

FUNDAMENTAL REFORM OF ECONOMIC REGULATION AT HEATHROW



**Heathrow Reimagined response to the CAA's July 2026 update
on the approach to regulatory reform (CAP3286)**

VERSION FOR PUBLICATION

Submission to the Civil Aviation Authority is made jointly by Heathrow AOC, Arora Group, International Airlines Group, S.A., Swissport, and Virgin Atlantic.

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A. INTRODUCTION AND SUMMARY OF OUR POSITION

Introduction

1. This submission, which is made jointly by Heathrow AOC, Arora Group, International Airlines Group, S.A., Swissport, and Virgin Atlantic, collectively 'Heathrow Reimagined',¹ is in response to the Civil Aviation Authority's ('CAA') CAP3286 document (*"Heathrow capacity expansion – update on the approach to the regulatory framework"*) published on 16 July 2026.² It sets out our views on the next steps in implementing the regulatory framework described in Chapter 5 of the Update.
2. Heathrow Reimagined supports much of the CAA's position in CAP3286 and welcomes the progress made towards meaningful regulatory reform. This response to CAP3286 builds on the views set out in Heathrow Reimagined's previous submissions, including our:
 - June 2026 response to the CAA's May 2026 CAP3251 document (*"Heathrow capacity expansion – consultation on a shortlist of regulatory models"*);³
 - January 2026 response to the CAA's November 2025 CAP3195 document (*"Working paper on regulatory models"*);⁴ and
 - February 2025 submission to the CAA (*"Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy"*).
3. **The CAA has confirmed a strong case for change,**⁵ and the models it has shortlisted – Models 1a, 2, 4a, 4b, 5b and 7b, and in particular those promoting greater competition in the provision of Airport Operation Services (AOS) – are the logical outcome of its own findings and the essential components of a comprehensive package of reforms to address the clear failings of the current regulatory model. The task now is to implement an appropriate package of reforms to ensure it goes far enough to meet the case the CAA has itself made. **As the case for change is based on significant consumer harm at today's two-runway airport, it follows that fundamental reform must apply across the entire airport, and not only to expansion – to do otherwise would not be consistent with the evidence or with the CAA's statutory duties.**
4. Our position on the issues relating to the implementation of fundamental reform arising from the Update is summarised below. We consider that:
 - Direct competition should be applied as broadly as possible between infrastructure providers, including for existing terminals.
 - Capex governance should be unified across the whole airport, and delivered rapidly.
 - Affordability is critical to the success of expansion; regulatory reform should explicitly promote outcomes that support both affordability and enforceable cost discipline.
 - Model 3 would transfer risk to consumers without solving any identified problem, and therefore should not be included in the shortlist.

¹ Heathrow Reimagined is also supported by Advantage Travel Partnership, American Airlines, American Express Global Business Travel, Board of Airlines Representatives in the UK, Business Travel Association, IATA, and Menzies Aviation.

² i.e. 'the Update' or 'the Consultation'.

³ i.e. 'the Spring consultation' or 'the Shortlist consultation'.

⁴ i.e. 'the Working Paper'.

⁵ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraphs 2.4 and 2.5, [link](#).

- Reform must be implemented urgently.
5. This is a once-in-a-generation opportunity to reform Heathrow’s regulatory model and establish a framework that supports the airport’s long-term economic and commercial viability. Failure to implement meaningful reform ahead of the next phase of investment risks creating an unsustainable and uncompetitive commercial environment for airlines, undermining both their ability to maintain existing capacity and the conditions needed to invest in connectivity and grow demand in line with airport capacity. We expand on each of our key positions below, setting out the reforms needed to establish fundamental reform at Heathrow.

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Summary of our key positions

Direct competition should be applied as broadly as possible between infrastructure providers, including for existing terminals

6. **Direct competition** between infrastructure providers, applied broadly, **is the only reform capable of addressing the structural incentives that produce today’s consumer harm**. Terminal competition is the clearest application of the broader principle that direct competition and governance disciplines should apply across the expansion programme and the wider Heathrow campus to the maximum extent feasible. Regulation attempts to mitigate the consequences of harmful incentives; only competition can reset these incentives at source. **Absent competition**, the incentives remain, the regulatory burden of risk mitigation cannot be met, and **consumers continue to bear the risk of inefficiency through higher charges. Reform that does not reset such incentives preserves the status quo at greater cost.**
7. A pragmatic and flexible approach to Model 7b, enabling broadly-scoped direct competition between infrastructure providers, would deliver material benefits to consumers, and could be implemented now, using the CAA’s existing powers under the Civil Aviation Act 2012 (CAA12),⁶ through contractual separation.⁷ **We urge the CAA to confirm in its September 2026 publication that it intends to adopt such an approach, which would be a proportionate response to the substantial consumer detriment associated with the current failing regulatory model.**
8. **If the CAA does not adopt a flexible Model 7b, Model 8 should be included in the shortlist:** the CAA’s stated reasons for not retaining it are not persuasive. The application of direct competition, through Model 7b or Model 8, is the key intervention that addresses the core incentive problem at Heathrow. **The effectiveness of the overall package depends on introducing competition as far as possible.**

⁶ Civil Aviation Act 2012.

⁷ As set out in Annex 1 of the Heathrow Reimagined response to the CAA’s Spring consultation. Heathrow Reimagined, Response to the CAA’s Spring 2026 consultation (CAP3251), June 2026, Annex 1, [link](#).

9. As the shortlist currently stands, however, no model would deliver direct competition between operators at Heathrow's existing terminals – where the harm the CAA has identified is occurring now. The CAA has found that, where effective, competition can materially improve upon regulation and deliver significant consumer benefits.⁸ Leaving the existing terminals uncontested cannot be reconciled with those findings or with the CAA's statutory duties.
10. **To progress its work on developing models for introducing competition at Heathrow, the CAA should:**
 - **Engage with the DfT so that the final Heathrow Expansion National Policy Statement (HENPS)⁹ does not foreclose the CAA, as an independent regulator, from discharging its statutory duties (i.e. by restricting who may promote the scheme, and/or restricting direct competition for new infrastructure).**
 - **Commence immediate work on Model 7b in order to preserve the CAA's ability to deploy it flexibly in future and for existing infrastructure, ensuring that:**
 - **Model 7b can apply both before and during any Development Consent Order (DCO) process and does not become unavailable solely because of the form of the eventual DCO award.** The CAA proposes that *“model 7b should be developed in a way such that it could be applied to any new infrastructure that forms part of any DCO that is granted to a third party.”* We see no reason why a similarly flexible approach could not be adopted where a DCO is granted to Heathrow Airport Limited (HAL).¹⁰ We therefore ask the CAA to set out how Model 7b could be introduced under that outcome.
 - **Model 7b can be applied flexibly to new and/or existing infrastructure.** The CAA should use its September 2026 publication to explain the extent to which its existing powers would enable Model 7b to be implemented through contractual separation.
 - On competitive procurement, distinguish Models 4b and 5b and develop them through separate workstreams. The CAA should keep the scope of Model 5b broad, including its potential to use financing and revenue-risk allocation to enable more direct competition and, if needed, provide an alternative route to terminal competition. **The CAA should also address the risks of HAL retaining a ‘guiding mind’ role and ensure tender control sits with the CAA or an independent body.**
 - Engage directly with the credit rating agencies, with Centrus' involvement,¹¹ so that it has a first-hand view of how different reforms (including the various ways to design and implement them) would be assessed; complete a fuller assessment of the benefits of competition (including by seeking views from airlines and other airports); and set clear approaches to coordination and interface risks, wholesale services and any third-party regulation.

⁸ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.18, [link](#).

⁹ See draft HENPS here: DfT, Proposed draft revision to the Airports National Policy Statement, June 2026, [link](#).

¹⁰ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.23, [link](#).

¹¹ CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraphs 1.56, 6.18 and 6.27, [link](#).

Capex governance should be unified across the whole airport, and delivered rapidly

11. The CAA should pursue, without delay, a capex governance regime that is unified across the whole airport and applies to all capex at Heathrow – expansion, H8 business-as-usual, early costs and projects rolled forward from H7 – complementing the broadest application of competitive reform. A single regime concerns the process by which capex is scrutinised, approved and assured; it does not imply a single consolidated regulatory asset base, nor does it prejudge the separable economic treatment of assets that are subject to competition. We are concerned that the CAA's current plans would leave separate capex governance regimes operating in parallel, which would be unduly complex and cumbersome for airlines and the CAA, and would widen the scope for HAL to exploit information asymmetries and game the framework at consumers' expense.
12. **The premise that direct competition would add complexity here should be resisted.** Strong governance has an important role in improving scrutiny and discipline, but it must complement rather than substitute for competition. A governance-heavy regime that relies on airlines and the CAA to scrutinise every capex decision against an inherent information asymmetry would place significant demands on all parties. **Competition reduces that burden by resetting incentives and promoting efficient behaviour, while allowing the new senior governance committee ('the Committee')¹² to focus its scrutiny where it adds most value.**
13. **The Committee needs genuine veto rights over the addition of capex to the Regulatory Asset Base (RAB),** with sufficient authority to constrain incentives for inefficient or excessive investment. This would strengthen capital discipline throughout project development and delivery.
14. **Timely and effective escalation routes to the CAA are also necessary.** We cautiously support the CAA's recognition of the need for a *"clear process where serious concerns can be escalated in a timely way to the CAA"*,¹³ but the existence of an escalation process alone will not be sufficient. **Its effectiveness will depend on the CAA taking decisive enforcement action – including disallowing spend from the RAB – when needed.**
15. Delivering this quickly also requires a genuine overhaul of independent assurance and a broader, more transparent process for scoping and appointing expert advice, and stronger incentives and delivery obligations that limit HAL's ability to game baselines and cost overruns.

Affordability is critical to the success of expansion; regulatory reform should explicitly promote outcomes that support both affordability and enforceable cost discipline

16. This applies in the context of capacity expansion and modernisation, and on an ongoing basis. **Affordability is a threshold condition for expansion to deliver its consumer and wider economic benefits,¹⁴ and therefore to the CAA's ability to discharge its primary duty to further the interests of users in respect of the provision of AOS:¹⁵** if airport charges are

¹² In this response, 'the Committee' refers to the new senior governance committee proposed by the CAA under Model 1a. Heathrow Reimagined has set out detailed recommendations to the CAA for the reform of capital governance, including the functions such a body should perform, referring to it as the Capital Investment Committee (CIC). Section B provides further detail on the implementation of the CIC and transition from the existing arrangements.

¹³ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.36, [link](#).

¹⁴ The appraisal itself notes that its modelling does not fully capture airlines' short-term commercial responses to higher charges, underlining that the benefits of expansion are not automatic and depend on affordable delivery. See Department for Transport, Heathrow expansion appraisal report, June 2026, paragraph 4.7, [link](#).

¹⁵ Civil Aviation Act, Section 1.

unaffordable, airlines will be constrained in their ability to maintain existing capacity or invest in connectivity to grow demand in line with airport capacity. We therefore urge the CAA **to make affordability a central consideration as it moves to design and implement the reformed framework**. The viability of airlines' continued operation at Heathrow depends on an affordable expansion.

17. Consistent with this, we support the CAA in developing **an overall cap on the costs of expansion**, credibly enforced and supported by a mechanism that allocates significant cost risk to the promoter.¹⁶ The cap should be designed to be promoter-neutral, so that **it neither directly nor indirectly precludes the use of direct competition to deliver expansion**, and airlines' views should be properly taken into account in setting its level.

Model 3 would transfer risk to consumers without solving any identified problem, and therefore should not be included in the shortlist

18. Our position on Model 3 is unchanged. The CAA has still not clearly articulated the problem that longer-term price control commitments are intended to solve, nor demonstrated a specific need for change. It is therefore neither proportionate nor justified, and is inconsistent with the CAA's statutory duties.
19. The principal risk is that a longer-term framework **overstates the efficient cost of finance and provides investors with excessive protection at users' expense**. A lower headline cost of capital may be offset by higher charges arising from inefficiency and RAB growth, so **any such framework should be justified by demonstrable reductions in the total cost of expansion to consumers, and not by insulating HAL or its investors from risks they are better placed to bear**.
20. Proposed mitigations, such as reopeners and risk-sharing mechanisms, would be difficult to design and operate effectively, **and these concerns are fundamental rather than matters of detailed implementation**. Model 3 should therefore be removed from the shortlist.
21. If the CAA, nonetheless, continues to consider it, we set out detailed comments on its workplan – the risks of consumer harm, the priority being given to a cap and collar mechanism that neither HAL nor we support, the need to reflect Heathrow's specific circumstances when drawing on precedents from other sectors, and stakeholder involvement in appointing independent experts.

Reform must be implemented urgently

22. HAL has plans for major capex in the coming years, including but not limited to capacity expansion, and it would not be acceptable for this capex to fall under today's inadequate and failing governance regime. With capital commitments of historic scale imminent, **the workstreams the CAA has identified should be progressed now; the CAA must not take several years to address the harm consumers are suffering today, which will only be amplified as HAL's capital programme grows**.
23. As we have set out previously, **reform and the expansion timetable are not in tension**. Today's regime leaves HAL's incentives intact, remains inherently adversarial, and is likely to generate

¹⁶ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.5, bullet 5, [link](#).

significant delays as airlines would have no option but to challenge and oppose HAL's spending decisions to ensure affordability. Reforms that reset incentives, by contrast, would make delivery faster. The incremental changes to the price control process taken through Q5, Q6 and H7 have not worked, as evidenced by the CAA's own case for change. The CAA should recognise this and **pursue a timely step change, rather than allow the timetable to result in years of delay while consumers continue to bear the harm.**

24. We develop these positions further in the rest of this submission:

- **Section B** summarises the case for fundamental reform and the reforms the package must comprise.
- **Section C** provides our more detailed views on the CAA's high-level description of the next steps set out in Chapter 5 of its Update. **Overall, and notwithstanding the summary above and our views on Model 3, we support much of the CAA's position.**

B. IMPLEMENTING EFFECTIVE FUNDAMENTAL REFORM

Introduction

25. We agree with the CAA's confirmation that there is a strong case for changing the current regulatory framework and its intention to focus on developing and implementing the shortlisted regulatory models.¹⁷ We stress that the case for change is based on today's two-runway airport, and reforms must therefore apply across the whole airport as quickly as possible. Implementing fundamental reforms that address the underlying issues at Heathrow is essential to ensure that expansion remains affordable and that airlines can continue to operate at the airport.
26. Structural incentive issues are the root cause of poor performance at Heathrow. It is therefore structural solutions that the CAA must develop and implement to address the harms observed. We agree with the CAA's recognition that, where effective, competition can materially improve upon regulation and deliver significant consumer benefits.¹⁸ Those consumer benefits from competition will be greater where the scope of competition is broader in its application.¹⁹ The CAA should therefore implement reforms to deliver competition as broadly as possible.
27. We urge the CAA to confirm in its September 2026 publication that it intends to adopt a more flexible and pragmatic approach to Model 7b to accommodate contractual separation to enable the broader application of direct competition at Heathrow. This would be consistent with its statutory duties and would provide a proportionate response to the substantial consumer detriment associated with the current failing regulatory model.
28. We agree that the Committee should be implemented and that Models 1a, 2 and 4a should be included in the shortlist. We welcome the CAA's intention that the new approach should cover both expansion and business-as-usual capex.²⁰ Separate regimes for different areas of capital expenditure create complexity and gaming risks that HAL, with asymmetric information advantages, can exploit at consumers' expense. We do, however, have concerns with the CAA's proposed pace and sequencing of these plans.
29. In order to be effective, the reformed capital governance and incentives framework must include stakeholder approval of additions to the RAB, effective escalation routes and independent assurance throughout the capex lifecycle. We believe the options the CAA plans to take forward include the flexibility to implement these essential features within the framework.
30. The continued development of Model 3 by the CAA does not address any of the harms identified in the case for change. The CAA recognises that Model 3 increases consumer risk. If the CAA continues to develop this option, the case for structural reforms across the airport becomes even stronger.

¹⁷ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraphs 2.4 and 2.5, [link](#).

¹⁸ CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.18, [link](#).

¹⁹ CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraphs 1.56 and 6.27, [link](#).

²⁰ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraphs 2.5 and 4.35, [link](#).

Because the case for change is rooted in today's two-runway airport, reform must be applied urgently across the whole airport

31. The evidence on charges is stark.²¹ Independent benchmarking shows that Heathrow is the most expensive major airport in the world, with the next most expensive around a fifth cheaper. Passengers pay over £1 billion annually more than they would if Heathrow's charges were in line with those of European hub peers. These very high charges predate any expansion programme, and are a persistent result of the current ineffective regulatory model.
32. HAL's relative service quality performance does not justify these persistently very high charges.²² Heathrow has fallen from 8th in Skytrax's World Airport Awards rankings in 2018 to 16th in 2026, having ranked as low as 22nd in the intervening years.²³ It also scores below the European, global and major international airport averages in Airports Council International's (ACI) Airport Service Quality (ASQ) surveys.²⁴ Value for money is unacceptably poor.
33. Persistent and systematic capital inefficiency is the cause of Heathrow's poor value for money. For example, independent benchmarking by Oxford Global Projects shows Heathrow's terminal costs sitting towards the very top of the reference class of comparable projects.²⁵ Inefficiency remains the only credible explanation for the combination of the world's highest charges and inadequate service levels.
34. The substantial consumer harm identified at Heathrow exists now at today's two-runway airport. This is recognised in the CAA's own case for change. While HAL's very expensive plans for capacity expansion, including modernisation, would widen the already significant charges gap substantially over the coming decades,²⁶ the need to address consumer harm is not only an expansion issue. A regulatory response focused on expansion would leave significant harms without remedy for all current users. That would be very difficult to reconcile with the CAA's duties and its own evidence, particularly as comprehensive and proportionate solutions exist.
35. We therefore agree with the CAA's proposal that all the shortlisted models *"can be developed together to help form an overall regulatory framework for Heathrow Airport"*²⁷ and that the new approach should *"be developed to cover expansion and business-as-usual capex"*.²⁸
36. The reform package must apply across the entire Heathrow campus, including for expansion and business-as-usual. For the reasons set out in our Spring consultation response,²⁹ direct competition should operate wherever feasible, including for existing terminals. Where genuinely not feasible, design, build and operate competition should apply to all future semi-separable assets, not only those related to expansion.
37. All these reforms should be implemented urgently. We are therefore concerned by the CAA setting out that the new approach to capital governance and incentives would *"initially focus*

²¹ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 41-45, [link](#).

²² Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 46-51, [link](#).

²³ Skytrax, World Airport Awards, 2018 – 2026, [link](#).

²⁴ This was recognised by the CAA in its May consultation. CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 2.75, [link](#).

²⁵ Oxford Global Projects, Heathrow benchmark report, November 2025, page 43, [link](#).

²⁶ CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 2.53, [link](#).

²⁷ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.33, [link](#).

²⁸ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.35, [link](#).

²⁹ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 107-116, [link](#).

on expansion activities” with it only being extended to business-as-usual capex *“over time”*⁸⁰ and *“in due course”*.³¹

38. Similarly, references to the full implementation of the new capital governance and incentives regime involving *“a phased approach over several years”*³² also show a concerning lack of urgency. The CAA recognises the problem is urgent given HAL’s plans to incur significant capex imminently. The governance framework should therefore be implemented with the same urgency. It is neither acceptable nor necessary for significant non-expansion capex to remain subject to an ineffective regime while reforms are phased in over several years. Timing challenges should be overcome to prevent existing and future harms to consumers due to an inadequate regulatory regime and, in any event, doing so need not delay expansion. There is no compelling reason to move slowly on governance changes.

Having effective regulatory mechanisms to promote affordability is critical to the success of expansion

39. A reformed regulatory model must explicitly promote outcomes that support Heathrow’s ongoing affordability.³³ Without affordable airport investment, airlines cannot maintain existing capacity, let alone invest in the connectivity growth necessary for the airport to be a success. Affordability is therefore central to the interests of consumers and, indeed, cost is identified as a key part of the CAA’s pursuit of its primary duty.³⁴
40. Affordability is particularly important where the scale, timing and distribution of expansion benefits remain subject to material uncertainty. If the cost of expansion moves past a critical point and makes Heathrow unaffordable for airlines and passengers, charges could increase even further and faster than expected. This risks compromising the commercial viability of airlines’ continued operation at the existing airport, and therefore the future success of Heathrow. Affordability must therefore be treated as a core constraint on the design of the regulatory framework, not as a secondary consideration.
41. Implementing reforms to introduce competition into as many layers of the value chain as possible is the most effective way to improve affordability. Competitive pressure between operators drives efficiency and innovation, reducing costs for airport users. The broader the application of competition, the greater the efficiency gains. Delivering on affordability also requires explicit processes that ensure that capex planning and the setting of capex envelopes are consistent with Heathrow being an affordable and attractive airport for its users. Both competition reform and effective capex governance are the responsibility of the CAA and must be prioritised.
42. In our response to the Spring consultation,³⁵ we therefore agreed with the CAA’s position that affordability is *“a very important consideration”* but strongly disagreed with the CAA’s decision to exclude it from the evaluation framework. We recognised that decisions taken by others, including Government, on project specification and scope have a critical role in determining

³⁰ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.35, [link](#).

³¹ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.3, [link](#).

³² CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.3, [link](#).

³³ This should be applied consistently (i.e. across existing and future price controls, and capacity expansion), and is itself a reason to unify capital governance rather than attempt to treat it separately (e.g. attempt to split between price controls and capacity expansion).

³⁴ Heathrow Reimagined, Response to the CAA’s Spring 2026 consultation (CAP3251), June 2026, paragraphs 91-96, [link](#).

³⁵ Heathrow Reimagined, Response to the CAA’s Spring 2026 consultation (CAP3251), June 2026, paragraph 91, [link](#).

affordability. However, we set out that the CAA, through its decisions on the regulatory model, has an equally critical role in determining whether capacity expansion can be delivered affordably. In fact, the HENPS is explicit that, while the Secretary of State will consider the affordability of the proposed scheme with advice from the CAA, this *“is not a substitute for, and does not displace, the subsequent and separate statutory role of the CAA and applicable economic regulation regime”*.³⁶ In line with this, the CAA should engage proactively with its role in advising Government on affordability and reverse its decision to exclude affordability from its evaluation framework. Both are necessary to ensure that material affordability considerations are properly identified and assessed.

43. We continue to disagree with the CAA's decision and ask it to explain, in its upcoming publications, how: a) affordability will bear on the choice of model(s) and not only on the costs recovered under it;³⁷ and b) affordability will be given central consideration as the CAA moves on to reform design and implementation.
44. Consistent with these views, we agree with the CAA's intention³⁸ to develop possible approaches to setting a cap for overall expansion costs, including considering how this could be credibly enforced. If set at the right level and appropriately designed to avoid gaming by scheme promoters, such an enforceable cap for overall expansion costs could be a valuable safety net to support affordability and protect the interests of consumers. An effective cap is critical to ensure promoters are incentivised towards efficiency in design and delivery. We address this further in the next section as part of our detailed comments on Chapter 5 of the Update.

The root cause of the poor consumer outcomes is structural – structural problems require structural solutions

45. The poor consumer outcomes demonstrated in the case for change are the predictable results of harmful incentives born from Heathrow's substantial market power (SMP) and compounded, rather than remedied, by the current regulatory model. As we have set out in previous submissions,³⁹ HAL has an incentive to grow its RAB to secure returns, including by spending capital inefficiently. It also has weak incentives to drive operational efficiency, no incentive to ensure its commercial activities are net present value (NPV) positive, and limited incentives to innovate or respond to users' needs. The current model neither adequately constrains HAL's SMP nor mitigates its harmful incentives.
46. This is not a new diagnosis. The Competition Commission reached similar conclusions in its 2009 BAA market investigation, finding that such criticisms are: *“inherent in RAB-based regulation, which incentivises BAA to ‘play the regulatory game’ ... rather than providing what users necessarily want, in terms of quantity, quality, location and timing of investment”*.⁴⁰
47. Seventeen years later, the same incentives are still producing poor consumer outcomes. Successive interventions to incrementally amend the current model have attempted to

³⁶ Department for Transport, Draft Heathrow expansion national policy statement, June 2026, paragraph 4.67, [link](#).

³⁷ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraphs 3.5-3.7, [link](#). We note that the CAA recognises the importance of an affordable scheme, and that it is considering affordability as part of its work on early costs. This is insufficient; our position remains that affordability should also be forming part of the framework by which the CAA evaluates and selects between models for regulatory reform.

³⁸ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.5, [link](#).

³⁹ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 221 and 223, [link](#).

⁴⁰ Competition Commission, *BAA airports market investigation*, March 2009, paragraphs 6.17 to 6.28, [link](#).

mitigate these outcomes. The CAA has established ex ante capex incentives, required delivery obligations and conducted ex post efficiency reviews.⁴¹ Each sought to mitigate the effects of the same underlying problems, but none has succeeded because each treats the symptoms without addressing the root cause. HAL has both the ability and the incentive to circumvent such mechanisms and any incremental changes to them.

48. The implication is fundamental to the choices before the CAA now. It is widely recognised that regulation is not a substitute for effective competition.⁴² No ongoing regulatory mechanisms – however well-designed – can remove HAL's SMP or the structural incentives that flow from it. Regulation can mitigate consequences; only competition can reset incentives at source. Where the CAA faces a choice between where and how to implement the final reforms, competition should be preferred. Absent competition, HAL's existing incentives remain, with consumers bearing the full risk of cost escalation through ever higher passenger charges. We therefore agree with the CAA's continued inclusion of reforms aimed at increasing the use of competition, particularly direct competition, to shape AOS outcomes in the shortlist.

Direct competition remains the most effective remedy and should be implemented broadly

49. The Spring consultation recognised that, where effective, competition can materially improve upon regulation and deliver significant consumer benefits, and that, all else being equal, the consumer benefits of competition will be greater where the scope of competition is broader in its application.⁴³ The CAA must also carry out its functions in a manner that promotes competition in the provision of AOS where appropriate, a duty that is not confined to expansion assets. The only logical conclusion is that implementation of competitive reforms should cover all terminals and wider infrastructure, existing and new, to facilitate direct competition as much as possible.
50. The CAA has moved on the scope of these reforms, and so has its own technical adviser.
- Steer's May 2026 assessment distinguished between existing assets and new assets associated with expansion.⁴⁴
 - Its July 2026 update now accepts that the shortlisted models could apply to all major infrastructure developments regardless of location, expressly including developments in the Central Terminal Area involving Terminals 1, 2 and 3.⁴⁵
 - Steer also concludes that Model 7b is most technically credible where assets can be operated with a sufficiently clear boundary from HAL's retained functions, and that this points primarily to terminal buildings.⁴⁶
 - Steer goes further and proposes a compatible approach of its own: a third party could build a new terminal and the associated airfield infrastructure while operating only the

⁴¹ CAA, CAP3195: Working paper on regulatory models, November 2025, paragraphs 2.62 to 2.66, [link](#).

⁴² CAA, CAP3195: Working paper on regulatory models, November 2025, paragraph 1.7, [link](#).

⁴³ CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraphs 1.56, 6.18 and 6.27, [link](#).

⁴⁴ Steer, Technical assessment of the CAA regulatory models for Heathrow expansion, May 2026, [link](#).

⁴⁵ Steer, Update on technical assessment of the CAA regulatory models for Heathrow expansion, July 2026, paragraphs 5.4 and 4.8, [link](#).

⁴⁶ Steer, Update on technical assessment of the CAA regulatory models for Heathrow expansion, July 2026, paragraph 6.17, [link](#). We note that the HENPS, as currently drafted, would require the CAA to develop a more flexible version of Model 7b to introduce competition for infrastructure and services to airport users.

terminal and transferring the airfield assets to HAL, on the model used in Turkish airport concessions.⁴⁷ This appears to acknowledge that terminal-level competition with a distinct operator is deliverable while HAL retains the integrated airfield functions (rather than duplicating airfield operations). We would welcome clarification from the CAA on how, and on what timetable, this pathway would be developed and tested.

51. The incremental consumer benefits from broadening the scope and increasing the intensity of competition in the provision of infrastructure and services to users at Heathrow arise through several distinct mechanisms:

- **Competition-for-the-market** aligns operators' incentives with users' interests from the outset. It drives significant cost efficiencies by creating strong incentives for bidders to reveal efficient costs and optimise the design, build, and delivery of infrastructure to win contracts. Models 7b and 8 apply competitive pressure across the widest part of the value chain and should be applied to the fullest extent. Model 5b would also promote competition-for-the-market across the Heathrow campus, over a narrower scope. As we have set out previously, the chance to compete for the opportunity to build and operate major infrastructure at Heathrow would be an attractive proposition to major infrastructure investors and operators globally, and we would expect significant competition between bidders.
- **Competition-in-the-market** is enabled under a model where airlines can switch terminals, and given the long tail of airlines with limited-service frequencies, the spare capacity needed to promote switching at the margin is modest. Extending the scope of direct competition through a more flexible application of Model 7b or Model 8 would unlock some competition-in-the-market and deliver greater consumer benefits. This creates long-term dynamic competitive pressure, providing strong incentives for operational efficiency and continuous improvements in service quality.
- Multiple independent operators would also give the CAA and the Committee far **richer data for benchmarking**, with greater transparency over the efficient costs of provision.
- Drawing investment from multiple balance sheets **reduces the concentration and reliance on a single, highly indebted entity to finance expansion**.⁴⁸ Centrus observes that S&P consistently identifies the scale of expansion, and the debt and equity required to fund it, as the principal driver of any negative rating impact on HAL, and that a third party funding and building new capacity would absorb much of that capital expenditure, construction and demand risk.⁴⁹ Transferring HAL's single largest expansion risk away from it should, all else equal, support rather than weaken its credit position.

52. Models 5b and 7b both benefit from competition-for-the-market, but **only Model 7b applies competitive pressure across the full value chain**. This broadens the scope for competitive cost discovery and creates stronger incentives for efficiency and innovation.

- Under Model 5b, bidders compete to become HAL's contractor for the design, build and operation of assets. The market being contested is the provision of infrastructure development and operational services to HAL. HAL remains the asset owner, specifies the

⁴⁷ Steer, Update on technical assessment of the CAA regulatory models for Heathrow expansion, July 2026, paragraphs 5.6 and 6.17, [link](#). We note that other models are possible, including at JFK, where airports maintain the airfield, but the FAA controls operations and standards.

⁴⁸ Centrus, Financeability assessment of regulatory models for Heathrow Airport, May 2026, [link](#).

⁴⁹ Centrus, Response to CAP3251 consultation responses, July 2026, page 6, [link](#).

project, selects the contractor, and retains the commercial relationship with airlines. The winning bidder bears only the risks allocated under the contract. The reform therefore strengthens incentives to procure and deliver a specified scheme efficiently. This option is sufficient where direct competition is not feasible, but only if HAL does not control the upstream needs case, design, and tender process. Without these safeguards, HAL will continue to exploit its market power and embed upstream inefficiencies in project design and costs, to the detriment of consumers.

- Under Model 7b, bidders compete for the right to build, own, and operate the asset. The defining feature of the model is the market being contested, which is the provision of airport services to airlines, rather than the form in which the asset is held. The developer bears investment risk over the full life of the asset, and its revenues depend on airlines choosing to use its facility. This creates incentives not only to deliver efficiently, but also to propose the right investment in the first place, because the developer bears the consequences of poor investment decisions. This solution addresses the core incentives issue that underpins the problems identified in the case for change. Ownership is a matter of implementation rather than definition. Competition of this kind can be delivered where a third party owns the asset it has built, and it can equally be delivered under a long-term contract where HAL remains the freeholder. What matters for consumers is that the operator bears the consequences of its own investment decisions and depends on airlines choosing to use its facility; this incentivises efficiency and service quality performance. By addressing the underlying incentive problem and reducing information asymmetries, Model 7b also reduces the extent of detailed capex oversight required from the CAA.
53. As we set out in detail in our response to the Spring consultation,⁵⁰ claims of fragmentation issues arising from greater use of competition are severely overstated.⁵¹ HAL's coordination role is much more limited than it asserts. Heathrow already operates as a multi-operator environment across cargo facilities, maintenance hangars, hotels and terminal facilities, much of it coordinated by airlines rather than HAL, with airfield operations directed by NATS.
54. Competition would itself give operators strong incentives to manage interface risks. Steer's July 2026 update confirms that, with appropriate mitigation measures in place, it is technically feasible for an alternative promoter to develop and operate assets at Heathrow.⁵² The question before the CAA is, therefore, not whether direct competition can be made to work operationally, but, rather, how much weight the residual complexity should carry against the consumer benefits that competition would unlock. Steer's own assessment appears to answer that question: it concludes that the enhanced coordination costs associated with an alternative promoter would be materially lower than the construction and operating cost savings such a promoter could deliver.⁵³ Residual coordination gaps can be filled through protocols overseen by the CAA or the Committee, supported if necessary by an independent third-party specialist, as has been achieved in other regulated settings such as energy transmission.
55. We note that Steer's July 2026 update scores Model 7b negatively under Criterion A – appropriate support for capacity expansion – where CAP3251 had scored it neutral, based on

⁵⁰ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraph 22, [link](#).

⁵¹ We note that Steer did not consult airlines at Heathrow on whether competition leads to fragmentation, despite the airlines' direct experience at multi-operator airports, including Munich and JFK. This undermines their conclusions on the scale of fragmentation issues.

⁵² Steer, Update on technical assessment of the CAA regulatory models for Heathrow expansion, July 2026, paragraphs 4.4 and 6.19, [link](#).

⁵³ Steer, Update on technical assessment of the CAA regulatory models for Heathrow expansion, July 2026, paragraph 4.3, [link](#).

coordination and governance risks, structural fragmentation and increased operational interfaces.⁵⁴ The scoring does not seem to align with Steer's own analysis. It appears to be based on the coordination and fragmentation concerns addressed above, which Steer itself finds surmountable with appropriate mitigation and materially outweighed by the savings a competing promoter would deliver.⁵⁵ The score is also assessed against the status quo,⁵⁶ which has delivered the poor consumer outcomes that have been set out in the case for change. Using that model as the benchmark for support for capacity expansion risks overlooking the need for fundamental reform. As a result, the CAA should place no more weight on the scoring than Steer's own reasoning supports.

56. Furthermore, the risks to the expansion timetable are also overstated and, indeed, are greater with inaction.⁵⁷ A regime that leaves HAL's harmful incentives intact will remain insufficiently governed and adversarial; such regimes generate delay. It is therefore unclear that the current regulatory model will deliver to the Government's timetable. The relevant comparison for reform is a failing model that continues to produce delays, especially as capital commitments of historic scale are made. Reforms that reset incentives, however, would generate capital proposals that are more efficient and in line with airlines' needs, and therefore more likely to receive quick approval.
57. Centrus judges that HAL's claims about delays to the expansion timetable are misleading. Centrus notes that developing the regulatory model in parallel with project development can reduce the schedule impact, as was done for Thames Tideway. We agree, and urge the CAA to streamline the timetable and progress the competition models as early as possible.
58. We note that Models 5b and 7b should be seen as complementary rather than as alternatives: Model 7b should be applied across the widest scope possible, and Model 5b developed for those assets where direct competition is not feasible. The CAA should develop both in parallel and should not treat this as a choice between the two.⁵⁸
59. Administrative complexity is also not a valid reason not to pursue competition reforms, particularly direct competition.⁵⁹ The CAA's primary statutory duty is to further the interests of consumers, not to maximise administrative simplicity. The final design and implementation challenges of direct competition are manageable, with successful approaches demonstrated at multiple major international airports around the world. The consumer harm from HAL's continued monopoly provision of all aspects of AOS is not. There is also a choice here that the Update does not acknowledge. Declining direct competition on grounds of complexity does not deliver simplicity. Instead, it will increase the burden on the CAA by requiring it to exercise and enforce its capital governance powers across a broader range of assets while leaving the structural incentive problems unaddressed. The simpler course, and the one that delivers better outcomes for consumers, is the one that changes the incentives at source.
60. We note the CAA's consideration of our representations regarding the scope of direct competition to include all terminals competing directly with each other via contractual separation.⁶⁰ Confirming in its September 2026 publication that it intends to adopt a more

⁵⁴ Steer, Update on technical assessment of the CAA regulatory models for Heathrow expansion, July 2026, paragraphs 5.12-5.13, [link](#).

⁵⁵ Steer, Update on technical assessment of the CAA regulatory models for Heathrow expansion, July 2026, paragraphs 4.4 and 6.19, [link](#).

⁵⁶ Steer, Update on technical assessment of the CAA regulatory models for Heathrow expansion, July 2026, paragraph 5.8, [link](#).

⁵⁷ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 86-90, [link](#).

⁵⁸ Centrus, Response to CAP3251 consultation responses, July 2026, page 9, [link](#).

⁵⁹ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 115 and 150, [link](#).

⁶⁰ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.28, [link](#).

flexible and pragmatic approach to Model 7b to accommodate contractual separation would be consistent with its statutory duties and a proportionate response to the substantial consumer detriment associated with the current failing regulatory model. In any case, we ask the CAA to use its September 2026 publication to explain the extent to which its existing powers would enable Model 7b to be implemented through contractual separation.

61. Terminal-level competition can coexist with Heathrow continuing to operate as one integrated airport system, with non-negotiable safety and regulatory requirements. Central coordination of these functions does not require monopoly operation of all terminals by HAL; it requires clearly specified standards, enforceable obligations and transparent governance.

The CAA's existing powers enable a broader application of competition reforms

62. The Update continues to tie the application of Model 7b to the development of new infrastructure based on a third party receiving planning consent, stating:

*“Under this model [Model 7b], a third party would need to receive planning consent to provide all or part of the Heathrow expansion and associated infrastructure”.*⁶¹

63. As we set out in our response to the Spring consultation,⁶² limiting the implementation of direct competition to new infrastructure confines a broader application of direct competition to some indeterminate future point. A more flexible and pragmatic application of Model 7b is required, and contractual separation provides it, as we set out in detail in our Spring consultation response.⁶³ The prospect of a different policy direction for Heathrow under the new Government strengthens the case for taking forward reform options that can be applied flexibly in future, rather than those that depend on specific expansion outcomes.
64. Under contractual separation, a structured competitive process would select independent operators for existing terminals. Each operator would take responsibility for operating and investing in its terminal under a long-term contract and would compete directly for airline customers rather than acting as a contractor to HAL. No divestment by HAL is required. HAL would continue to own the existing terminal freeholds and would retain regulatory certainty over the recovery of its previously incurred terminal costs, because the reform is directed at forward-looking incentives. As we set out in detail in our response to the Spring consultation, the CAA can implement this using its existing powers under CAA12.⁶⁴
65. The CAA's provisional view is that it is not clear there would be significant advantages in such arrangements, bearing in mind the flexibilities that Models 5b and 7b would already provide.⁶⁵ We do not consider that reasoning holds for two reasons that follow from the CAA's own description of those models and from the comparison we set out above.
 - Under Model 5b, HAL remains the owner, specifies the project and, as the model is currently described, would control the tender, select the contractor and retain the

⁶¹ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.18, [link](#).

⁶² Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraph 118, [link](#).

⁶³ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 125-129, [link](#).

⁶⁴ As set out in Annex 1 of the Heathrow Reimagined response to the CAA's Spring consultation. Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, Annex 1, [link](#).

⁶⁵ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.28, [link](#).

commercial relationship with airlines; the winning bidder is HAL's contractor.⁶⁶ HAL remains the 'guiding mind'.⁶⁷ Such a 'guiding mind' that retains SMP and controls the information will continue to shape outcomes around its own incentives, whatever the contractual form. The incentive that sits at the root of the case for change is left intact. If the CAA considers that Model 5b can provide the flexibility for a third party to provide direct competition by operating and redeveloping a terminal,⁶⁸ then it should set out its views on how this would work in practice, including how it would reset HAL's incentives through both financing and revenue risk.

- Under Model 7b as the CAA currently frames it, application depends on a third party receiving planning consent for all or part of expansion.⁶⁹
- On that framing, Model 7b delivers nothing for existing terminals in any scenario, and nothing at all if HAL is the successful promoter. The flexibilities on which the CAA relies are therefore unavailable in precisely the circumstances that matter most to consumers at today's airport. We therefore ask the CAA to adopt a broader and more flexible approach to Model 7b. If it does not, it should set out its reasoning in the September 2026 publication and explain why a narrower application is justified.

66. If the CAA declines to apply Model 7b flexibly, Model 8 becomes the only route by which competition could be introduced for the operation of Heathrow's existing terminals. That is why it must be retained. As we set out in our Spring consultation response,⁷⁰ Model 8 would be an effective route for broadening the scope and intensity of competition.

67. In the Update, the CAA has retained its position from the Spring consultation that it does not support doing further work on Model 8 on the basis that:

- It considers that it is not clear that Model 8 provides material advantages over the other models it has shortlisted; and
- The outcome of any process under the Enterprise Act 2002 is a matter that the CAA does not control, the procedures are lengthy and resource intensive, and the outcome would not be certain.⁷¹

68. We disagree with both of these reasons:

- **Model 8 could enable material consumer benefits over other currently shortlisted models.** As set out above and in our Spring consultation response,⁷² direct competition is the remedy most capable of fully addressing the underlying harmful structural incentives HAL faces today. It harnesses rivalry to the fullest extent possible from alternative operators. Furthermore, as the CAA accepted in the Spring consultation,⁷³ all else being equal, the consumer benefits of competition will be greater where the scope of competition is broader in its application. Expanding the scope of direct competition to include all terminals competing directly with each other provides the broadest scope of

⁶⁶ Steer, Update on technical assessment of the CAA regulatory models for Heathrow expansion, July 2026, paragraph 2.10, [link](#).

⁶⁷ CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraphs 1.48 and 6.30, [link](#).

⁶⁸ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraphs 4.18, 4.23 and 4.28, [link](#).

⁶⁹ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraphs 4.18, 4.23 and 4.32, [link](#).

⁷⁰ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 158-165, [link](#).

⁷¹ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.26, [link](#).

⁷² Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 100-103, [link](#).

⁷³ CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.27, [link](#).

direct competition. None of the existing shortlisted models would, as currently interpreted by the CAA, facilitate the broadest scope of direct competition and address the structural incentive issues that underlie the existing terminals at Heathrow. Rather, a more pragmatic and flexible application of Model 7b to capture contractual separation or, alternatively, the use of Model 8 is required.

- The duration and resource requirements of a process under the Enterprise Act 2002 do not provide a valid reason for not considering Model 8 further. As we set out in our Spring consultation response,⁷⁴ a process to introduce broadly scoped direct terminal competition could be managed to minimise any perceived risks to the capacity expansion timetable. Further, the scale of resource requirements for such a process can be expected to be small compared to the likely benefits to consumers from more effectively addressing the substantial harm consumers experience under the current failing model. As set out above, direct competition is the remedy most capable of fully addressing the underlying harmful structural incentives HAL faces today, and the consumer benefits of competition will be greater where the scope of competition is broader in its application.
- The uncertainty of the outcome of an Enterprise Act process and the CAA's lack of control of it are also not valid reasons for failing to consider the application of Model 8 further. Neither has precluded other regulators⁷⁵ from making a market investigation reference to the CMA. Indeed, such reasons are not specific to this case and would seem to raise concerning questions about the CAA's willingness to use its Enterprise Act powers more broadly. The CAA's statutory duties require the CAA to carry out its functions in a manner that furthers the interests of users and to do so, where appropriate, by promoting effective competition in the provision of AOS.
- **Further, a market investigation reference under the Enterprise Act is not the only option available to the CAA.** As we set out in our response to the Spring consultation,⁷⁶ the CAA could request that Government gives it the necessary powers, including as part of the Civil Aviation Bill process that is before Parliament. The CAA is therefore saying that it cannot implement this model because of the constraints outlined above, but that it does not seek the powers to obviate these constraints.

69. Despite its current position, the CAA sets out that it is *“open to considering this model further in the future if there is a material change in circumstances or substantial new evidence”*.⁷⁷ This position by the CAA displays a high level of caution that will not deliver the fundamental reform needed at the airport. We ask the CAA to provide greater clarity in the September 2026 document on what it might consider to be a material change or substantial new evidence, beyond the single example it gives, which is HAL seeking to divest itself of an asset.⁷⁸ If that is the principal route by which the CAA envisages the position changing, it would leave the availability of a structural remedy dependent on HAL's choices. This is not a proportionate or appropriate position, and the CAA should retain the option on the shortlist, rather than considering it only at the discretion of a regulated entity with SMP. The need to keep Model 8 open in future is particularly important given the overwhelming strength of the case for

⁷⁴ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraph 164, [link](#).

⁷⁵ e.g. Ofcom in relation to the UK public cloud infrastructure services market in 2023 ([link](#)).

⁷⁶ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraph 161, [link](#).

⁷⁷ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.27, [link](#).

⁷⁸ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.27, [link](#).

change, and the clear consumer benefits from enabling the broadest application of direct terminal competition.

70. The CAA must consider the combined effect of its current positions. The CAA has found that, where effective, competition can materially improve upon regulation and deliver significant consumer benefits, and has accepted that, all else being equal, the consumer benefits of competition are greater the broader its application.⁷⁹ It is under a duty to carry out its functions, where appropriate, in a manner that promotes competition in the provision of AOS. That duty is not confined to expansion. Yet, under the CAA's current approach: Model 7b is confined to the event of a third party succeeding in the planning process; Model 8 is not to be developed unless the regulated entity chooses to pursue this remedy; and contractual separation is not appropriately considered or advanced. The result is that no model on the shortlist is capable of delivering direct competition between operators serving airlines at Heathrow's existing terminals, which is where the harm the CAA has identified is occurring now.
71. Terminal competition is the clearest application of the broader principle that direct competition and governance disciplines should apply across the expansion programme and the wider Heathrow campus to the maximum extent feasible. We do not consider that an outcome without the broad application of competition can be reconciled with the CAA's own findings or with its duties, and we ask the CAA to address it directly in its September 2026 publication.

Reformed capital governance and incentives must replicate the disciplines of a competitive market

72. We agree with the CAA's plans to implement the Committee and the decision to proceed with Models 1a, 2 and 4a, as we set out in our Spring consultation response.⁸⁰ An effective capital governance model, based on the Capital Investment Committee (CIC) model we have previously set out to the CAA, covering the full capital and asset lifecycle from planning through approval to delivery and performance, is a necessary part of a comprehensive package of reform. It must apply to all capex rather than expansion capex only.
73. We continue to consider that the reformed capital governance model and incentives must reproduce, to the fullest extent possible, the discipline and accountability that management and shareholders face in competitive markets where inefficiency results in, for example, capex not being recoverable, lower management bonuses, and dividends being reduced or stopped.
74. We set out in our Spring consultation response⁸¹ that, to be effective, the reformed capital governance and incentives framework must include (but not be limited to):
 - **Stakeholder capex approval.** The Committee must be able to withhold approval for the overall capex envelope and specific capex proposals. Without that power, it cannot meaningfully control the risks users bear, and HAL faces no consequence for presenting weak proposals earlier in the process. The absence of effective airline approval rights is not viable. The Committee's powers must be materially stronger than the limited rights

⁷⁹ CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraphs 1.56, 6.18 and 6.27, [link](#).

⁸⁰ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 13 and 23, [link](#).

⁸¹ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 191-209, [link](#).

airlines have at Gateway 3 today under the current regime. The current description risks it being weaker, while likely requiring greater resourcing by airlines but for potentially worse outcomes.⁸²

- **Effective CAA escalation.** There must be effective fast-track routes for the Committee to escalate unresolved issues to the CAA for determination, not simply arbitration. The CAA must have a comprehensive set of tools available to it to ensure effective oversight and accountability, recognising the power and information imbalance between a regulated entity with SMP and its customers.
- **Independent assurance.** Any experts or assurance bodies supporting the Committee must be genuinely independent of HAL, including ensuring that they are appointed directly by the Committee or CAA.

75. We comment on the CAA's current position on each below.

Stakeholder capex approval

76. In the Update, the CAA responds to our call for veto rights in our Spring consultation response. The CAA finds that the Committee should not have veto powers over HAL's expenditure decisions because HAL should retain clear responsibility to deliver the investment needed to maintain the safe and secure operation of the airport.⁸³
77. We continue to disagree with this position for the reasons we set out in our Spring consultation response.⁸⁴ Furthermore, the CAA frames this as a choice between a Committee veto and HAL's responsibility for the airport. It is not. The Committee would not need veto rights over HAL's spending. HAL – or any other operator – could still spend whatever it judges necessary to meet its corporate responsibility to maintain the safe and secure operation of the airport. The Committee would veto only whether that spending enters the RAB, and so whether consumers pay for it through charges. HAL therefore keeps full responsibility to maintain the airport; the veto touches only cost recovery. Inclusion of an effective veto mechanism on RAB additions would create strong incentives for HAL to engage effectively with airlines and deliver value for money.
78. Where HAL disagrees with a Committee veto, it could escalate that decision to the CAA for a swift determination. That approach would better allow for effective oversight and accountability by the Committee, with safeguards for HAL, than the CAA's proposed approach. If the regime was well-designed, HAL (or another regulated operator) should be incentivised to provide high-quality business cases in a timely manner that would minimise the risk of veto. In such circumstances, escalation to the CAA by HAL should be rare.
79. Removing the limited rights that airlines currently have at Gateway 3, which is the implication of the CAA's position, would be a backward step, as we set out in our Spring consultation response. Given the CAA's conclusion that *"capital expenditure has been a primary driver of HAL's high charges, which may suggest a degree of inefficiency"*, it is imperative that the future Committee has materially stronger powers than airlines have today, to prevent capex from

⁸² Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraph 200, [link](#).

⁸³ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.36, [link](#).

⁸⁴ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 200-207, [link](#).

being added to the RAB where it is deemed inefficient.⁸⁵ We urge the CAA to reconsider its position ahead of the September publication.

Effective CAA escalation

80. We agree with the CAA's recognition that there would need to be *"clear escalation routes where issues could not be reasonably resolved"* and, critically, that there needs to be a *"clear process where serious concerns can be escalated in a timely way to the CAA and ultimately we [the CAA] would decide whether capex should be eligible for inclusion in HAL's RAB"*.⁸⁶ Having the ability to challenge HAL effectively is a critical element of an effective governance regime that has meaningful 'teeth', particularly in the context of HAL's harmful incentives to incur capex irrespective of whether it is efficiently incurred.
81. In the absence of veto rights for the Committee, ensuring that there are highly effective and timely escalation routes for stakeholders to seek CAA intervention is the minimum necessary to provide a meaningful route for challenge.
82. However, the CAA must commit to a step change in its enforcement strength. As we have set out previously,⁸⁷ existing mechanisms to incentivise efficient capex – notably the ex post and ex ante tools – have been ineffective. Such failings must be addressed if the reformed regime is to strengthen HAL's incentives for efficiency. This requires the CAA to have the appropriate resource available and make timely decisions on RAB inclusion before HAL incurs capex and to apply a more robust threshold for excluding inefficient expenditure to better protect consumers. If this is not the case, the reformed regime will fail in its central aim of recreating the capital discipline and accountability that occurs in competitive markets. The effectiveness of any escalation route is dependent on decisive enforcement from the CAA that places consumers at the heart of its decisions.

Independent assurance

83. We also agree with the CAA's conclusion that the *"new governance framework would need to include independent scrutiny of costs"*.⁸⁸ However, the CAA does not explain what it would consider to constitute genuinely independent scrutiny. We urge the CAA to provide further clarification in the September 2026 document. We set out our more detailed thinking on the need to overhaul today's assurance framework in Section C.

Reform should result in the rapid deployment of a single unified capex governance regime for Heathrow

84. Our understanding of the CAA's current position on future capital governance is that:
 - It will initially focus governance reform on the arrangements needed for **capacity expansion**;

⁸⁵ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 2.1, [link](#).

⁸⁶ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.36, [link](#).

⁸⁷ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 59-63, [link](#).

⁸⁸ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.36, [link](#).

- It will make phased changes to the governance arrangements for **H8 business-as-usual** arrangements, with the full implementation of the reformed governance arrangements to follow in due course;
 - It is currently developing a separate set of arrangements for **early costs**; and
 - Capex projects currently in train, having been **rolled forward from H7 and before**, will continue under the arrangements in place at the time of approval.
85. We are significantly concerned that this approach will create several different parallel governance processes applied to different categories of capex, with some relying on the existing inadequate and ineffective regime for an extended period of time. This risks creating an unnecessarily complex and unworkable regime, increasing costs for all stakeholders, and likely undermining the effectiveness of governance.
86. Furthermore, multiple such processes introduce serious risks of gaming by HAL. For example, the combination of HAL's harmful capex incentives and the information asymmetries it holds over the classification of capex (including the timing of when capex moves through existing governance processes) creates a material risk that such classifications could be shaped to HAL's advantage, giving it both the means and the incentive to game a fragmented system.
87. As we set out in detail in our June 2025 submission, a twin-track of different models applying to expansion and BAU will not allow the CAA to properly address its statutory duties.⁸⁹ The same is also true for other capex categories.
88. The CAA can and should address these risks by prioritising the rapid deployment of a single unified capex governance regime for all capex at Heathrow including, for the avoidance of doubt, capex for capacity expansion, H8 business-as-usual, early costs and projects rolled forward from H7 and before. We see no reasonable basis for not adopting such an approach.

A long-term regulatory framework (Model 3) would transfer risk to consumers without solving any identified problem

89. Our position on Model 3 is unchanged from our response to the Spring consultation.⁹⁰ While the CAA has still not, itself, clearly articulated the problem that longer-term price control commitments are intended to solve, Centrus has set out a rationale, explaining that the case rests on giving equity investors confidence in the premium and mechanics over the construction period, and so bears on the cost of equity rather than the cost of debt.⁹¹ That narrows the question to be answered, and it also clarifies what is still missing: no party has quantified the reduction in the cost of equity that a longer horizon would deliver. Centrus itself recommends that the CAA require HAL to demonstrate the difference in WACC achievable under a five-year period compared with a longer period, and to set this out in its funding plan.⁹² We support that recommendation and would put it more strongly. Until that evidence is produced and tested, there is no basis on which the CAA could conclude that a longer-term

⁸⁹ Heathrow Reimagined, Fundamental reform of Heathrow: To comprehensively address the failings with the current model of economic regulation at Heathrow, June 2025, paragraphs 97-99, [link](#).

⁹⁰ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, section F, [link](#).

⁹¹ Centrus, Response to CAP3251 consultation responses, July 2026, pages 11-13, [link](#).

⁹² Centrus, Response to CAP3251 consultation responses, July 2026, pages 11-13, [link](#).

framework would reduce the total cost of expansion to consumers. The burden of demonstrating consumer benefit sits with the party seeking the commitment.

90. We also note Centrus' position that financeability for expansion is assessed against a notional structure, and that the requirement to raise new capital at scale is a function of programme size rather than HAL's historic capital structuring.⁹³ We accept the first proposition. It does not, however, follow that consumers should bear the cost of a regulatory commitment designed to ease that requirement. If the programme is of a size that places strain on a single balance sheet, the proportionate answer is to widen the range of balance sheets available to finance it, which is what direct competition would do.
91. Any longer-term framework should therefore be justified by demonstrable reductions in the total cost of expansion to consumers, rather than by insulating HAL or its investors from risks that they are better placed to bear.
92. We note the CAA's acknowledgement that airlines have raised "*reasonable concerns*", and its recognition that "*any approach to a longer-term framework will require careful design and calibration to mitigate such risks*".⁹⁴
93. The principal risk is that a longer-term framework would overstate the efficient cost of finance and provide investors with excessive protection at users' expense. Long-term commitments would lock in assumptions about demand, costs and financing conditions that are subject to material uncertainty and which HAL is incentivised to game. This could transfer forecast risk to consumers through higher allowed revenues, while constraining the CAA's ability to respond as circumstances change. Investors are remunerated for bearing risk. Consumers should not be required to underwrite risks that should sit with investors.
94. Centrus suggests that these risks could be mitigated through reopeners and risk-sharing mechanisms that allow the framework to be recalibrated.⁹⁵ However, such mechanisms would be difficult to design and operate effectively. Centrus also appears to envisage that the longer-term regime would apply only to expansion. On that basis, Model 3 would do nothing to address the wider problems at Heathrow identified in the CAA's own case for change.
95. In our view, these concerns are fundamental rather than matters of detailed implementation. The CAA has not established that Model 3 is necessary, that it would reduce total costs to consumers, or that its risks could be mitigated without materially weakening the proposed commitment. We therefore continue to consider that Model 3 should be removed from further consideration.

The CAA should follow its own evidence and design the final remedies in a way that comprehensively addresses the identified harms

96. The final design and implementation of the shortlisted regulatory models is a critical judgement for the future of UK aviation, and its consequences will be felt for decades in charges, service quality and the success of capacity expansion. The CAA must put the right regulatory framework in place before Heathrow embarks on its next phase of investment

⁹³ Centrus, Response to CAP3251 consultation responses, July 2026, pages 11-13, [link](#).

⁹⁴ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.15, [link](#).

⁹⁵ Centrus, Response to CAP3251 consultation responses, July 2026, page 11, [link](#).

across the estate. This can ensure that investment is efficient and financeable, charges remain affordable, and the airport is placed on a commercially sustainable footing for the next generation.

97. The CAA has established the case for change, identified the right categories of reform and accepted that the benefits of competition grow with its scope. We are asking the CAA to continue to follow its own reasoning, analysis and duties to their logical conclusion when moving to design and implement the final package of remedies.
98. We will continue to engage constructively with the CAA, and stand ready to provide additional information, detailed analysis, and relevant expertise and resource as required. The evidence is before the CAA. The powers exist. The opportunity to act is now.

C. DETAILED COMMENTS ON THE CAA'S PLANNED NEXT STEPS

Introduction

99. This section provides our detailed comments on the CAA's current views on the priority work areas for regulatory reform ahead of it setting out its plans in more detail in September 2026. We anticipate that the CAA's September 2026 publication will be an important document; we are prepared to provide focused input as the CAA develops the next stage of its proposals, to support timely reform and limit further consumer harm.
100. Whether the planned reforms will successfully address the consumer harm experienced at today's two-runway airport and support successful expansion will depend critically on the detailed design and implementation of the reforms. It is therefore essential that stakeholders have sufficient visibility of, and opportunity to engage with, the CAA's plans as it develops them. We set out a proposed approach based on regular bilateral workshops later in this section that will enable the CAA to progress with timely reform.
101. The CAA is right to seek to coordinate its work on regulatory reform with other workstreams, including early costs and the H8 price control.⁹⁶ As set out in the previous section, the CAA should pursue opportunities to join up work across each workstream in order to deliver a consolidated and unified approach to capex regulation at Heathrow.
102. Our detailed comments below on the CAA's high-level next steps follow the structure used in Chapter 5 of the Update. Across these workstreams – and alongside detailed work on the design and implementation of Model 7b, and of Models 4b and 5b – the CAA should establish the circumstances in which each model would apply, the criteria for selecting between them, and the process by which stakeholders will be engaged as those decisions are developed.

Enhanced capital governance and incentives

103. Overall, subject to the comments set out in the remainder of this subsection, we agree with the broad workstreams the CAA has identified in relation to enhanced capital governance and incentives. The CIC should support the CAA in discharging its statutory duties to users, including in relation to the cost and quality of AOS.

Rapid development of a unified capex governance regime

104. We agree with the CAA's recognition that capital governance and incentives for BAU capex must be addressed as part of the H8 process.⁹⁷ Given the scale of material capital commitments expected from 2027, the CAA should aim to have the core reformed governance arrangements operational from the start of H8. HAL's proposals for H8 total £5.8 billion⁹⁸ – this represents more than a quarter of today's RAB.⁹⁹ Consumer exposure is immediate and increases with every material commitment made under the existing arrangements. The reformed arrangements should test whether expenditure is needed, efficient, affordable, deliverable, performing and of demonstrable consumer benefit.

⁹⁶ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.1, [link](#). Alongside engaging with formal consultations on regulatory reform, we will continue to engage constructively with the CAA on the opportunities to introduce necessary reforms as urgently as possible, including in relation to the introduction of the Committee as soon as possible within H8.

⁹⁷ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.3, [link](#).

⁹⁸ CAA, CAP3232: Economic regulation of Heathrow Airport: H8 initial proposals – Summary, March 2026, paragraph 54, [link](#).

⁹⁹ Heathrow (SP) Limited, Regulatory Accounts, year ended 31 December 2025, [link](#).

105. We disagree with using selected expansion projects to *“help develop and test new governance arrangements”*¹⁰⁰ if it delays airport-wide implementation. The CAA should establish new, consolidated airport-wide arrangements from the start of 2027, with scope for review and amendment once the new regime is operating. In our view, this would deliver the major overhaul needed, and the resulting consumer benefits.
106. Annex 2 sets out a proposed CIC structure and implementation roadmap, including a start-of-H8 cutover and hard stop for incumbent forums. We suggest that the next step is for the CAA to discuss these proposals with us in more detail.

Overhaul to independent assurance

107. We support the CAA’s plans to engage with stakeholders on the approach to the independent assurance of expansion costs, including early costs, to best support the governance of overall expansion and BAU capex.¹⁰¹ This is a critical element of the new, overhauled regime. As we have explained to the CAA previously, the current Independent Fund Surveyor (IFS) arrangements have not worked well for users and have not delivered the benefits to consumers that an effective assurance function should support. The new arrangements need to guarantee genuine independence and result in effective assurance that all stakeholders can have confidence in.
108. The airline community is clear that a major overhaul of the model of independent assurance is needed. As the CAA is aware, the airline community has already taken the CAA through proposals for an independent assurance framework spanning multiple disciplines. Engagement on the future of independent assurance is pressing given that the current IFS contract is due to expire at the end of this year. Simply rolling over the current inadequate arrangements is not an acceptable outcome for airlines and consumers.
109. The current service is heavily weighted towards process compliance and certain project controls, with comparatively limited focus on financial, procurement, contractual and scope-related assurance, as well as asset performance – areas that are critical to driving value for money. There is currently no comprehensive business case challenge, including lifecycle economics, sensitivity analysis and clear linkage between costs and benefits.
110. To have effective decision-making and risk assessment, assurance of procurement strategies, contract structures, specifications and terms and risk allocation is needed. Today’s contracting approaches do not adequately protect airlines from cost overruns or from insufficiently mature scope.
111. The current model does not provide effective assurance across the full portfolio and capital lifecycle, from planning and approval through delivery, post-implementation review and asset performance. This creates gaps in value tracking and weakens accountability for investment outcomes.
112. The existing IFS arrangement is neither optimally scoped nor sufficiently effective. To enable rigorous scrutiny of the information, assumptions and processes underpinning capital

¹⁰⁰ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.5, bullet 1, [link](#).

¹⁰¹ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.5, bullet 2, [link](#).

decisions, assurance should operate independently of the regulated entity; be appointed for and accountable to the Committee and/or CAA; and sit outside HAL's control. This independence is important to strengthen governance, accountability and capital discipline, as well as to avoid potential conflicts of interest. Where access to HAL information or resources is required, this should be secured through appropriate obligations, supported by the CAA where necessary.

113. The Heathrow Reimagined campaign has proposed the introduction of competition and the establishment of a CIC, alongside reforms to Capital Planning, Capital Approval and Capital Monitoring. A dedicated assurance function within this framework would provide independent, structured scrutiny at the points in the capital lifecycle where value is created and risk crystallises. It would replace the current model with a more targeted approach focused on:
- financial robustness and economic justification of investments;
 - scope definition and requirements traceability;
 - contractual and commercial robustness;
 - performance against plan; and
 - governance and compliance integrity.
114. This approach would strengthen capital discipline, improve accountability for investment outcomes and better align assurance with the principal sources of value and risk. It would also support agreement on a coherent masterplan, with clear objectives and performance targets agreed between HAL and airlines and aligned with the CAA's expectations for customer outcomes.

Scope of expert advice

115. We agree with the CAA's decision to seek expert advice as it moves to the detailed design and implementation of the reformed governance regime. Subject to the detailed comments set out below, we agree with the high-level categories of work the CAA currently expects the expert review to cover (note that we do not see this as being limited to a single expert).¹⁰² If other specialist expertise is required in future, we expect the CAA to seek this out when the need arises. We also support it committing to, in due course, consulting on the planned scope of the expert review.¹⁰³
116. However, we note that the proposed review spans several distinct areas of expertise, including but not limited to economic regulation, capital governance, competition, major infrastructure projects, and corporate finance. Understanding Heathrow's existing regulatory framework and operations is also important. The CAA should ensure that the review is supported by expertise across each of these areas, which may require the appointment of multiple experts.
117. We ask that the CAA begins engagement with potential experts as soon as possible and refines the requirements once it has determined and consulted on the scope. This will allow the

¹⁰² CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.5, bullet 4, [link](#).

¹⁰³ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.5, bullet 4, [link](#).

appointment process to progress without delay while ensuring that the appointed expert or experts are well matched to the final scope of the review.

118. It is critical that the expert review is a forward-looking exercise that is fully focused on implementing a new and effective capital governance and incentives regime; it should not focus on a lengthy revisiting of the failings of the current regime and case for change. The case for change is already clear, and we have committed significant thought and resource to considering the reforms needed and how to implement them. We will continue to engage constructively with the CAA and its experts on this important area of work.
119. When undertaking the review of how capital governance at Heathrow currently works and identifying opportunities for enhancements:
- The expert should ensure that they engage in detail with a wide cross-section of stakeholders, but particularly those from the airline community that have detailed first-hand experience of the operation of the current inadequate regime, as well as how regimes at other airports work to deliver better outcomes. We would be happy to make the necessary introductions.
 - The scope of the review needs to be sufficiently broad to capture all stages of the capex lifecycle spanning capital planning, capital approval and capital monitoring. It should also explicitly consider the effectiveness of accountability arrangements. This will allow for a more comprehensive view of the effectiveness of the current arrangements and the identification of important gaps so lessons for the future can be appropriately drawn.
 - The review should take into account the independent review undertaken by Dr Paul Mansell¹⁰⁴ which we shared with the CAA, and our response to CAP3251.¹⁰⁵ More broadly, we stand ready to make our experts, including Dr Paul Mansell and Oxford Global Projects, available to the CAA and its experts at any stage to support the CAA as appropriate.
 - Stakeholders should have the opportunity to engage on any interim or draft findings produced by the expert.
120. We support the CAA in seeking to benefit from the experience and insights from other major projects. But, as the CAA recognises, any lessons must reflect the specific circumstances and operator incentives at Heathrow. For example, unlike many other major transport schemes, Heathrow expansion will be a private sector-led scheme. The incentives of private operators differ from those of public bodies – lessons need to recognise the implications of this – the risks and mitigations are very different. Consistent with this, we would welcome the opportunity to comment on the other major projects that the expert proposes to consider.
121. Getting the Committee's terms of reference and guidance right, together with its supporting and underlying governance processes and protocols, will be critical to the success of the governance reforms. While we support the independent expert providing advice on them, stakeholders must also have an opportunity to engage on them in an efficient and timely way – the CAA cannot rely solely on the inputs from the independent expert. We have lived experience of the failings of the current regime which must be avoided in any new regime.

¹⁰⁴ Dr Paul Mansell, Green Impact, Independent Assurance of Governance for Heathrow Airport's Expanding Capital Expenditure Plans, response to CAP3251, December 2025, [link](#).

¹⁰⁵ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, [link](#).

122. While we recognise that the independent expert would need to consider the existing arrangements and working groups as part of their broader process, it is critical that their recommendations on reforms and the right processes going forward, including the development of governance documents, are not constrained in any way by the existing arrangements. Small, incremental changes to today's inadequate arrangements will not be enough – a fundamental overhaul is needed. This requires starting from a clean sheet of paper.
123. In addition, we ask that the CAA explicitly includes in the expert's scope how a reformed capital governance regime can be rapidly and effectively cut over across all the key categories of capex (i.e. capacity expansion, early costs, H8 BAU and H7 (and previous) rollover), avoiding multiple regimes (for the reasons as set out in Section B).

Appointing an expert(s) and overseeing their work

124. We also ask that, alongside engaging with stakeholders on the scope of work for the expert(s), the CAA also provides stakeholders with the opportunity to comment on the identity of the expert(s) the CAA intends to appoint before finalising its choice. It is critical that the community has confidence in the expert taking forward this important piece of work, while still recognising that ultimately the choice of independent expert should fall to the CAA. In our view, the expert(s) must have a strong understanding of robust corporate governance and the Heathrow-specific context, including through a commercial lens, rather than relying solely on more general infrastructure expertise.
125. Further, we request the opportunity to meet with the expert(s) at the outset of their work to share our insights and experience, but also to ensure that the expert has access at the earliest possible stage to those within the airline community best placed to answer questions and provide any information required. We note that Steer did not engage directly with airlines when making conclusions about the operational impact of the different regulatory models under consideration.¹⁰⁶ We would expect future experts appointed by the CAA to engage directly with Heathrow's primary stakeholders when conducting influential analysis.
126. We recognise a tension the CAA will need to manage. In our view, the reforms need to be in place quickly, and the transition to the new arrangements should be short and decisive rather than staged over successive control periods. Stakeholder engagement is what makes a short, decisive transition achievable. The CAA cannot design a transition of this kind without the parties who will operate under it, and the failures of the current regime came about in part because the routes available to those parties were too weak to affect the outcome. The mechanisms we propose are intended to deliver both speed and effective engagement, by replacing sequential rounds of formal consultation with continuous input that runs alongside the CAA's own work, as opposed to after it.
127. One practical and efficient way of achieving the required stakeholder input throughout the expert process would be for the CAA to engage with key stakeholders in bilateral workshops, for which we will make ourselves readily available. This would allow stakeholder views to be captured rapidly in real time throughout the expert review process, while retaining independence and CAA overall control. It would be more efficient and effective than a series of standard consultations. We would be happy to discuss with the CAA how such a model could

¹⁰⁶ Steer, Update on technical assessment of the CAA regulatory models for Heathrow expansion, July 2026, paragraph 4.3, [link](#).

operate. More broadly, we think such a model could be a valuable mechanism to manage stakeholder input across all regulatory reforms workstreams the CAA plans to undertake.

Reforming capex incentives and delivery obligations

128. We agree with the CAA's plans to develop its approach to setting strong, tailored incentives on capital efficiency and to protect consumers from cost escalation.¹⁰⁷ As we set out in our response to the Spring consultation,¹⁰⁸ the current regime allows HAL too much scope to game the process and undermine its effectiveness to the detriment of consumers. For example, being able to establish an effective baseline for costs and timelines is critical to the effectiveness of capex incentives. However, HAL's control over baseline setting, systematic information asymmetries, and airlines' inability to effectively scrutinise cost and timeline proposals create risks to effective baseline setting that are not present to the same degree in other sectors.¹⁰⁹ The result is ineffective baselines which simply allow HAL to inefficiently benefit from a RAB bonus at the expense of consumers, with no efficiency benefits.
129. Alongside these baselining issues, we have also set out concerns in relation to the use of symmetric incentive rates that are applied to all departures from the baseline, and the overall level of rates applied.¹¹⁰
130. Consistent with our serious concerns about the harm to consumers from the current ex ante capex regime, the CAA should establish workstreams to:
- Explore processes and mechanisms to provide **effective independent oversight of baseline setting** to limit HAL's ability to game the process to the maximum extent possible.
 - Establish the **circumstances and process for when asymmetric incentives should be adopted** to ensure that consumers are better protected from risks that HAL can and should manage, but also to better manage HAL's incentives to game baselines.
 - Consider the **use of incentive rates that result in HAL bearing the full cost of overruns** where the causes of those overruns were a result of factors it could have reasonably managed. As we set out in our response to the Spring consultation, there are already significant provisions in the process to allow HAL to rebaseline costs and timelines for factors outside of its control.
131. In our response to the Spring consultation, we also set out our concerns regarding the current delivery obligations (DOs) framework, and the changes we consider necessary.¹¹¹ These should be reflected in the CAA's work programme. In particular, the CAA should establish an additional workstream to assess how DOs can be made more effective, including through greater use of consumer outcomes (alongside investment outputs). DOs need to be a much more effective accountability tool, reflecting the CAA's original intention.
132. We also urge the CAA to continue developing the Committee's approach to targeted ex post reviews of costs against baselines, as considered in its May consultation.¹¹² In particular, the

¹⁰⁷ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.5, bullet 5, [link](#).

¹⁰⁸ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 59-63, [link](#).

¹⁰⁹ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraph 221, [link](#).

¹¹⁰ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 216-218, [link](#).

¹¹¹ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 224-228, [link](#).

¹¹² CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.146, [link](#).

CAA must consider how to set a bar for exclusions at the appropriate level. As the CAA has previously acknowledged,¹¹³ the threshold has historically been set high, and, in our view, too high to create a material incentive for efficient delivery. In our response to the Spring consultation, we highlighted that only 0.3% of Q6 capex was excluded following the ex post review.¹¹⁴ It is simply not credible that inefficiency was limited to such a small share of capex. The current mechanism, therefore, in our view, does not effectively remedy HAL's incentives.

Establishing a cap for the overall costs of expansion

133. As set out in the previous section, we support the CAA's plans to develop approaches to setting an overall cap for expansion costs and considering how this could be credibly enforced.¹¹⁵ Ensuring that expansion is affordable and will enable airlines and other service providers at Heathrow to make the necessary complementary investments to realise the connectivity benefits that expansion could deliver is crucial, as we have set out previously. This is particularly important given the uncertainty over the scale, timing and distribution of those benefits, and the limitations inherent in any high-level economic appraisal. An enforceable cost cap is an important safeguard to ensure that the costs of expansion do not undermine the benefits it is intended to deliver. We note, however, that the cap alone would not address the structural incentive issues at Heathrow. It must, therefore, be accompanied by reforms to introduce competition and a reformed capital governance regime.
134. Establishing an overall cap for expansion costs could play a valuable role in providing this protection and supporting affordability. However:
 - Such a mechanism needs to be carefully designed to ensure it is enforceable, but also that consumers are appropriately protected from **circumvention risks**. Without the right design and protections, the risk is that a promoter would spend up to the cap but fail to deliver the consumer outcomes that would accompany such expenditure if it was efficiently and effectively incurred. The cap should therefore ensure that the promoter bears the cost of expenditure above the threshold, either by excluding it from the RAB or through a defined cost-sharing mechanism, rather than relying solely on enforcement after the event.
 - **Airlines' views must be properly taken into account** in setting the level of the cap, as we understand how changes to charges affect their ability to fill capacity and deliver the benefits of expansion.
 - The CAA needs to ensure that any cap design is **promoter-neutral** and does not directly or indirectly harm or preclude the use of direct competition to deliver parts or all of capacity expansion. The CAA should consider how a cap would apply in a phased expansion scenario, such as that proposed by Heathrow West Limited (HWL).
 - The mechanism needs to be set out clearly and introduced **as early as possible**, so that scheme promoters can adapt their design and financing appropriately.

¹¹³ CAA, CAP3195: Working paper on regulatory models, November 2025, paragraph 2.64, [link](#).

¹¹⁴ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraph 62, [link](#).

¹¹⁵ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.5, bullet 5, [link](#).

135. We would support the CAA in appointing an independent expert to advise on how to develop a cap which is enforceable, avoids circumvention risks and is consistent with direct competition. As with other independent expert support, stakeholders should have the opportunity to be closely involved and consulted on the key appointment decisions and findings; the use of regular stakeholder workshops (spanning the full lifecycle of the expert appointment) would provide an effective mechanism for such stakeholder engagement.

Longer-term framework

136. As set out in Section B, we consider that Model 3 should be removed from the shortlist. If the CAA, nevertheless, takes it forward, the following workstreams and protections would be required.¹¹⁶

Risk of harm to consumers

137. We agree with the CAA that there are serious concerns about the potential risks of consumer harm from the reforms considered under Model 3, specifically that *“a longer-term framework could provide HAL with opportunities to benefit in a way that inappropriately allocates risks to consumers, while reducing regulatory oversight and our ability to intervene (if needed) to ensure adequate protections for consumers”*.¹¹⁷
138. We also support the CAA’s acknowledgement of the important issues we raised about gaming of cost allocations from setting a separate expansion RAB.¹¹⁸ Having the right protections in place against gaming is one of several prerequisites for such an approach and will require careful work to develop.
139. The CAA also has a number of unresolved questions that bear directly on whether a longer-term framework could deliver value to consumers rather than simply to HAL. A WACC premium for expansion should not be assumed: any premium must be justified against a clear counterfactual and the design of the underlying regime, and Model 3 must not be allowed to predetermine that expansion justifies a (material) premium. Any benefit relative to the current five-year framework, and to the other reform options before the CAA, should be established through a thorough process and not simply asserted. Material implementation questions also remain open, including how a longer-term framework would operate across the RAB – whether through a separate expansion RAB or otherwise – and how passenger volume and wider demand risk would be treated during and after construction. Until these types of issues are worked through, the CAA cannot know whether Model 3 would benefit consumers or merely transfer cost and risk to them.

Potential reforms under Model 3

140. If the CAA continues to consider Model 3, the final design would need to include strong, credible consumer protections that demonstrably reduce total costs to consumers and allocate risk to the party best placed to manage it.

¹¹⁶ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.6, [link](#).

¹¹⁷ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.15, [link](#).

¹¹⁸ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.6, bullet 1, [link](#).

141. Under any longer-term framework, the protection that matters most to consumers is a mechanism that recalibrates returns in both directions on clear, rules-based triggers. Centrus makes the same point, observing that rules-based reopener triggers capable of delivering two-way correction provide more certainty than the open-ended discretion involved in a cap and collar, and noting the precedent for percentage-based risk sharing in other regulated infrastructure.¹¹⁹ HAL, for its part, does not support a cap and collar approach.¹²⁰ We therefore ask the CAA not to treat work on caps and collars (which is not an approach that stakeholders support) as a substitute for designing symmetrical, rules-based recalibration, and to give priority to the latter.
142. If the CAA proceeds with a longer-term framework, it must follow through with its plans to use reopeners and indexation mechanisms (alongside fundamental reforms to address HAL's incentives) to ensure appropriate risk allocation and benefits to consumers.¹²¹ The CAA should also consider carefully how it will manage the risks of such mechanisms being gamed by HAL, taking advantage of: a) its information asymmetries; and b) the inherent risk asymmetry that impedes strong enforcement on a financially vulnerable HAL. Any and all reforms implemented that do not reset HAL's incentives are at risk from the same gaming we see today, and risk creating new harms in addition to those identified in the CAA's case for change.

Ensuring that the right lessons are drawn from other settings

143. We agree with the CAA's plan to draw on precedents in other sectors,¹²² but the CAA must also ensure that any lessons appropriately reflect the circumstances and incentives at Heathrow. HAL is a private sector entity with incentives that differ significantly from public-sector scheme promoters, and reforms must appropriately reflect this (as discussed above).

Use of independent experts

144. Any independent experts appointed to support the CAA's work on Model 3 should be subject to the same engagement approach described above, including stakeholder input on scope, appointment and interim findings. Given the significant financial consequences of the decisions on key financial parameters and the novel nature of what we understand the CAA is envisaging under Model 3, an independent panel providing external challenge and assurance would be proportionate.

Mandating competitive tendering

145. We support the CAA's plans to undertake detailed work on implementing competitive procurement models.¹²³ However, we are concerned that the CAA's current framing of this work package treats Models 4b and 5b as one reform (or, at a minimum, does not adequately consider the work required for the two models separately). Without a full assessment of what these models can deliver, they risk being defined poorly and lacking sufficient ambition to meet the regulatory challenge that has been identified. Competitive procurement on its own,

¹¹⁹ Centrus, Response to CAP3251 consultation responses, July 2026, page 13, [link](#).

¹²⁰ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.14, [link](#).

¹²¹ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.6, bullet 4, [link](#).

¹²² CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.6, bullet 5, [link](#).

¹²³ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.8, [link](#).

without direct competition, would also leave in place the price control bargaining and information asymmetries that characterise the current model, at greater cost and complexity for all parties.

146. As set out in our response to the Spring consultation, we consider Model 4b to be a useful addition as part of a package of reform, but the CAA's focus should be on the application of Model 7b, including contractual separation. As the CAA recognises, Models 7b and 5b are likely to deliver the greatest consumer benefits. Of the two, Model 7b applies competitive pressure across the widest part of the value chain, and Model 5b should be developed for those assets where direct competition is not feasible.¹²⁴
147. Reflecting this, the CAA's workplan needs to incorporate separate workstreams to consider the application of Models 4b and 5b in more detail, including exploring the circumstances where one model would be favoured over the other. This includes identifying a framework for selecting assets and infrastructure that would be more appropriately delivered through a mandated design and build contract (Model 4b) versus a mandated design, build and operate contract (Model 5b).

Design considerations for Model 5b

148. The CAA suggests that the flexibility offered by Model 5b makes Model 8 unnecessary.¹²⁵ It is not clear, however, how Model 5b could be tailored to replicate the competitive disciplines that Model 8 would introduce.
149. For this to be the case, responsibility for the upstream design and needs case would need to sit with a competitively appointed operator, rather than remaining with the incumbent. The CAA should explain how Model 5b would achieve this in practice, including how revenue and financing risks would be allocated, how gaming risks would be mitigated, and how the model would interact with a Competitively Appointed Provider or CIC structure. An effective CIC structure – where airlines have meaningful input into capital planning – is a necessary feature of any package that includes Model 5b.
150. We have previously explained our views on the use of Model 5b for semi-separable assets where direct competition would not be feasible.¹²⁶
151. The CAA also needs to consider further how it would expect competitive design-build-operate (DBO) processes to operate under Model 5b, recognising that the Committee would need to retain flexibility to require bespoke arrangements depending on the circumstances of individual assets and tenders. The CAA, or its designated body, must also control the tender process rather than HAL. Where HAL specifies the requirement, runs the competition and selects the winner, the discipline the model is intended to create is materially weakened, and the CAA should set out how the independence of the tender will be secured. These choices cannot be left to the party whose structural incentives the reform is intended to address.
152. This should include, for example, establishing processes for:
- Developing and signing off tender specifications;

¹²⁴ CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.27, [link](#).

¹²⁵ CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.28, [link](#).

¹²⁶ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 166-170, [link](#).

- Running tender processes and independently validating the chosen suppliers and schemes;
- Identifying the criteria for when assets should remain under the ownership of the tender winner versus transferring to HAL;
- Developing monitoring and accountability mechanisms to ensure that tender winners deliver in line with their winning bid with appropriate protections for consumers; and
- Establishing whether and how contracts should contain reopener provisions.

153. The CAA also needs to explore and develop guidance on how tender winners under a DBO contract would be compensated (e.g. via a usage fee or an availability fee). As noted by the CAA,¹²⁷ this needs to include the appropriate allocation of revenue risks. The choice of mechanism and risk allocation, alongside other key design parameters, should be determined based on the interests of consumers.

Information requirements

154. We support the CAA's plans to define the information requirements for HAL to demonstrate in its procurement plans.¹²⁸ This should form part of the new layered assurance framework. This is important given the persistent information asymmetries faced by the CAA and airlines, and the impact this has on the ability to regulate HAL effectively. These information requirements should therefore be subject to consultation before being finalised. Airlines have valuable insights from first-hand experience of engaging with HAL, as well as from more productive engagements at other airports. It is important that the CAA engages with this experience when developing its plans.
155. The CAA also needs to develop a penalty regime to apply in circumstances where HAL fails to provide the required information in a timely manner.

Alignment with the Committee and independent assurance

156. We support the CAA's plans to develop its approach to assessing HAL's plans and how this draws on the views of the Committee and independent assurance. It is essential that the CAA's reforms are delivered as a coherent package.¹²⁹ As set out above, the CAA needs to explore the circumstances where one model would be favoured over the other. All stakeholders would benefit from such clarity.

Enforcing competitive approaches

157. We support the CAA's plans to consider the approach to enforcing competitive approaches,¹³⁰ and agree that this is an important workstream. As we have set out previously, we disagree with HAL's views on when it would be appropriate for competitive procurement, including

¹²⁷ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.40, [link](#).

¹²⁸ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.8, bullet 1, [link](#).

¹²⁹ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.8, bullet 2, [link](#).

¹³⁰ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.8, bullet 3, [link](#).

mandated DBO, to be used. HAL's approach is overly narrow. The CAA is right¹³¹ to reject HAL's position and to find that *"competitive procurement should be considered to apply to a broader range of infrastructure assets"*.

158. HAL has incentives to circumvent the CAA's attempts to expose more of the provision of AOS at Heathrow to competition, so it can be expected to develop strategies to retain as much discretion over procurement as it can. For example, this could include defining and scoping projects in a manner that decreases the likelihood of the project meeting any mandatory tender thresholds. An illustration of such risks would be that, if the CAA uses project capex values as a gating threshold, HAL would have an incentive to define more, but smaller, projects. Similarly, where thresholds are based on the separability of assets, there is a risk that HAL may seek to make specific assets/projects appear less separable than would otherwise be the case. The CAA needs to be aware of such risks and develop approaches to guard against them.
159. This also means that the Committee must retain flexibility and discretion to require competitive processes under Models 4b and 5b where it considers that would further the interests of consumers and to prevent gaming by HAL. This would apply even in circumstances where gating criteria are not met.

Drawing on regulatory best practice

160. We support the CAA's plans to develop the appropriate design of competitive approaches,¹³² and we set out our overarching comments on Model 5b above. We note that the final design of competitive approaches must account for the specific circumstances and incentives at Heathrow which, as a unique monopoly with strong information advantages, are different to those of other regulated companies.

Commissioning external advice

161. We support the CAA in commissioning external advice on these issues, with further detail of its work plan to follow in September 2026.¹³³ Consistent with the engagement approach described above, stakeholders should be able to comment on the draft scope, proposed adviser, timetable and interim findings.

Direct competition

162. As set out in Section B and our response to the Spring consultation, we support direct competition for new and existing terminals via Model 7b or, alternatively, Model 8. The CAA should commence immediate work on Model 7b in order to preserve the CAA's ability to deploy it flexibly in future and for existing infrastructure, ensuring that Model 7b can apply both before and during any DCO process, and does not become unavailable solely because of the form of the eventual DCO award. This would ensure that the regulatory framework remains

¹³¹ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.40, [link](#).

¹³² CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.8, bullet 4, [link](#).

¹³³ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.9, [link](#).

capable of accommodating a third-party entrant, rather than inadvertently foreclosing competition through the timing or form of the DCO award.¹³⁴

163. Not only does this approach make practical sense and ensure that potential third parties have the greatest possible insight into the CAA's emerging thinking as the DCO process progresses, but it is also important to ensure that potential competition is not inadvertently undermined by CAA inaction. As set out in our response to the Spring consultation, if HWL is to be granted a DCO and the CAA has not undertaken the work to modify the regulatory framework, there are material risks of delay and disruption. A failure to do this would also increase the risk of excluding competition, because HWL will need to obtain a 'no impediments' statement from the CAA by the time of the DCO submission. The submission must show (among other things) that HWL's expansion plans are capable of being delivered and that the regulatory model is capable of being changed to accommodate HWL's proposal. If the CAA is not willing or able to provide a 'no impediments' statement, this would harm the prospects of the DCO application.
164. We note the CAA's suggestion that *"in order to appropriately protect consumers"*, Model 7b could be *"developed in a way that could be applied to any new infrastructure that forms part of any DCO that is granted to a third party"*. If this is possible under a DCO granted to a third party, it must be possible under a DCO granted to HAL. The outcome of the DCO process must not exclude the shortlisted option that best addresses HAL's structural incentives.
165. Furthermore, the CAA should engage with the DfT so that the final HENPS does not foreclose the CAA, as an independent regulator, from discharging its statutory duties (i.e. by restricting who may promote the scheme, and/or restricting direct competition for new infrastructure).
166. We agree with Centrus' recommendation that the CAA should engage directly with the credit rating agencies.¹³⁵ It is important that the CAA is given a direct view of how different regulatory reforms would affect credit ratings, rather than relying on HAL's accounts of its engagement with the agencies. Given the specialist expertise required in this area, we also strongly recommend that the CAA involves Centrus in that engagement with the agencies. Centrus' own findings make that engagement more, rather than less, important. Centrus records that the rating agencies have not publicly stated that Model 7b is credit negative, notwithstanding HAL's assertion to the contrary, and considers HAL's estimates of the cost of debt premium under Models 5b and 7b to be overstated.¹³⁶ The CAA should test both propositions directly with the agencies, and should require HAL to produce the rating agency evidence on which its assertions rest.

The benefits of competition

167. We agree with the CAA's plan to conduct a more detailed assessment of the potential for competition and fragmentation issues that could arise. We also agree with the CAA's plan to conduct further work to understand the potential benefits and risks of direct competition.¹³⁷

¹³⁴ It is our understanding that the draft HENPS does not restrict who may promote a scheme (DfT, Proposed draft revision to the Airports National Policy Statement, June 2026, paragraphs 1.15 to 1.16, [link](#)), and the CAA remains of the view that Model 7b can apply to any new infrastructure forming part of any DCO granted to a third party (CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraphs 4.22 to 4.23, [link](#)).

¹³⁵ Centrus, Response to CAP3251 consultation responses, July 2026, page 6, [link](#).

¹³⁶ Centrus, Response to CAP3251 consultation responses, July 2026, Executive Summary, [link](#).

¹³⁷ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.11, bullets 1 and 3, [link](#).

In these assessments, the CAA must account for the different ways that competition can generate benefits to consumers.

168. The CAA should assess competition against the current monopoly baseline and, where it gives limited weight to competition, clearly identify the Heathrow-specific conditions that would prevent benefits observed at other airports and in other regulated sectors from arising at Heathrow.
169. The experience in telecoms is instructive. Successive major interventions by Ofcom to introduce greater competition, including at the network level, have not yet resulted in competition being sufficiently effective for Ofcom to find that Openreach no longer has SMP in Wholesale Local Access. But as Ofcom has repeatedly found, improvements in the competition that Openreach faces have nevertheless delivered material consumer benefits.¹³⁸
170. We expect significant international interest from investors and airport operators in opportunities to invest in and operate terminals at Heathrow. The CAA and/or its advisers should test this directly with the market as part of this workstream, and we would be glad to assist in identifying such counterparties if it would be helpful.

Implementing direct competition across the entire Heathrow campus

171. As we have set out previously, a contractual separation model could be used to deliver direct competition between all terminals, both existing and new, at Heathrow. This could be introduced by establishing a contractual mechanism that would allow HAL to retain ownership of the terminals, but enable independent third parties to develop and operate the terminals, including undertaking all capex needed to maintain, enhance or expand the terminal during the contractual period.¹³⁹
172. Our preferred approach to implementing this broadly scoped version of direct terminal competition remains contractual separation through a more pragmatic and flexible interpretation of Model 7b. As set out in Section B, we welcome the CAA's consideration of our representations on widening the scope of direct competition to all terminals via contractual separation.¹⁴⁰ Confirming in the September 2026 publication that it intends to adopt that more flexible and pragmatic approach would be consistent with the CAA's statutory duties and proportionate to the consumer detriment arising under the current model. We also ask the CAA to use that publication to explain the extent to which its existing powers would enable Model 7b to be implemented through contractual separation.
173. However, in the alternative, we continue to consider that Model 8 should be considered further, as we set out in our response to the Spring consultation¹⁴¹ and in Section B. We therefore urge the CAA to develop a workstream to consider the application of Model 8 in more detail. Doing so now preserves optionality at little cost, whereas removing it risks foreclosing a viable structural remedy to the consumer harm arising at today's two-runway airport. If the CAA were to decide not to undertake such a workstream, it should provide a clearer explanation for the

¹³⁸ Ofcom, Statement: Promoting competition and investment in fibre networks – Telecoms Access Review 2026-31, March 2026, [link](#).

¹³⁹ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraph 302, [link](#).

¹⁴⁰ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 4.28, [link](#).

¹⁴¹ Heathrow Reimagined, Response to the CAA's Spring 2026 consultation (CAP3251), June 2026, paragraphs 158-165, [link](#).

removal of Model 8 despite the international and cross-sectoral evidence of its value and the CAA's own approval of the model if HAL divested voluntarily.

Assessing coordination and interface risks

174. Our differences from the views of HAL and Steer on coordination and interface risks are addressed in Section B. For this workstream, the CAA should focus on how residual risks would be mitigated in practice, rather than reopening whether direct competition is technically feasible.
175. Residual coordination gaps can be addressed through protocols, enforceable standards and, where needed, an independent third-party specialist adjudicator. The CAA's advisers should examine international terminal models by reference to the performance of the relevant terminals and their interface arrangements, rather than relying on whole-airport scores that may reflect unrelated factors.¹⁴²
176. We support the CAA in commissioning work to look at international precedents and to understand how any operational issues at Heathrow could be mitigated successfully, including through the use of an independent third-party specialist adjudicator. To the extent that mitigation is required, any costs associated with putting this in place are expected to be far outweighed by the benefits of competition.
177. We would expect the CAA's consultants to start with an understanding in detail of:
- the current multi-operator environment at Heathrow today, including in relation to cargo and the terminal operated separately by Signature;
 - HAL's current highly limited role in coordinating activity amongst the myriad service providers at Heathrow; and
 - the role played by airlines and others (including NATS) in coordinating activities. We would be happy to facilitate any introductions or site visits required to support this activity.
178. The review should not disproportionately focus on one or a very small number of international airports – airfield and terminal operations are separated safely and effectively at several different airports internationally. Consultants should seek to understand the learnings from a broad range of these airports and the airlines that operate at them.
179. It is important that consultants experience first-hand how the separation of airfield and terminal operations works safely and effectively at a range of major international airports that have implemented such models. As such, to be effective, the consultant's work cannot only be a desk-based research exercise – the CAA and its advisers need to see operations on the ground and understand in detail the operational processes and protocols that support safe and effective operations. Furthermore, the consultants should be required to engage substantively with a broad range of stakeholders at the airports visited – to gain a holistic

¹⁴² Separate terminal and airfield operations take place safely and effectively at a number of major international airports; our experience at other major international airports (e.g. JFK, Atlanta, Munich) supports this, and the CAA's own advisers have said as much too. Centrus highlights that Model 7b has been implemented successfully at other airports globally, including JFK (Centrus, Response to CAP3251 consultation responses, July 2026, page 9, [link](#)). Steer, addressing HAL's reliance on JFK and LAX to argue that fragmented terminal operation reduces service quality, observes that HAL's comparison appears to rely on whole-airport scores rather than the performance of individual terminals, and that lower scores at those airports may be driven by other factors (Steer, Update on technical assessment of the CAA regulatory models for Heathrow expansion, July 2026, paragraph 4.7, [link](#)).

perspective, they should engage with the airport operator, airlines, ground handlers, baggage handlers and other active participants in the airport ecosystem.

180. The integrity of the expert advice depends on the CAA appointing advisers who are demonstrably independent and able to engage objectively and constructively with all stakeholders. The CAA should be highly cautious about appointing advisers who have worked extensively for HAL in the past, or who may have an interest in advising HAL on expansion in the future.
181. As part of that work, Heathrow Reimagined would be happy to provide detailed views on Core Operating Principles for Terminal Competition upon request, as an initial framework for structured engagement. See Annex 1 for some high-level principles. A multi-operator terminal model does not remove the need for common standards or central coordination, but nor does the existence of common standards justify retaining HAL's monopoly over terminal operation. The CAA's workstream should therefore test, refine and, where necessary, adapt these principles through engagement with airlines, handlers, NATS, Border Force, prospective terminal operators and other operational stakeholders, alongside detailed consideration of enforcement mechanisms, information-sharing obligations, dispute resolution, funding arrangements and liability allocation.
182. Consistent with the engagement approach described above, stakeholders should be able to comment on the draft scope, proposed adviser, timetable and interim findings for this workstream.

Wholesale services

183. We agree with the CAA's plans to develop a broad view on the approach to the regulation of any wholesale services that HAL may be required to provide to support these arrangements and outcomes.¹⁴³ It is important to provide greater clarity to potential third parties seeking to develop their own DCO submissions. This should be a priority area.
184. HAL will continue to have SMP in the provision of these wholesale services, so will need to be regulated accordingly. Like the CAA, we fully expect the wholesale services to be price controlled – the CAA must ensure effective protections from exploitative conduct by HAL.
185. However, where HAL provides both wholesale services and competes with third parties based on those wholesale services, the CAA needs to ensure that third parties are adequately protected from exclusionary conduct. Therefore, the CAA should include in its work plan developing a broad view on the required arrangements to prevent discriminatory behaviour by HAL as the provider of wholesale services. As these arrangements will be relevant to the development and assessment of Models 5b and 7b, this work should proceed in parallel. The CAA should draw on the lessons from other sectors where comparable protections have been developed.

¹⁴³ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.11, bullet 2, [link](#).

Regulation for a third party

186. We agree with the CAA's plan to review the steps required to introduce any form of regulation for a third party, including market power and operator assessments.¹⁴⁴ It is important to provide greater clarity to potential third parties seeking to develop their own DCO submissions.

¹⁴⁴ CAA, CAP3286: Heathrow capacity expansion – update on the approach to the regulatory framework, July 2026, paragraph 5.11, bullet 4, [link](#).

Annex 1. Operating principles for terminal competition

187. This Annex clarifies the high-level principles that ensure that central coordination and effective operation of the airport are not inhibited by a competitive terminal model. We are happy to provide more detailed proposals on operating principles covering baggage, security, disruption management and other interfaces, upon request.
188. The material below is intended to broadly demonstrate that terminal competition can be designed consistently with Heathrow's continued operation as a single aerodrome and integrated airport system, with uncompromised and non-negotiable safety standards. Both the content of this Annex and any additional information, if provided, are an initial framework for discussion, not a final or exhaustive operating model.

Single aerodrome principle

189. Regardless of regulatory model, Heathrow operates as a single aerodrome with uncompromised and non-negotiable safety standards. All parties – terminal operators, airlines, ground handling organisations (GHOs), NATS and airport operations – must comply with centrally defined safety, regulatory and operational procedure requirements at all times. No commercial, operational or competitive consideration overrides safety.
190. A multi-operator environment does not diminish whole-airport integration, coordination or accountability for safety-critical and common airport functions; it requires unambiguous and visible accountabilities.

Handover from terminal to airfield

191. Terminal operators are accountable for services within their terminal boundaries, subject to Heathrow campus-wide standards, operating rules and interface requirements. Handover from terminal to airfield ensures that Heathrow operates as one aerodrome with, as today, a single unified system of airfield control.
192. Responsibility transfers from the terminal operator to NATS and central airfield operations at the point an aircraft requests pushback or start clearance, provided the aircraft is fully ready for departure. From that point onward, NATS and the Heathrow Control Tower have sole authority and accountability for pushback clearance, taxiway movement, runway sequencing and integration with controlled airspace. Terminal operators have no operational control beyond this handover point.
193. The single-aerodrome principle applies across all operational interfaces affecting whole-airport performance. Terminal competition does not alter Heathrow's operation as a single coordinated airport. This model ensures a) a single, unambiguous chain of command for safety-critical processes and decisions, and b) protection of whole-airport performance.

Heathrow campus-wide standards management

194. Heathrow campus-wide standards are established and supported by the new Committee with oversight from the CAA.

195. These standards apply across the airport, including all terminals and operational interfaces. Terminal operators, the airfield operator, airlines and service providers must operate in accordance with these standards and work collaboratively to maintain whole-airport safety, resilience, connectivity and customer outcomes.
196. Industry-standard Operational Readiness and Testing (ORAT) processes will be undertaken for all significant operational changes, alongside business-as-usual compliance and assurance activities, including the International Air Transport Association (IATA) Safety Audit for Ground Operations (ISAGO) and the upcoming UK CAA regulation of ground handling activities.

Airport network performance

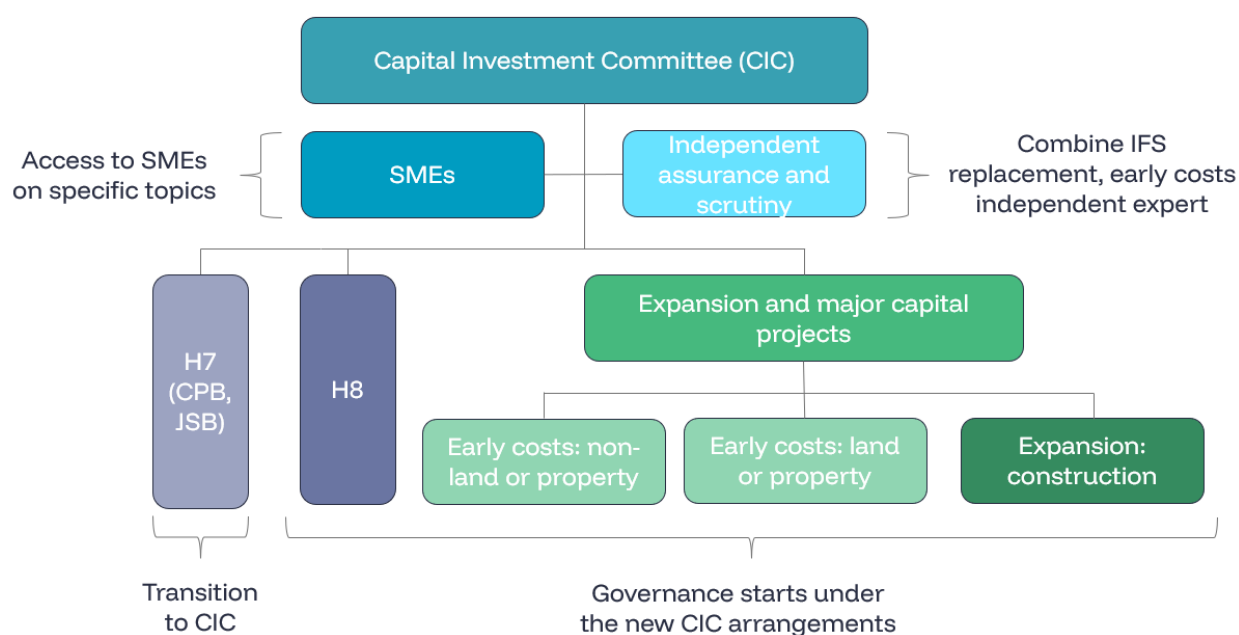
197. Heathrow operates as an integrated hub airport, and terminal operators must support Heathrow-wide performance, resilience, connectivity, and recovery. Terminal operators must not work to improve local performance at the expense of Heathrow-wide operations, connectivity or network performance.

Annex 2. Capital Investment Committee structure and transition proposal

198. This Annex sets out a proposed structure for the CIC, how the CAA can transition to the new arrangements, and general principles for the future capex governance regime.
199. Spend and complexity will reach unprecedented levels from the beginning of 2027, and cannot be weakly governed. Every month of delay means further expenditure developed, committed or reclassified under arrangements already judged unfit for purpose. The CAA should treat this development of the new regime as a restructure, not a redesign programme.
200. A cutover on 1 January giving a hard stop for the incumbent forums is achievable within 90 days. Complexity is not a reason for delay – it is the reason for urgency. A safety net should ensure decisions can continue through the cutover, but the cutover must not be a parallel-running system.

Structure and transition

201. The diagram below sets out a proposed future structure for how the CIC is integrated with and oversees the existing buckets of capital projects.
202. The proposed new capital governance structure simplifies and consolidates the H7 rollover, H8, and expansion workstreams. It is the consolidation of existing workstreams and not the creation of new processes. Consolidating these disparate workstreams reduces complexity, increases transparency and saves CAA, airline and HAL resource that would be required to cover separate workstreams. There cannot be multiple concurrent assurance protocols running across different spend lines and pipelines – that is inefficient and creates boundary risks that can be gamed by HAL. Only existing H7 projects would require transition to the new governance arrangements. All other workstreams can have a fresh start under the new CIC.



Note: SMEs = Subject Matter Experts

203. The CIC must be the formal gateway through which material capital proposals are tested before commitment, and not a forum that observes or comments after the fact. Governance will fail without requiring full portfolio planning, approval and performance decision-making and review. The Committee, governance and assurance all need to cover this. Affordability belongs as a core evaluation criterion, and the body must be able to require re-justification and decline weak cases.

Principles to ensure the effectiveness of the future regime

204. We set out seven principles below that we consider necessary for the future regime to operate effectively:

- The CIC should support the CAA in discharging its statutory duties to users, including in relation to the cost and quality of AOS.
- Decision-making must be structurally independent of HAL, with an independent chair and full airline representation written into the terms of reference. It must not be a HAL-convened process with airline participants.
- Capital governance should test whether proposed expenditure is needed, efficient, affordable, deliverable, performing and of demonstrable consumer benefit.
- The framework should cover H7 carry-over, H8 BAU, early expansion costs, expansion commitments and major projects within a single CIC-led capital governance and assurance framework.
- Independent layered assurance must be appointed for, and report to, the CIC or CAA, and must sit outside HAL's control.
- The CAA must implement the reformed framework through regulatory requirements; it should not depend on HAL voluntarily adopting a process that weakens its own discretion.
- The cutover should take effect at the start of H8, with a hard stop for incumbent forums and only a limited continuity safety net.

205. We stand ready to support the CAA in making this swift transition.