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Sent Via E-Mail

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RE: Airline Community Response to CAP3232 – Initial Proposals for H8

Dear Rob:

Thank you for the opportunity to respond to the CAA's Initial Proposals covering the H8 regulatory price control period from 2027 – 2031. Firstly, American supports the CAP3232 response submitted on the Airline Community's behalf by IATA and the AOC on 29 May.

As the 3rd largest airline operating at Heathrow (LHR), American is greatly impacted by the level of airport charges and the effectiveness of the regulatory framework underpinning them. We appreciate the material progress the CAA has made in strengthening its analytical approach, including the use of independent benchmarking, more structured bottom-up cost scrutiny, and the development of an independent passenger forecast. These represent meaningful improvements relative to prior price controls.

However, while the framework is stronger, the outcomes do not yet reflect the full weight of the evidence. Across multiple building blocks, the CAA has adopted a conservative interpretation, consistently resolving uncertainty in HAL's favor. This gives undue preference to HAL's position when they are the monopoly operator. Also, a broader affordability test has not been applied to consider how charges impact connectivity and passenger choice. Taken together, this results in Initial Proposals that deliver excessive returns to HAL and risk overstating efficient costs, understating revenues, and ultimately placing an undue burden on consumers. From a headline perspective, the CAA Initial Proposals indicating an average H8 charge of £28.80 (2024 CPIH) shows too much deference to HAL's views. Reasonable adjustments for the Airline Community's evidence-based package suggests an H8 period max yield of £24.48.

We would note our particular focus on the following points in the Airline response:

1. The CAA has reached the right conclusion in several areas, and we ask you to hold these positions through to Final Proposals.

Capital envelope: The proposed capital envelope of £5.8 billion represents a credible and deliverable midpoint and a necessary correction to HAL's materially overstated Business Plan. This level is broadly aligned with airline assessments and appropriately balances investment requirements with affordability.

Single Till: We also support the CAA's decision to maintain the single till, reject expansion of ORC scope, and disallow the majority of HAL's proposed technology, resilience, and digital overlays. These are important outcomes that preserve the integrity of the regulatory model and avoid unnecessary cost escalation.

MTI: Finally, American supports the evolution of the service quality framework, including the introduction of a financial incentive on departing baggage performance and the decision not to increase the bonus potential. These measures appropriately target consumer outcomes without inflating the overall cost base.

2. There are areas where the Initial Proposals do not go far enough.

Opex: The most material issue is the calibration of operating expenditure. The CAA has applied a 4% catch-up efficiency challenge, which is not consistent with Heathrow's ranking near the bottom of a 43-airport comparator set, nor with the CAA's own bottom-up analysis. The available evidence supports a challenge of at least 9%, implying a material overstatement of efficient costs within the allowance. This gap flows directly through to higher charges for airlines and passengers.

Pax forecast and commercial revenues: A similar pattern is evident in both the passenger forecast and commercial revenues. The passenger forecast does not fully reflect recent outturn performance or the practical scope for optimization in a capacity-constrained environment, particularly in relation to load factors. The inclusion of a shock factor further suppresses demand assumptions and risks duplicating the Traffic Risk Sharing mechanism. In parallel, commercial revenue projections remain cautious, with insufficient adjustment for underperformance across key categories such as retail, catering, and parking. In each case, the underlying methodologies are sound. The issue is that they have not been applied in a way that fully reflects the evidence, resulting in a systematic upward bias in charges.

WACC: A more fundamental concern arises in the cost of capital. While American supports the CAA's high-level framework, the methodology used to estimate beta and calibrate returns is materially flawed. This results in an overstatement of the efficient return of approximately 120 basis points, equating to more than £1.2 billion of excess returns over H8, or approximately £3.02 per passenger. This represents a significant transfer of value from consumers to HAL,

without corresponding risk justification. We ask the CAA to reduce the WACC to 4.68% (real CPIH, pre-tax), correcting the methodological errors in its beta estimation and adjustment.

3. H8 must be considered in the context of the wider regulatory environment.

H8 does not operate in isolation. It interacts directly with the CAA’s work on expansion costs, broader regulatory reform, and HAL’s long-term expansion ambitions. However, the Initial Proposals do not provide a consolidated view of the total charge impact across these workstreams. This is a significant omission. HAL’s Business Plan already implied a real increase in charges of up to 47% by 2031, before the inclusion of any expansion-related costs. In this context, the presentation of an H8 “outturn” charge in isolation understates the true trajectory of costs facing consumers.

4. Process questions must be addressed prior to Final Proposals.

Late information submitted by HAL: The integrity of the H8 process depends on maintaining a clear distinction between evidence submitted as part of HAL’s July 2025 Business Plan and material provided after the conclusion of Constructive Engagement. Allowing HAL to supplement or repair its case after the fact – having seen both the CAA’s reasoning and airline responses, and particularly after being assessed as providing a low-quality Business Plan – would fundamentally undermine the Business Plan Incentive framework and disadvantage stakeholders who engaged on the basis of incomplete information. The CAA should therefore apply a high evidential threshold to any post-Initial Proposals submissions and ensure that late material is not treated as equivalent to evidence submitted through the proper process.

Information asymmetry: Key inputs—including HAL’s cost of debt, Fixed Asset Register, and electricity contract assumptions—have been relied upon without airlines having the ability to test or interrogate them. This is inconsistent with best practice across UK economic regulation and weakens confidence in the evidential foundation of the Initial Proposals. Given the scale of impact – potentially £1+ per passenger from cost of debt alone – this lack of transparency must be addressed prior to Final Proposals.

American recognizes the significant progress the CAA has made in strengthening the H8 regulatory framework, and we appreciate the improvements to date. However, the Initial Proposals do not yet translate that improved framework into outcomes that fully reflect the available evidence. Across both substance and process, the current proposals risk overstating costs, understating revenues, and over-rewarding HAL relative to the risks it bears. Addressing these issues at Final Proposals is essential to ensuring that the H8 settlement delivers efficient, evidence-based outcomes that are in the best interests of consumers.

In summary, American asks for several outcomes from the CAA at Final Proposals:

- *Assess the full consumer impact:* Provide a top-down view of cumulative charges across H8 and related workstreams, ensuring the settlement is designed with overall affordability in mind.
- *Hold firm on the capital envelope:* Maintain the £5.8 billion capex envelope and prevent erosion through late submissions or misuse of the uncertainty mechanism.
- *Address the imbalance of risk and return:* Correct the cost of capital methodology and reflect the combined effect of existing risk protections, reducing the allowed return accordingly.
- *Apply a stronger, evidence-based efficiency challenge:* Increase the Opex catch-up efficiency adjustment to at least 9% and apply greater rigor to passenger forecast and commercial revenue assumptions.
- *Strengthen governance and accountability:* Introduce license-backed mechanisms for Capex governance and ORC cost control, including meaningful airline engagement rights. As a critical piece of national infrastructure and an effective monopoly airport, Heathrow requires robust economic regulation to provide appropriate consumer protections.
- *Set a high bar on process and evidence:* Confirm that the July 2025 Business Plan remains the primary benchmark, apply strict controls on late material, and ensure airlines can review and test any new evidence relied upon.

We appreciate your attention to the points we and the rest of the Airline Community raise and look forward to your response.

Respectfully,



Walter Weems
Director, Airport Affairs & Properties

cc: Angeles Castro – Managing Director, Airport Affairs & Properties
Ronce Almond – Managing Director, International Government Affairs