals seek simply to turn “*the existing obligation into clearer language*”. Some of the proposed changes as seeking to impose more onerous obligations on Heathrow without proper explanation of the need for the change nor consideration of the impact on Heathrow – see below.

Specifically, in the current licence, Condition F1.1(b) requires that Heathrow must consult Relevant Parties on proposed changes “*so that those parties have sufficient*

*information to take an informed view.*” The new text proposed by the CAA suggests that it is no longer enough for the Heathrow to simply consult, instead it must “**use all reasonable endeavours** to ensure that any consultation it conducts...provides relevant parties with **sufficient information** to take an informed view of the proposed changes” [Emphasis added]. The CAA has taken the view that this is an “*appropriate*” standard which translates “*the existing obligation into clearer language*” given that “*HAL has control over the material it produces*”. However, this is simply not the case:

- a) First, this isn’t simply the translation of the “existing obligation into clearer language”. Instead, this imposes a new and high standard for Heathrow to meet, as noted by *Rhodia International Holdings Ltd v Huntsman International LLC* [2007] EWHC 292 (Comm), para 33, set out that “*obligation to use reasonable endeavours to achieve the aim probably only requires a party to take one reasonable course, not all of them, whereas an obligation to use best endeavours probably requires a party to take all the reasonable courses he can. In that context, it may well be that an obligation to use all reasonable endeavours equates with using best endeavours*”.
- b) Second, it is not clear what the CAA means by “sufficient information”. This wording does not impose a clear test on Heathrow, instead it imposes a subjective test that the Heathrow and other parties can disagree over and will lead to further disputes. If the CAA is seeking to impose obligations on Heathrow it must ensure that its drafting is clear and unambiguous.

### **105. We also make some further specific observations on the CAA’s IP Appendix D, Condition F below.**

With respect to CAA’s IP Appendix D (Condition F) specifically, we make some specific observations.

The CAA has set out a series of proposed amendments to the Condition F, the majority of which have been introduced to ensure the condition remains up to date.

As a high level, we note that a full restatement of the proposed changes to Appendix F would have assisted in enabling consultees to assess the proposed wording in situ; the document provided by the CAA sometimes made it unclear what the proposed change is and how that relates to the present Licence. We request a full version of the revised conditions to allow a proper review.

We outline below our views on paragraph D28 of CAP3232E.

In regard to F1.5, we support updating the comparator from Regulatory Year 2022 to 2027. This would better align the licence with the start of the current regulatory settlement and reflect the materially changed operating and economic environment since 2022. The existing baseline risks becoming increasingly disconnected from

current conditions, whereas rebasing to 2027 would ensure that consultation triggers remain relevant, proportionate and grounded in the contemporary regulatory framework.

In relation to F1.6 and as demonstrated extensively through Constructive Engagement Round 3, Heathrow already operates within a highly developed and rigorous capital governance framework, characterised by significant transparency, extensive documentation, and multiple points of airline engagement. This includes detailed information provision at each gateway, ongoing reporting, and structured consultation across a large and complex portfolio.

Importantly, this framework already results in a substantial volume of material being shared with airlines, including technical, financial, and delivery documentation across hundreds of projects and tranches. The scale of engagement is significant—for example, individual programmes can require dozens of engagement sessions, alongside continuous reporting and review requirements.

In this context – and further to the submissions made above – we do not consider that increasing the legal threshold to “all reasonable endeavours” will deliver additional consumer benefit. Rather, there is a risk that it would further increase the volume and complexity of information shared, at a point where airlines may not always have the capacity to review all materials in detail. The effectiveness of engagement is therefore not driven by the quantity of information, but by its relevance, prioritisation, and usability.

More broadly, the CE Round 3 evidence highlights that the existing governance and consultation framework is already highly complex and, in some areas, disproportionately burdensome, with over 150 projects in delivery at any one time and extensive Delivery Obligation requirements driving administrative effort. Increasing the obligation in F1.6 risks compounding this issue, adding further workload without a commensurate improvement in outcomes.

As set out in the Legal Annex, the CAA’s approach to regulation should remain proportionate, targeted and outcome focused. In our view, the current proposal to increase the regulatory burden on Heathrow goes far beyond this, and risks inflating workload for both Heathrow and airlines in a way that is not proportionate to the benefits delivered to consumers. Accordingly, we recommend retaining the existing drafting.

We support moving Condition F1.8 to an ongoing obligation, provided it is clear that governance materials should be updated when necessary, rather than on a fixed or time-bound basis.

Given that governance arrangements are already established, the focus should now be on ensuring they remain effective and fit for purpose as circumstances evolve. An obligation tied to material changes or periodic review is preferable to one that could inadvertently create continuous or unnecessary process requirements.

Finally, we also support retaining the ability to rely on materials agreed prior to 2022. This is a proportionate and efficient approach that avoids the unnecessary burden of recreating documents that remain fit for purpose and are already well understood by stakeholders. However, this should operate alongside the wider review mechanisms in Condition F to ensure that any legacy materials continue to meet current regulatory expectations.

### Section 3.9 summary - asks of the CAA

Heathrow asks that the CAA reflect the following in their Final Proposals:

#### Modifications

- To amend the relevant point on ORCs to:  
*“some changes to the dates by which HAL must provide details of its cost allocation methodology and the actual costs incurred in relation to Other Regulated Charges (“ORCs”), with an independent review as required only if requested of its cost allocation methodology now required only if requested by us, **and within reasonable timescales to be agreed between the parties.**”*

#### Changes

- To refrain from making unnecessary changes given the complexity they will add to the Licence condition.

#### Observations

- To refrain from introducing changes to Condition F that increase regulatory burden or complexity and instead retain the existing “reasonable endeavours” standard in F1.6 to ensure the framework remains proportionate and effective.

# SECTION 4:

# CLOSE

## SECTION 4 CLOSING STATEMENT

### 106. Conclusion

The H8 settlement is a critical opportunity to deliver long-term benefits for passengers, airlines and the UK economy.

Heathrow's response is designed to support the CAA in reaching Final Proposals that deliver value for money while maintaining the outcomes consumers expect: a reliable, safe and accessible airport, with continued improvement and the capacity to support growth.

The evidence and proposals set out in this response demonstrate that targeted refinements to the IP are required to achieve this.

With these adjustments, the Final Proposals can deliver:

- Consistent, high-quality passenger outcomes;
- A resilient and reliable operation;
- A credible and investable plan to support UK connectivity and growth.

### 107. Summary

We thank the CAA for the effort put into their IP, and the challenge put to us on key building blocks. We have made representations in order to build on the CAA's proposals, and achieve a settlement that we believe is more stringently aligned to consumer outcomes.

We welcome ongoing discussions with the CAA, and the opportunity to provide further clarification if needed; as well as the opportunity to work closely with the CAA in navigating through the multiple, and inter-linked, regulatory consultations for Heathrow.

### 108. Board statement

The Board has carefully reviewed and considered the CAA's IP, and the amendments requested by Heathrow. It considers that the requested improvements are the minimum required to ensure that Heathrow can continue to operate in the best interests of consumers.

# APPENDICES

## APPENDIX A: GLOSSARY

Acronym	Term
(N) EEA	(Non) European Economic Area
2R	Two-runway
3R	Three-runway
ABG	Airport Benchmarking Group
ACI	Airports Council International
AdP	'Groupe AdP' French airport operator
ADP	Arrivals Delivery Performance
AOCC	Airline Operators Committee Cargo
ASQ	Airport Service Quality
ATM	Air Transport Movement
BA	British Airways
BAU	Business As Usual
BIFA	British International Freight Association
BPI	Business Plan Incentive
CAA	Civil Aviation Authority
CAA12	Civil Aviation Act 2012
CAGR	Compound Annual Growth Rate
Capex	Capital Expenditure
CAPM	Capital Asset Pricing Model
CCSC	Cargo Community Steering Committee
CDIO	Chief Digital and Information Officer
CE	Constructive Engagement
CMA	Competition Market Authority
COD	Cost of Debt
CPC	Control Post Central
CPI	Consumer Price Index
CPIH	Consumer Price Index including Owner Occupiers' Housing costs
CSA	Central Search Area
CSRB	Cyber Security Resilience Bill
CTA	Central Terminal Area
DCO	Development Consent Order
DEFRA	Department for Environment, Food and Rural Affairs
DfT	Department for Transport
DMS	Document Management System
DOs	Delivery Obligations
EBITDA	Earnings Before Interest, Tax, Depreciation & Amortisation
EC	Eligibility Criteria

Acronym	Term
EEC	European Economics Consulting
EFRA	The UK Parliament Environment, Food and Rural Affairs Committee
ERF	Exposure Response Functions
ERP	Equity Risk Premium
EV	Electric Vehicle
F&B	Food & Beverage
FEPG	Fixed Electrical Ground Power (FEGP)
FFO	Funds from Operations
FOD	Foreign Object Debris
FTE	Full-Time Equivalent
FTI	FTI Consulting
G3	Gateway 3 of the Heathrow Gateway Lifecycle, the point at which an investment decision of a project is made at Heathrow and airline governance forums.
GBP	Great British Pound
GEMA	Gas & Electricity Markets Authority
H7	The price control period for Heathrow from 1 January 2022 until 31 December 2026
H8	The new five-year price control period from 1 January 2027 to 31 December 2031
H8BP	Heathrow Airport's H8 Business Plan
H9	The future five-year price control period from 1 January 2032 to 31 December 2036
HAL	Heathrow Airport Limited
HEX	Heathrow Express
HMRC	His Majesty's Revenue and Customs, government department
HPF	Heathrow Passenger Forum
HRAS	Home Relocation Assistance Scheme
IAG	International Airlines Group
iBoxx	Financial services division of HIS Markit
IDL	International Departure Lounge
ILG	Index-Linked Gilts
IP	Initial Proposals
IPP	Income per passenger
JSB	Joint Steering Board
KLEMS	Capital (K), Labour (L), Energy (E), Materials (M) And Service (S)
KPI	Key Performance Indicators
LLW	London Living Wage

Acronym	Term
MMC	Modern Methods of Construction
MPD	Market Power Determination
Mppa	million passengers per annum
MSCP4	Multi-Storey Car Park
MTI	Measures, Targets & Incentives
NAP	Noise Action Plan
N&V	Noise and Vortex
N&V	Noise & Vortex
NCSC	National Cyber Security Centre
NGS	Next Generation Security, programme of work to upgrade security technology across the Heathrow estate
NPSE	Noise Policy Statement for England
OBR	Office for Budget Responsibility
OBR	Outcomes Based Regulation
Opex	Operating Expenditure
ORCs	Other Regulated Charges
OSS	One Stop Security
P1	Programme Stage 1 of the Heathrow Gateway Lifecycle
PAS	Passenger Assistance Service
PassS	Platform as a Service
PATM	Passenger Air Transport Movement
Pax	Passengers
PCN	Penalty Charge Notice
PMV	Pre-Manufactured Value
PRM	Passengers with Reduced Mobility
PRS	Passengers Requiring Support
PSC	Passenger Service Charge
PV	Present Value
Q4	Q4 was the price control for the period from 2003 to 2008.
Q5	Q5 was the price control for the period from 2008 to 2013, the approach to which was subsequently extended to cover January to March 2014.
Q6	Q6 was the price control for the period from 2014 to 2018, the approach to which was successively extended to cover 2019 and 2020 to 2021
QHI	Quieter Home Initiative
QHS	Quieter Home Scheme
QNS	Quieter Neighbourhood Support
QSM	Quality of Service Monitor
QSP	Quieter Schools Programme

Acronym	Term
RAB	Regulated Asset Base
RDEC	Research and Development Expenditure Credits
Rfi	Request for Information – excel spreadsheet capturing CAA questions and Heathrow answers on the H8BP
RFR	Risk Free Rate
RICS	Royal Institute of Chartered Surveyors
RIS	Residential Insulation Scheme
RLV	Residual Land Valuation
ROE	Return on equity
RPI	Retail Price Index
S&P	S&P Global Rankings credit rating agency
SaaS	Software as a Service
SAF	Sustainable Aviation Fuel
SLA	Service Level Agreements
SOAEL	Significant Observed Adverse Effect Levels
SRO	Senior Responsible Owner
STD	Scheduled Time of Departure
Steer	A management consultancy advising the CAA on H8 issues
T1/T2/T3/T4/T5	Terminal 1 / Terminal 2 / Terminal 3 / Terminal 4 / Terminal 5
T5O	Terminal 5 Optimisation programme
TAG	Transport Analysis Guidance
TDOC	Terminal Drop-Off Charge
TFP	Taxi Feeder Park
TMR	Total Market Return
TRS	Traffic Risk Sharing
TTS	Track Transit System, the passenger transportation system set up airside connecting T5A, T5B and T5C
UKRN	UK Regulators Network
VAT	Value Added Tax
VIPS	Vortex Impact and Prevention Scheme
VOA	Valuation Office Agency
WACC	Weighted Average Cost of Capital
WWU	Wales & West Utilities
YTD	Year to Date

## APPENDIX B: ANSWERS TO THE CAA'S SPECIFIC QUESTIONS RAISED IN THE INITIAL PROPOSALS

Theme & Location in CAA's IP	Questions from the CAA	HAL Response Section Number
<p>Consumer Engagement</p> <p>(Section 1 of CAA's IP)</p>	<p>Based on the findings from our review of consumer research, we expect HAL to continue engaging with airlines on consumer outcomes, including in relation to the outputs from its capital expenditure programme. We also expect HAL to respond on whether, and how, wayfinding and seating are incorporated in its priorities for the H8 period.</p> <p>Regarding the other opportunities for improvements that we have identified, we expect HAL to consider these as part of its programme of consumer research and engagement during the H8 period:</p> <ul style="list-style-type: none"> <li>▪ Do you agree with the way we have used the findings from consumer research and engagement in developing these initial proposals?</li> <li>▪ Do you have views as to any further steps HAL or the CAA should take with respect to consumer research and engagement, ahead of our final proposals?</li> </ul>	Section 1.2
<p>Passenger Forecasts</p> <p>(Section 1 of CAA's IP)</p>	<p>The passenger forecast for the H8 period that we propose to use will be subject to ongoing review and development prior to the publication of our final proposals in November 2026 and final decision in April 2027, including:</p> <ul style="list-style-type: none"> <li>▪ consideration of the consultation responses to these initial proposals;</li> <li>▪ ongoing publication of outturn traffic numbers at Heathrow will enable us to develop a clearer picture of the evolution of the level of passenger traffic prior to the commencement of the H8 price control;</li> <li>▪ continued stakeholder engagement will allow for further information to be incorporated as appropriate, (for example on aircraft configuration) and we would encourage the provision of such information within consultee responses; and prior to making our final decision, we intend to update the calculation of the shock factor to include data from year 2025.</li> </ul>	Section 3.1
<p>Service Quality &amp; Resilience</p> <p>(Summary +</p>	<p>We would welcome stakeholder's views on any aspect of our approach to service quality and resilience and in particular on the following areas:</p> <ul style="list-style-type: none"> <li>▪ the consumer priorities arising from HAL's research and engagement and the extent to which those priorities are reflected in these initial proposals?</li> </ul>	Section 3.2

Theme & Location in CAA's IP	Questions from the CAA	HAL Response Section Number
Section 1 of CAA's IP)	<ul style="list-style-type: none"> <li>▪ how consumer concerns about wayfinding and seating can be better addressed?</li> <li>▪ any additional information and evidence we should consider on our initial proposals not to take forward daily security queue measurement or airline eligibility rebate criteria?</li> <li>▪ whether there are further steps we should take in relation to the MTI scheme to help incentivise and improve future resilience?</li> </ul>	
Operating Expenditure  (Section 2 of CAA's IP)	We welcome stakeholders' views on our approach to making projections of opex and our initial proposals in relation to the allowances for opex and will consider these carefully as part of our work to develop our final proposals.	Section 2.3
Commercial Revenues  (Section 2 of CAA's IP)	We welcome stakeholders' views on our approach to making projections of commercial revenues our initial proposals in relation to the allowances for commercial revenue and will consider these carefully as part of our work to develop our final proposals.	Section 2.4
Capex assessment  (Summary + Section 2 of CAA's IP)	We welcome stakeholder views on any of the issues relating to our estimate of the capex envelope for HAL and in particular our initial proposals for a capex envelope of £5.5 billion to £6.1 billion for HAL over the H8 period.	Section 1.3; Section 2.1
Other Regulated Charges  (Section 2 of CAA's IP)	We welcome stakeholders' views on the matters relating to the regulation of ORCs as set out in this chapter and we will consider these carefully as part of our work to develop our final proposals.	Section 3.4
Regulatory Incentives  (Summary + Section 2 of CAA's IP)	<p>On capex governance processes, we strongly encourage further discussion between stakeholders on these matters; particularly in relation to incremental or evolutionary improvements that might be introduced during the H8 period. We also welcome further representations on capex governance from stakeholders, either in response to these initial proposals, or our wider work on regulatory models for capacity expansion.</p> <p>We welcome stakeholders' views on the approach to incentive arrangements set out in these initial proposals, in particular in relation to capex governance, the treatment of</p>	<p>Section 2.1</p> <p>Section 2.1 (for capex governance);</p>

Theme & Location in CAA's IP	Questions from the CAA	HAL Response Section Number
	commercial property development in the single till, and the regulation of consumer facing charges such as terminal drop-off charges.	Section 3.5 (for commercial property development); Section 2.4 (for terminal drop-off charges)
Cost of Capital  (Section 3 of CAA's IP)	<p>We welcome views from stakeholder on any matters relating to our estimate of the WACC and in particular:</p> <ul style="list-style-type: none"> <li>▪ our notional gearing assumption and the rationale for adopting this value;</li> <li>▪ the selection of comparators we have used to estimate the equity beta of the notional company and our estimates of the equity and asset betas for listed comparators;</li> <li>▪ the application of an adjustment to reflect the impact of the TRS mechanism, and our approach to calculating this adjustment;</li> <li>▪ our approach to estimating the debt beta for the notional company;</li> <li>▪ our choice of refence instrument, tenor and trailing average period for estimating the risk free rate;</li> <li>▪ our approach to translating RPI-real yields into CPIH-real yields for the purposes of estimating risk free rate;</li> <li>▪ our view that we should estimate the total market return directly, and then calculate the equity risk premium by deducting the risk free rate from this estimate;</li> <li>▪ our broad approach to calculating the total market return, in respect of the use of ex post, ex ante and forward-looking evidence, and our proposed treatment of inflation;</li> <li>▪ our proposal to estimate the nominal cost of embedded debt based exclusively on HAL's actual cost of senior debt, excluding junior debt and swaps;</li> <li>▪ our proposal to deflate nominal yields using medium-term inflation to estimate a CPIH-real cost of embedded debt;</li> <li>▪ our approach to estimating the nominal cost of new debt for the notional company based on the application of a HAL-specific premium to a short-term trailing average of yields on a broad index of corporate bonds;</li> <li>▪ our approach in respect of the selection of bonds, and matching bonds based on tenor and credit rating;</li> </ul>	Section 2.2

Theme & Location in CAA's IP	Questions from the CAA	HAL Response Section Number
	<ul style="list-style-type: none"> <li>▪ our proposal to deflate nominal yields using medium-term inflation to estimate a CPIH-real cost of new debt;</li> <li>▪ our broad approach to estimating the proportion of new debt in H8;</li> <li>▪ our approach to estimating issuance and liquidity costs;</li> <li>▪ the selection of cross-checks we have undertaken, our approach to estimating these and our interpretation of what they mean for our WACC estimate overall;</li> <li>▪ our choice of the midpoint as our point estimate for the WACC and our rationale for doing so.</li> </ul>	
Financial Framework (Section 3 of CAA's IP)	We welcome stakeholders' views on issues relating to the financial framework that we use to set HAL's price control and in particular whether our approach to setting regulatory depreciation is appropriate. We will take these views into account in developing our final proposals.	Section 2.2; Section 3.7; Section 3.8
Price cap and financeability (Summary + Section 3 of CAA's IP)	We welcome the views of stakeholders on our approach to setting the level and profile of the H8 price control and on assessing financeability, and will consider these carefully as part of our work to develop final proposals.	Section 2.2; Section 3.7; Section 3.8
Economic Regulation (Appendix C – D of CAA's IP)	This Appendix sets out our current view of the modifications to the Licence that we consider would be required to implement our initial proposals. We welcome comments from stakeholders on these draft modifications, as part of their responses to our initial proposals.	Section 3.9
Economic Regulation (Appendix C – D of CAA's IP)	<p>We welcome stakeholders' views on our proposed approach to recasting the obligations currently set out in Condition F, including whether the proposed text set out above appropriately clarifies the obligations currently placed on HAL by the existing condition.</p> <p>We also welcome stakeholders' views on whether:</p> <ul style="list-style-type: none"> <li>▪ in Condition F1.5, the comparator date of 2022 is still appropriate;</li> <li>▪ Condition F1.6 should be recast as an "endeavours" obligation;</li> <li>▪ it would be appropriate to recast Condition F1.8 as an ongoing obligation;</li> <li>▪ the condition still needs to provide for the validity of materials agreed prior to 2022 and whether an alternative "cut off date" should be used</li> </ul>	Section 3.9

Theme & Location in CAA's IP	Questions from the CAA	HAL Response Section Number
<p>Cargo movement forecasts</p> <p>(Appendix E – L of CAA's IP)</p>	<p>We welcome the views of stakeholders on any issue raised in this appendix and will consider these carefully as part of our work to develop our final proposals.</p> <p>More broadly, in developing our final proposals, we will continue to refine our projections of cargo ATMs, which is an important input in our estimated cargo revenue, as we set out in Chapter 5 (Commercial revenues). This work will be informed by stakeholders' responses to this consultation and our updated analysis.</p>	Section 2.4
<p>Historical capex incentives</p> <p>(Appendix E – L of CAA's IP)</p>	<p>We welcome the views of stakeholders on any of the issues discussed in this Appendix and will consider these carefully as part of our work to develop our final Proposals.</p>	Section 2.1

**APPENDIX C:** [REDACTED]

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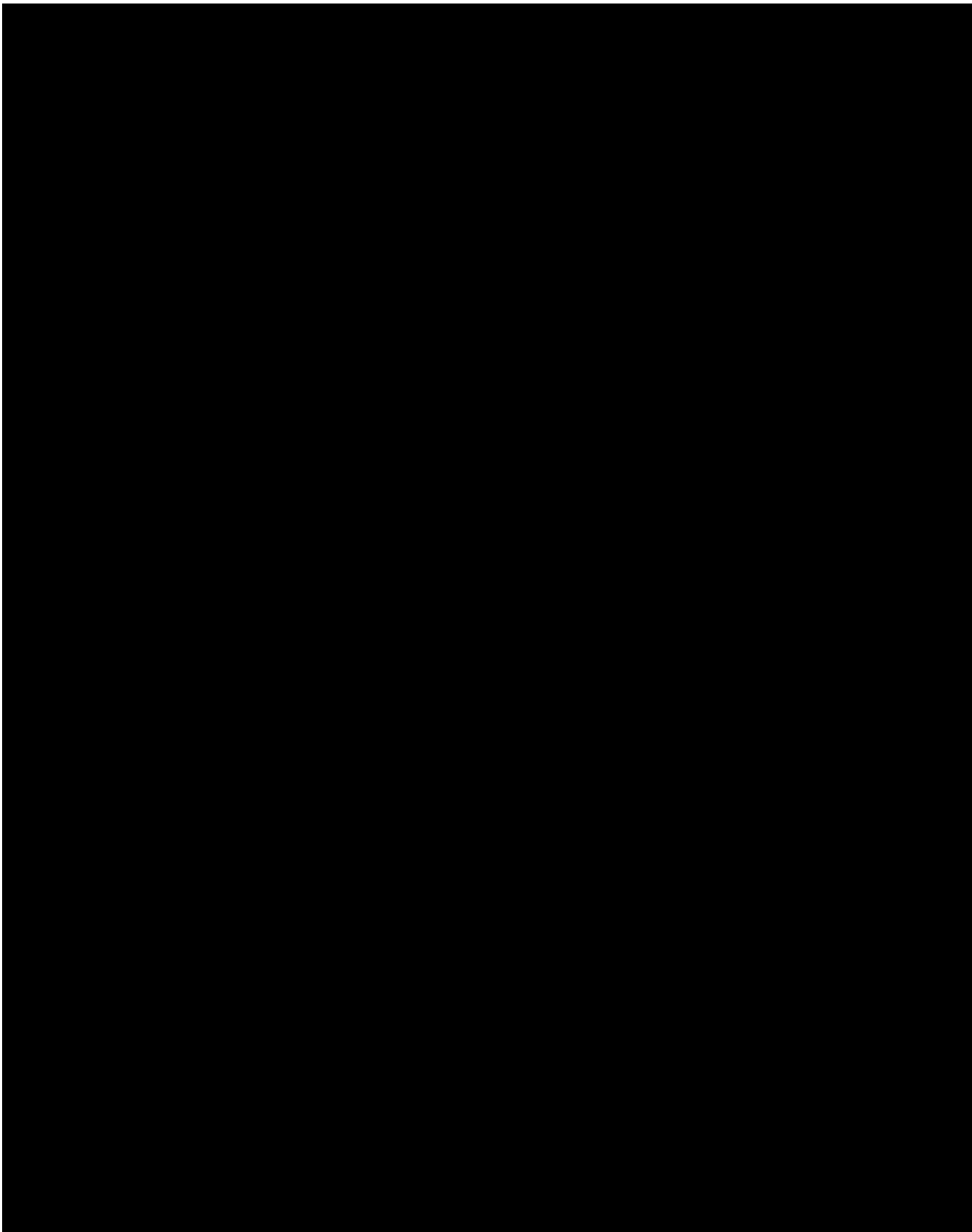
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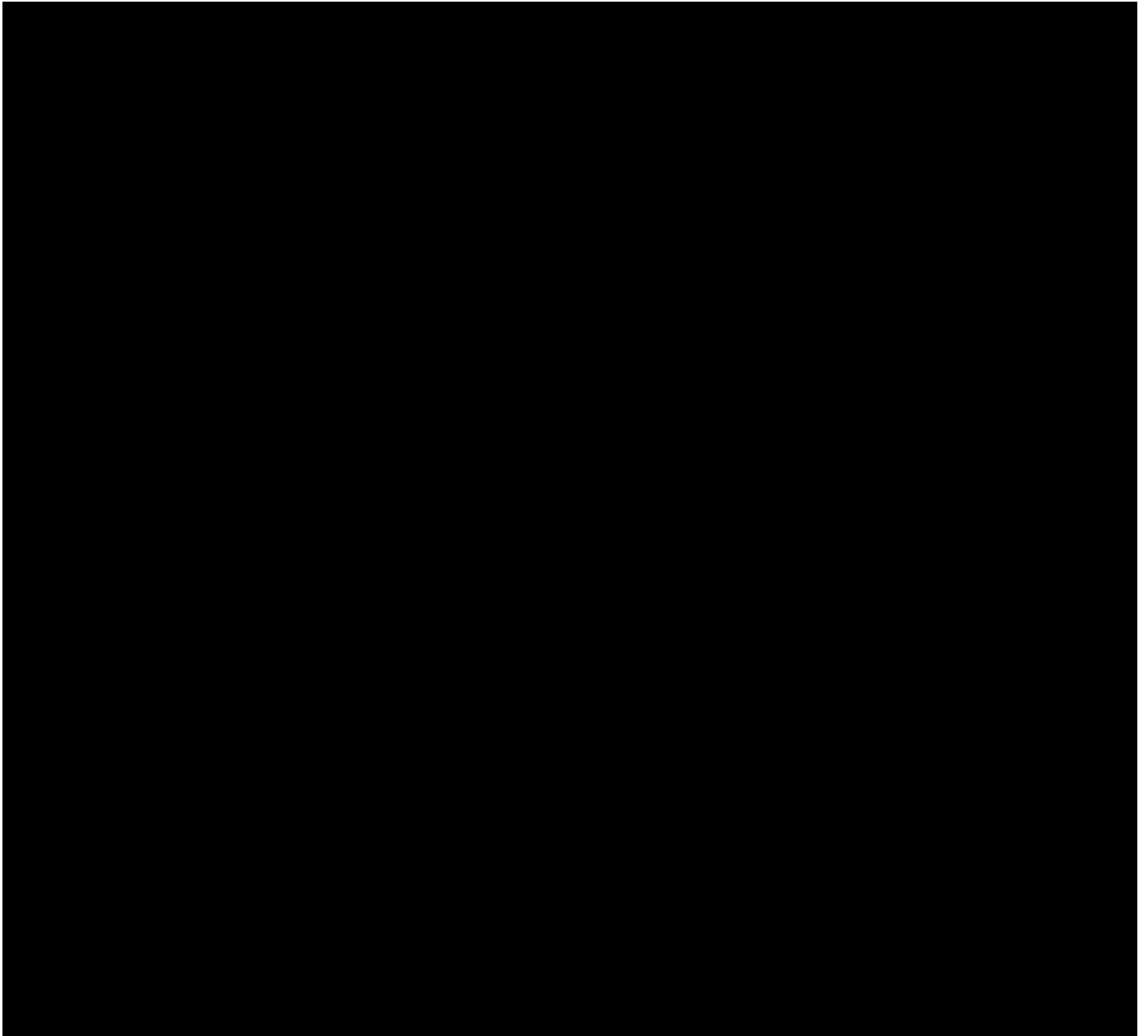
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APPENDIX D:





**APPENDIX E: LIST OF ACCOMPANYING DOCUMENTATION FOR SECTION 2**

- i. Capital Investment – Capital Deliverability
- ii. WACC
  - a. Views on CAA’s approach to Heathrow’s financeability
  - b. Views on cost of equity
    - [REDACTED]
    - [REDACTED]
    - [REDACTED]
    - [REDACTED]
- iii. Operating Costs – Opex Treatment of QNS
- iv. Commercial Revenue
  - a. Top-down benchmarking
  - b. Elasticity

## **APPENDIX F: LIST OF ACCOMPANYING REPORTS AND LETTERS**

The following reports accompany our submission

- i. Synthesis of Consumer Wants and Needs Technical Report May 2026
- ii. Minimum Service Levels Research Tables May 2026
- iii. Heathrow Retail Business Debrief Final 20<sup>th</sup> September 2025
- iv. Heathrow Car Park Business Debrief Final 12<sup>th</sup> March 2026
- v. Pragma – HAL Commercial Benchmarking – Phase 2 Report 1<sup>st</sup> September 2025
- vi. Pragma – HAL Commercial Benchmarking – Phase 3 Report 16<sup>th</sup> May 2026
- vii. 2025 H8 Commercial Property – CAA discussion 21<sup>st</sup> November 2025
- viii. 2026 H8 Commercial Property – CAA discussion 30<sup>th</sup> April 2026
- ix. Letter from Heathrow to CAA on T5 Optimisation 20<sup>th</sup> May 2026

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# Heathrow