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Making the case for including elements of Modernising Heathrow removed from H8 Initial Proposals

In our H8 business plan we included £1.783bn of expenditure for Modernising Heathrow (MH). In its Initial Proposals the CAA has removed the majority of this spend from the H8 capital envelope, setting out its view that these should be included within the Expansion Programme and its associated governance and regulatory framework.

In this letter I explain why Heathrow considers that a better outcome for our customers would be delivered by:

- not excluding all of the T5 scope from MH from the H8 settlement;
- including dependent projects in our H8 submission that are currently excluded and required to enable greater capacity in T5; and
- not excluding other scope from MH related to development of new stands in T2 and T1 demolition from the H8 settlement.

The table below sets out the elements of MH that were included in our Business Plan submission, the CAA's position in the Initial Proposals, and Heathrow's view of what should be retained in H8. Further details of the three programmes needed for H8 are set out below.

Table 1 Elements of Modernising Heathrow Programme that need to be retained in H8

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

It is important to recognise the context in which these works will be taking place. Heathrow has not added new capacity since 2013, however the increase in passengers between 2013 and 2031 is equivalent to adding an airport the size of Luton. Without these works, Heathrow would have to cap capacity during H8 in order to avoid overcrowding and degradation of service and capacity in H9 would be materially reduced leading to higher aero-charges. This would not be in either current or future consumers' interests and would harm UK growth contrary to the Governments priorities for the CAA.

Classifying these works as expansion would lead to uncertainty and delay in their delivery until the framework for expansion is finalized. It also creates a risk that if expansion does not proceed, these schemes would not go ahead and vital improvements to the airport will be delayed even further.

T5 Optimisation

Following submission of our Business Plan in July 2025, Heathrow has progressed in its delivery of the T5 capacity optimisation schemes and identified that the most efficient way to deliver them is as a single programme called T5 Optimisation (T5O).

The three key objectives for T5O are to improve capacity, improve customer service, and enhance resilience.

On capacity, the aim is to enable an additional 2m passengers from summer 2028, and a further 4m passengers from Summer 2032. This is required to meet all carrier growth at Heathrow, as we optimise the occupancy of every terminal. British Airways have also shared their committed fleet and network growth strategy, including additional wide-bodied aircraft in H8 that are underpinned by confirmed IAG aircraft orders.

In respect of service, T5 is already congested at peak times and has the lowest customer satisfaction scores across Heathrow. Without intervention, it would not be possible to provide additional capacity without significantly compromising passenger satisfaction and comfort. The additional interventions required are departure lounge optimisation to reduce congestion, the installation of new lounges that are required to provide the space to allow lounge optimisation, and border automation to enable processing of greater numbers of arrivals. These projects were included within the H8 plan, but not included in the CAA expenditure Cap.

In respect of resilience, the schemes required and included in T5O are the PCA and baggage capacity resilience schemes. These were included in our H7 plan and have been included in the CAA expenditure Cap.

The table below sets out the projects required for T5O, and the CAA treatment of these. All of these projects are required to enable additional capacity to be delivered in H8.

Table 2 – Schemes Required to Deliver Objectives in T5 in the Summer 2025 H8 Business Plan

Description	Type	H8 Project ID	H8 Plan Cost	CAA Initial Proposal
T5CO Phase 1	Inclusion	P03	[redacted]	[redacted]
T5CO Phase 2	Inclusion	P04	[redacted]	[redacted]
Departure Space Optimisation T5 A/B/C	Dependency	A108, A237, A260, B127, K019, K039, K046, K051-2, K061, L01-06, L11, L21-23, M05, M10	[redacted]	[redacted]
Lounges Space Optimisation	Dependency	M02, K053	[redacted]	[redacted]
Border Automation	Dependency	L19	[redacted]	[redacted]
Pre-Conditioned Air (PCA)	Dependency	T06, T026, T027	[redacted]	[redacted]
Baggage Capacity/Resilience	Dependency	A067, A104, B017, F02-06, H016, V01	[redacted]	[redacted]
H8 Total			**£1,780m**	**£543m**

The key elements of the T5 Capacity Optimisation schemes are: extensions to the satellites T5B and T5C, increases to departing and arriving baggage capacity; increases to coaching gate capacity; additional stand capacity in grass area 20; optimisation of space in T5B and T5C departures, and additional security flow capacity. The detailed scope of this work is currently being developed through engagement with BA, and a more detailed specification and cost estimate will be available later this year.

We consider that T5O should be included in H8 as it is essentially making the best use of the existing T5 footprint and will be completed in H8. In particular:

- It is BAU growth meeting short-term additional demand and will mostly be delivered in a single period;
- This scheme would be required within H8 even if Expansion was no longer pursued. Including within expansion would jeopardise delivery of the scheme if expansion were to be paused.
- Separating the elements of T5O between Expansion and BAU regulation and governance would require the activities to be managed separately with a consequent significant detrimental impact on efficiency, coordination and operational performance, with increased likelihood of incurring delays;
- T5O is required to meet the growth ambitions of BA;
- No new main terminal space (“meaningful assets”) is required;
- Based on current working assumptions, the final solution for the additional space in the satellites should not require a Development Consent Order;

- Work on the schemes is currently underway and has not been included within early costs for 2026. Treatment of these schemes as Expansion would require an increase to the early cost allowance; and
- Given it is unlikely that the Expansion framework will be clear for some time and that no provision for this scheme has been included in the early cost allowance, separation of T5O into expansion and non-expansion elements would likely lead to a pause or delay in the programme, delaying benefits and not meeting BA capacity requirements.

In addition, we note that the nature of T5O in terms of adding additional gates and bridges to the T5 satellites during live operation means that it is not a candidate for potential third-party delivery under the Expansion framework. Therefore, no prejudice arises from including the scheme within H8.

British Airways have written to us setting out their view that they support the T5O programme and that they T5 consider that *"the Optimisation Program is not expansion. It is the sensible, overdue optimisation of existing airfield and terminal assets, expected of any competent airport operator and entirely independent of wider runway or expansion debates*".[1] We are continuing to further develop the scope and options for T5O with BA and our airline customers as we progress the maturity of the programme.

T2 Stands and T1 Demolition

In the modernising Heathrow scheme included in our July Business Plan were two elements: enabling modernising Heathrow; and ancillary works totalling £[redacted] Subsequent to our submission, we have regrouped the scope from these elements into elements required as part of H8 irrespective of expansion and scope that can be included in expansion. There are two programmes required for H8: T2 stands; and T1 Demolition. These programmes include the activity within the Modernising Heathrow scope other than activity required to enable T2C that we agree could be included in expansion. The scope for the T2 stands programme includes:

1. The construction of four new aircraft stands around T2 (207, 208, 214, and 215).
2. Extension of the Kilo Box basement to safeguard future requirements for the T2A extension and the overall masterplan.
3. Demolition works, including MSCP1, the cooling tower, T1 FCC, T1 Pier 3 and T1 North.
4. All temporary and permanent relocation of airfield-supporting infrastructure.

Additional stands are required because Terminal 2 and Terminal 3 stand systems routinely operate at or near peak utilisation during key periods (T3: 95-100%, T2: 85-95%), leaving little operational flexibility and limited resilience to disruption. This chronic shortage has led to requests for stand outages to support construction work to be declined, most recently for the Control Post C project, due to the inability to release stands without unacceptable operational impact. High stand utilisation leads to frequent towing of aircraft, increasing costs for airlines, and reduces airport resilience to schedule

[1] [redacted]

disruption and weather events. The stands will improve operating resilience, improve schedule robustness, and enable infrastructure works to take other stands out of service.

Furthermore, the additional capacity provided by this scheme is critical to the delivery of T5 Optimisation Programme. It provides alternative stand capacity when existing stands in T5B or T5C are closed to enable construction work. Without this scheme, delivering T5O would require temporary capacity reductions within T5 or T3 during construction. In addition, the scheme supports the delivery of Control Post C by enabling the required works to proceed with minimal disruption to airline operations.

Given the immediate need for the resilience provided by the additional stands and the interdependence of this scheme with T5 Optimisation, it also must be included within the H8.

The scope for T1 Demolition includes demolition of the main T1 building and the safeguarding of the HV network and other operational facilities currently provided within T1. The T1 building is becoming unsafe. There are HV and other operational systems that are still required within the building that need to be relocated. Without demolition and removal of systems, significant investment would be required in the building to make it safe. Demolishing T1 in H8 avoids this requirement and would lead to savings in operating costs. It would also provide synergies with the T1 demolition elements of T2 Stands and T2 baggage. The demolition is required irrespective of expansion and is enabled by the completion of T2 baggage.

Finally, I note that the CAA's approach has created uncertainty around our ability to progress with these schemes. They cannot be accommodated within the £5.8bn capital expenditure ceiling included in the Initial Proposals and there is no allowance for them within early costs for expansion.. In our response to the Initial Proposals, we set out why a £5.8bn capex ceiling would be insufficient to include capacity additions after prioritization. Therefore, in addition to adding T5O, T2 stands and T1 demolition to the £5.8bn cap, the cap itself will need to be significantly higher to enable these schemes to be delivered in practice.

Our customers have made clear to us their desire that we continue to progress with these schemes. However, without clarity about inclusion of these schemes in H8 it is not clear that we can do so. Therefore, clarity is urgent if we are to meet their wishes. Given this, we ask the CAA to set out their decision on this matter ahead of the Final Proposals. We consider that this could be included alongside the decision on early costs.

Yours sincerely

Heathrow
Making every journey better

Appendix
T5 Optimisation

Since the submission of the HAL H8 Business Plan, and in collaboration with the airline community, we have been looking at how the significant programme of work required across Terminal 5 (T5), in the context of our two-runway operation, could be more efficiently delivered by creating a single Optimisation Programme.

To meet demand, work would be required at every customer touchpoint and therefore, bringing all related projects under a single programme, with an aligned purpose and common objectives, makes the realisation of benefits more efficient to manage, reducing conflict, duplication and operational impact and enabling clear prioritisation and trade-offs against a clear strategic focus[2].

Managing projects with multiple interfaces increases risk, with more points of potential failure and delays. If the scope that was within Phase 2 is classified as "Expansion", our delivery slows, we return to customer touchpoints multiple times, increasing cost, operational inefficiency and consumers and airlines lose the benefits in H8 and H9. Work in T5 in H8 is both independent of Expansion and reduces future Expansion delivery risk by modernising critical interfaces and improving safety and resilience of critical systems. Considering T5 as a whole system, today and through a single programme would enable:

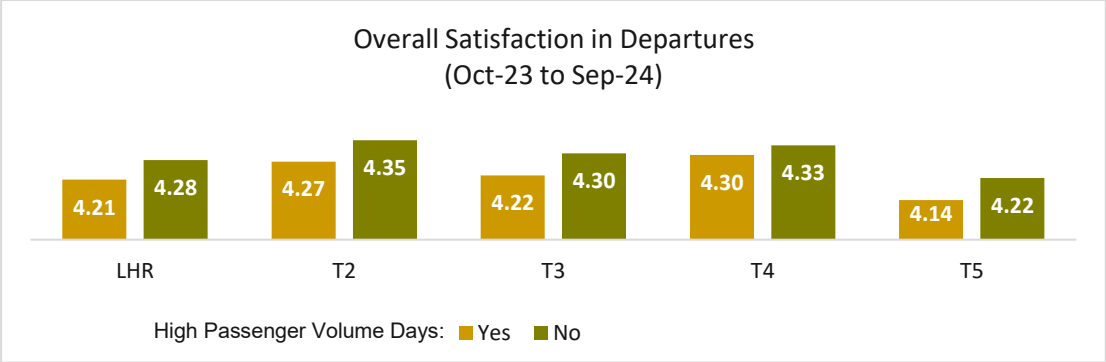
- **A holistic perspective**: project teams see the big picture, with a single client, understanding how different components interact and influence each other. This helps in identifying potential issues and opportunities early on
- **Enhanced problem-solving**: focusing on relationships and patterns within the system, teams can diagnose problems more effectively and address root causes rather than just symptoms, leading to more sustainable solutions
- **Adaptability**: projects face changing requirements and external pressures; systems thinking facilitates rapid adaptation by understanding interdependencies and leveraging them
- **Cost Efficiency through innovation, integration and coordination**: systems thinking promotes better integration and coordination, especially in the supply chain, ensuring that all parts innovate and work together seamlessly, with a single approach e.g. for stakeholders and components

British Airways have a committed fleet and network growth strategy, including additional wide-bodied aircraft in H8, underpinned by confirmed IAG aircraft orders. Accommodating this growth, alongside growth from other airlines, requires additional terminal capacity by 2032, particularly as T5 is already congested at peak times and has the lowest customer satisfaction scores across Heathrow. While capacity may exist elsewhere at Heathrow, forcing BA to operate from terminals it does not currently use (such as T2 or T4) would introduce significant operational inefficiencies and passenger disbenefits, undermining connectivity and the hub model.

The T5 Optimisation Programme would have a single vision to enable the terminal capacity to remain ahead of the fleet and passenger demand shared with us by our major customer, BA, whilst creating the space to ease congestion, provide better passenger facilities and improve pier service levels for T5, which would be shown to reverse the congestion related pressure we are already seeing on Passenger Satisfaction within T5. If we do not deliver Phase 2 scope during H8, the resulting increase in passenger

[2] APM | Chartered Membership Organisation

congestion will result in passenger satisfaction ratings further reducing by 0.08, leaving T5 significantly behind other Heathrow terminals and below Heathrow's European Hub Competitor airports.



In the Steer[3] report dated March 2026, the team acknowledged that whilst +4mppa could be deemed "significant capacity expansion of terminals" as set out in CAA document *CAP3083A: H8 method statement and business plan guidance, Appendix A,* equally, it was noted that the addition of +4mppa capacity is likely to have significant benefits in the context of a two-runway airport. Importantly, we have also made progress on the schedule. The T5B and C extensions could be delivered ready for the summer schedule in 2032, with G3s now from August 2028, significantly ahead of the 2030 date in our summer submission, by moving away from traditional build to more efficient, safer and more sustainable modular construction methodology, learning from approaches used at Atlanta Concourse D, Los Angeles, La Guardia and JFK. Application of modular construction for T5 will also enable us to explore efficiencies for Expansion.

We also received confirmation last year from the London Borough of Hillingdon Planning Directorate that planning consent on the satellites at T5 was still extant and the plan is that if the capacity, service and resilience required can be delivered in that footprint, that we will construct within this consent or minor modifications to it. If further consent is required, this is something that we apply for as part of our business as usual, during the regulatory period, as required. There are several such applications required for work proposed in the CAA's response to the HAL H8 business plan. Consent for T5 work would not meet the threshold of Nationally Significant Infrastructure Projects as defined by the Planning Act 2008.

One such example relates to the T5 baggage system, which is now over 20 years old and scheduled for sequential renewal over the next decade. The system is currently operating beyond capacity, and any additional demand would further compromise its resilience and make renewal activities more challenging. A potential option is the construction of a new, self-contained Baggage Handling System (Bag Factory) at T5C, located within the footprint of the existing Baggage Recovery Facility at T5C North. Access to this Bag Factory would bypass the critical parts of the current T5A system, alleviating bottlenecks, increasing overall capacity and enhancing system resilience and redundancy. In turn, this would enable a more efficient and less disruptive renewal of the T5A baggage system. Delivery of this option would require planning consent, as it integrates with the T5C building and the existing baggage system. We are also exploring enabling works and dependencies such as new stands at T2 and site clearance for a modular yard within or near the airport boundary, in support of future CTA or Expansion growth.

[3] H8 capital expenditure assessment – Steer report for Initial Proposals page 101

Assets have a design lifecycle of 20 years. With construction of T5 starting in 2002, many of the assets in T5 are approaching end of life, such as the baggage system, and hence why investment across the T5 campus is necessary, for capacity, service and resilience. Looking further out, with work on the single programme expected to be largely complete in the early 2030s, and an aspiration to move to more of a rolling programme of asset renewal, it would be after 2050 for any major renewals. Whilst scope is still emerging, there is an opportunity during this programme for decarbonisation scope to be included to support the airport's ambition to be net zero by 2050, optioneering for a "least regret/least cost" way of achieving net zero, potentially delivering greater benefit, earlier, at lower cost.

It is also not clear how T5 scope would be dealt with under "Early Works" for Expansion, based on section C.125 page 6 of *Appendix C of CAA document CAP3238B*. Our new schedule has G3s two years away, so we do not agree with the assertion made by the Steer team that there is time to agree to an alternative regulatory treatment for the satellite extensions.

In summary, we consider that bringing the scope of related projects in the T5 campus under the umbrella of the T5 Optimisation Programme will lead to significant benefits. In particular, it is important to include the satellite extensions which, aside from T5C north integration with a new baggage factory, already have planning consent and can be delivered for the start of the summer schedule in 2032, in time for the demand of our largest customer, British Airways.

T2 Stands

The scope for the T2 Stands programme is illustrated in the figure below:

1. The construction of four new aircraft stands around T2 (207, 208, 214, and 215) (green).
2. Extension of the Kilo Box basement to safeguard future requirements for the T2A extension and the overall masterplan (purple).
3. Demolition of MSCP1 and the cooling tower (blue)
4. Demolition of the T1 FCC and T1 Pier 3 (orange).
5. Demolition of T1 North (yellow).

6. All temporary and permanent relocation of airfield-supporting infrastructure.