

FUNDAMENTAL REFORM OF ECONOMIC REGULATION AT HEATHROW



Heathrow Reimagined response to
the CAA's November 2025 Working Paper

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FOREWORD

Economic regulation of Heathrow Airport is failing consumers. The Civil Aviation Authority's November 2025 Working Paper is an important acknowledgement that the status quo cannot continue. The conclusion that there is sufficient evidence to revisit the current regulatory model is correct. However, the strength of the available evidence goes further than the Working Paper reflects. The case for fundamental reform is overwhelming and necessitated by the CAA's statutory duties.

For more than three decades, Heathrow Airport has operated under a model intended to protect users from monopoly power while enabling efficient investment. Instead, the outcome has been the opposite: the highest airport charges in the world for a major international hub, declining and inadequate service quality, and infrastructure that too often fails to meet the standards passengers and airlines are entitled to expect.

These poor consumer outcomes cannot credibly be explained by underinvestment, temporary disruption, or factors outside the operator's control. Heathrow has spent extraordinary sums of capital over the past twenty years and proposes to spend far more. Independent expert evidence demonstrates that this capital has been spent inefficiently.

Rather, the poor outcomes are the predictable and persistent result of a regulatory model that creates harmful incentives and is ineffective at preventing the airport operator from acting on them. The CAA's review must comprehensively address these fundamental incentive problems. While incremental adjustments to the existing framework may be administratively convenient, they cannot resolve the problems nor would they be consistent with the CAA's statutory duties.

Instead, the CAA must seize this once-in-a-generation opportunity to implement a comprehensive package of fundamental reforms to reset incentives and protect consumers. This package must use competition – including between terminals – to shape consumer outcomes to the maximum extent feasible, alongside delivering a step-change in the effectiveness of regulation. Well-functioning competition removes harmful incentives, while regulation constrains the ability to act on those harmful incentives that cannot be removed.

The timing of any intervention is critical. HAL plans to invest c.£10 billion in H8 and at least £49 billion for modernisation and expansion. Under the current model, inefficient expenditure becomes permanently embedded in charges. Every year of delay commits substantial capital to a regulatory model proven incapable of controlling costs at Heathrow, locking in decades of consumer harm and risking an expansion programme that becomes unaffordable and incapable of delivering the economic benefits it purports to generate.

This submission sets out why fundamental reform is required urgently, what has gone wrong, and how the CAA can realign incentives in a way that genuinely furthers the interests of consumers. Getting the regulatory model right is not merely desirable; it is vital for the two-runway airport, an essential prerequisite for expansion to deliver economic benefits, and critical for the CAA to meet its statutory duties to consumers.

The case for fundamental reform is overwhelming. The responsibility to act is clear.

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A. EXECUTIVE SUMMARY

1. Economic regulation of Heathrow Airport is failing consumers. Passengers pay over £1 billion annually more than those at peer European hubs, while service quality declines despite record capital expenditure. Heathrow has fallen from 8th to 22nd in global Skytrax rankings; it underperforms its peers in ACI's Airport Service Quality metrics; and operates with ageing and inadequate infrastructure – Terminal 3 dates from 1961, Terminal 4 from 1986. Value for money is poor and declining.
2. These outcomes are neither coincidental nor primarily driven by external factors. The root cause is structural: the RAB-based regulatory model creates harmful incentives for Heathrow Airport Limited (HAL) to grow the asset base regardless of efficiency, driving its very high charges, while the regulatory regime has proven ineffective at preventing HAL from acting on those incentives. HAL's behaviour is rational given the incentives it faces – the problem is structural and lies in the model itself, not merely in governance processes.
3. Fundamental reform is unavoidable. It is essential for the current two-runway airport, but it is a critical prerequisite for expansion. Without comprehensive structural change that resets these harmful incentives, the CAA cannot meet its primary statutory duty to further users' interests, its duty to promote economy and efficiency, nor its duty to promote competition. Reform must be comprehensive – incremental adjustments to today's failing model cannot properly fix structural incentive misalignment.
4. Fundamental reform can be delivered without delaying expansion planning. The CAA has extensive existing powers to implement the necessary reforms in a timely manner and, where supplementary powers are needed, the Government can include them as part of the legislation already anticipated for expansion. Reforming the regulatory model is crucial for expansion, not an impediment to it.

The Working Paper's evidence understates the clear and compelling case for change

5. Heathrow Reimagined agrees with the CAA's conclusion that *“there is sufficient evidence to warrant revisiting the current regulatory model.”* As detailed in our February 2025 and August 2025 submissions, the evidence that the current regulatory model is failing consumers is overwhelming.
6. Indeed, the Working Paper understates the strength of evidence. It understates the charges gap by accepting flawed adjustments from HAL's commissioned studies; it does not adequately account for the structural nature of service quality decline; and it identifies capital inefficiency without engaging with the incentive structure that drives it. New independent expert evidence shared alongside this submission further demonstrates the inefficiency of Heathrow's capital spend.

Consumer outcome	Summary comments (see Section B)
Charges	<ul style="list-style-type: none"> • Heathrow’s charges have persistently and substantially exceeded those of other major international airports. Passengers already pay over £1 billion annually more than if Heathrow’s charges matched European hub peers. • The Working Paper is right to reject Heathrow’s erroneous attempts to justify the large differences between its charges and those at other airports. The analysis is highly selective and flawed. For example, the Working Paper rightly rejects HAL’s arguments related to differences in fixed access requirements; rail access; and passenger number and mix differences. • However, the CAA has ceded too much ground on other factors, including construction costs, VAT and wider revenues. By accepting flawed adjustments in HAL-commissioned analysis, the Working Paper understates the size of the ‘charges gap’.
Service quality	<ul style="list-style-type: none"> • Heathrow’s service quality is inadequate and declining. For example, Heathrow’s Skytrax ranking has declined to 22nd, and it materially underperforms peers in ACI’s Airport Service Quality metrics. • The Working Paper accepts HAL’s pandemic narrative too readily. Service quality was inadequate pre-pandemic, with substantial service quality rebates from 2008 to 2015. Furthermore, HAL’s Skytrax ranking continued to decline after it resumed substantial capital expenditure post-pandemic – other peer airports performed better. • The Working Paper treats the absence of rebates post-2015 as evidence of improved performance – but this reflects weak regulation, not good performance.
Capital inefficiency	<ul style="list-style-type: none"> • The primary factor driving the clear and substantial ‘charges gap’ is inefficiency, consistent with the harmful incentives HAL faces under the current regime. • New independent analysis, by leading experts Oxford Global Projects, further demonstrates the scale of inefficiency in Heathrow’s capital expenditure. It positions Heathrow’s capital projects at the 70th-90th percentile of global cost distributions – Terminal 2 and Terminal 5 sit at the 91st percentile among comparable brownfield expansions. Baggage systems exceed the 95th percentile, costing 10-20 times as much as at other UK airports. • Oxford Global Project’s independent assessment concludes there is <i>“structural inefficiency in project planning and delivery”</i> at Heathrow, such that its <i>“capital delivery framework consistently yields higher costs than comparable international airports, even after controlling for scope, context, and price level.”</i> • Dr Paul Mansell’s review, which also accompanies this submission, confirms that current governance is ineffective – HAL controls information flows and processes, while the CAA has delegated oversight to airlines that lack powers and resources.

The root causes are HAL's harmful incentives and ineffective regulatory constraints

7. The combination of HAL's monopoly position and the current RAB-based regulatory model actively creates harmful incentives for HAL across four areas:
 - **Capital expenditure:** HAL's revenues and returns grow with the RAB. Once expenditure enters the regulatory asset base (RAB), HAL earns a return regardless of whether capital has been spent efficiently or has delivered benefits. HAL therefore profits from higher project costs and is incentivised to prioritise projects that maximise RAB growth over user value.
 - **Service quality:** HAL's monopoly position means it does not need to worry about innovation or meeting consumer needs. Service quality regulation frameworks have proven insufficient to drive meaningful improvements.
 - **Commercial activities:** HAL has no incentive to ensure commercial investments are net present value (NPV)-positive, because shortfalls are compensated by passenger revenues through regulated charges.
 - **Operating expenditure:** HAL does not benefit commercially from longer-term operational savings, which flow to users as lower charges. This dampens incentives for transformational efficiency improvements.
8. These are structural features embedded in the current RAB-based model. Governance reforms can improve the effectiveness of regulation to police against HAL's incentives, but cannot remove them. Without addressing the underlying incentive structure, HAL retains every reason to prioritise RAB growth over consumer outcomes.

The Working Paper does not adequately address the root causes of the poor outcomes at Heathrow

9. The Working Paper rightly identifies poor consumer outcomes at Heathrow but does not engage with the root causes of these poor outcomes. This is a critical omission.
10. Understanding root causes (i.e. the harmful incentives embedded in the current application of the RAB model, combined with regulatory arrangements ineffective at preventing HAL from acting on those incentives) is essential to designing effective reforms that deal with problems at source. Without such analysis, there is a material risk that the CAA pursues incremental governance adjustments that treat symptoms rather than properly addressing the fundamental underlying structural incentive problems.

Fundamental reform is urgently needed to halt the impending expansion affordability crisis

11. HAL plans to invest c.£10 billion in H8¹ and at least £49 billion for capacity expansion. Expansion costs will also be on top of expenditure in subsequent price control periods over the timeframe of expansion. Heathrow already charges significantly more than its peers, and

¹ HAL's H8 Business Plan sets out £10 billion of capex but with an ambition to achieve £500m of efficiency savings reducing the £10 billion to £9.5 billion.

this gap would widen substantially under HAL's proposed H8 increase before any new infrastructure becomes operational.

12. Expansion can only deliver benefits if airlines invest (at risk) billions in aircraft, crew, network planning, route development and supply chains to utilise new capacity. If Heathrow's charges are prohibitively high, airlines will not be able to deploy scarce capital at Heathrow to make use of the new airport capacity. This risks a self-reinforcing contraction: under-utilised new capacity means fewer passengers to spread costs, driving charges higher; higher charges weaken demand and airline deployment, leading to capacity withdrawal and declining connectivity. Such a fatal downward spiral risks stranded investment, under-utilised infrastructure, and directly undermines both the economic growth test in the Airports National Policy Statement and the CAA's statutory duty to further users' interests in range, availability and continuity of services.
13. Without fundamental reform to reset HAL's cost incentives, expansion risks becoming unaffordable for the airlines and passengers it is intended to serve – a regulatory failure with decades-long consequences.

Assessment criteria must prioritise elements that address structural failures and enable the CAA to fulfil its duties

14. The CAA's statutory duties must guide its evaluation. The CAA's assessment must prioritise its primary statutory duty, not Government timelines or short-term convenience². Where conflict exists, the CAA must prioritise its statutory duties.
15. This means prioritising elements focused on addressing fundamental problems with today's regulatory model – efficiency (Element B), effective competition (Element E), service quality (Element F), and affordability (a new Element G). These align with the CAA's statutory duties and address the structural failures above. These elements must carry greater weight than administrative convenience or the minimisation of financing costs. Furthermore, HAL's choice to pursue a highly indebted financial structure must not constrain the CAA's evaluation of reforms.
16. Reforms that do not introduce competition or are otherwise incapable of materially addressing harmful incentives must be deprioritised.

Structural reform is needed to comprehensively address the failings of the current regulatory model and ensure that any expansion benefits for consumers are maximised

17. **Competition resets incentives:** Only well-functioning competition can fundamentally reset the harmful incentives embedded in the current RAB model. Regulation is not an effective substitute, as the CAA accepts. Under competition, operators bear the cost of inefficiency and retain the benefits of efficiency; this creates strong incentives to be efficient and deliver maximum benefits to customers.

² In line with HMG 10-year UK Infrastructure Strategy link “to prioritise long-term outcomes over short-term announcements”, to repeating any “failure to properly design and stick to project plans, poor commercial leadership, construction beginning too early, and political decision making that is erratic, short term and ultimately undeliverable”.

18. **Terminal competition:** Terminals represent 68% of Heathrow's existing asset base and are the major customer-facing part of the airport infrastructure. This makes terminal competition a high-impact reform.
19. **Improved capex governance:** However, terminal competition alone is not sufficient to address the full set of problems across the airport. Enhanced capital governance through an independent Capital Investment Committee is also essential.

Maximising the use of competition to improve consumer outcomes

20. **Mechanism:** Independent operators compete through structured tender processes to design, build, finance, and operate terminals over long-term contractual agreements. Multiple operators competing would propose efficient cost structures and credible operational plans to win. This competition-for-the-market mechanism immediately reveals efficient costs and locks in strong incentives. This is an immediate source of benefits. Competition-in-the-market (i.e. between terminal providers to attract and retain airlines) would provide additional competitive discipline.
21. **How it resets incentives:** Under competitive tenders, operators cannot pass inefficiency costs to consumers via the RAB – they retain the benefits of efficiency and bear the consequences of inefficiency. Operators competing to win bids have no incentive to engage in inefficient capex like HAL, whose charges are driven by RAB growth regardless of efficiency. Terminal operators' savings are retained through higher margins and greater passenger volumes.
22. **Implementation:** Terminal competition can be introduced for both existing and new terminals, using either structural separation (CAA Model 8) or contractual separation (CAA Model 7b). Both approaches harness competition-for and competition-in-the-market, and both fundamentally reset operator incentives for terminal operations.
23. **Consumer benefits** arise through:
 - **Capital efficiency:** Operators competing to win bids must propose efficient costs; once appointed, they cannot pass overruns to consumers.
 - **Operational efficiency:** Competition between independent operators strengthens incentives to control costs and deliver high-quality service.
 - **Responsiveness:** Terminals must attract and retain airlines, creating strong incentives for innovation and customer-focussed investment.
 - **Better benchmarking:** Multiple independent operations provide richer data for regulating monopoly activities.
 - **Focused regulation:** CAA resources can concentrate on airfield operations while competition provides primary discipline over terminals.
24. **Precedent and feasibility:**
 - Hartsfield-Jackson Atlanta International (the world's busiest airport) operates with terminals structurally separated from airfield operations, with private concessionaires developing and operating terminals. JFK and LaGuardia are undertaking wholesale terminal/infrastructure transformation with multiple private operators investing substantial capital.

- The Competition Commission's 2009 BAA breakup provides UK-specific precedent, concluding competitive benefits would substantially outweigh costs – vindicated by the CMA's 2016 evaluation.
 - Heathrow is already a multi-operator environment with more than 350 companies providing services. Independent terminal operations already exist – for example, cargo activities and Signature's private aircraft terminal operate effectively alongside HAL's terminals.
25. **Operator interest:** We expect there would be considerable international interest in operating terminals at Heathrow. HAL's inefficiency creates significant opportunities for rivals to offer services at lower costs. Major infrastructure operators have extensive experience – VINCI Airports operates more than 70 airports in 14 countries (including the UK); Schiphol, DAA, Changi, Fraport, Munich Airport and AENA all manage terminal operations internationally. Infrastructure investment funds have demonstrated appetite through extensive private capital deployed at US airports.
26. **Financeability:** Terminal competition does not increase aggregate operational risk. Diversifying financing sources by engaging third-party operators supports Heathrow expansion, removing reliance on a single highly-indebted provider. S&P notes Heathrow *“has the highest indebtedness of the European hubs”* with *“credit metrics at much weaker levels than other European rated airports.”* Regulatory reform enabling diversified financing addresses, rather than creates, financeability challenges.

Delivering a step-change in the effectiveness of regulation

27. **Why current governance is failing:** HAL controls information flows, procurement processes, and timing. The CAA has delegated regulatory oversight to airlines without the necessary powers. Previous and recent reforms – Gateway reviews, Independent Funds Surveyor, Constructive Engagement – attempted to police HAL's incentives but cannot remove them while leaving HAL in control.
28. **What a CIC does differently:** A CIC would be an independent body with approval powers over all major capital expenditure and system-level planning oversight. It would take over control of capital governance from HAL. The CIC would have approval authority, conduct ex ante scrutiny, have direct access to information, commission independent analysis, and have authority to reject projects. It would also have access to more effective sanctions.
29. **Why it is essential, even with competition:** It is unlikely that well-functioning competition can be delivered across all aspects of the provision of airport operation services (AOS) at Heathrow. The CIC is essential to police harmful incentives for monopoly assets, ensure airport-wide coordination, and prevent monopoly leverage.
30. **Implementation:** The CAA has extensive powers under CAA12. Where gaps in the CAA's existing authority are identified, Government can make necessary legislative provisions as part of its expansion framework.

Next steps

31. The comprehensive package of reforms needed to address the fundamental problems with the current regime consists of: terminal competition (Models 7b or 8); design-build-operate and competitive procurement for semi-separable assets (Models 4b and 5b); and enhanced capital governance through a CIC for residual monopoly (a version of Model 1). These three elements must not be seen as alternatives – only a package incorporating all three can comprehensively address the current model's shortcomings.
32. Delay or deferral of regulatory intervention has consequences. Every year of inaction increases the likelihood of committing c.£10 billion in H8 and at least £49 billion in expansion to a regulatory model proven incapable of controlling costs at Heathrow. This will lock in decades of consumer harm and risks making expansion unaffordable, undermining the economic growth case and harming existing and future passengers. The opportunity to establish the right long-term regulatory framework is now.

B. THE CASE FOR CHANGE

Introduction

This section sets out Heathrow Reimagined's views on the CAA's case for change findings. It addresses the following questions:³

- Do you agree with the CAA's assessment of how the regulatory model has performed to date in terms of protecting the interests of consumers?
- Do you agree with our assessment of how the current regulatory model might perform on a forward-looking basis?

1. The current regulatory model is failing. It creates harmful incentives, fails to constrain Heathrow's monopoly power and creates a framework in which the CAA, as the regulator, cannot effectively discharge its statutory duties. As a result, **consumers at Heathrow face the highest charges globally, paying over £1 billion more per year⁴ than users of peer airports, and experience declining service and infrastructure quality despite major capital expenditure.** In a do-nothing scenario, this situation will worsen further, most acutely in the event of expansion, given the proposed cost.
2. Fundamental reform is urgently needed. Heathrow Reimagined, therefore, strongly supports the CAA's conclusion in Chapter 2 of its Working Paper that "***there is sufficient evidence to warrant revisiting the current regulatory model to determine whether it can be improved or whether an alternative model can better serve the interests of consumers.***"⁵ This is an important and justified finding.
3. However, the Working Paper has not sufficiently addressed three important considerations:
 - **First, while the CAA identifies poor outcomes, it has not engaged with the underlying root cause:** harmful incentives embedded in the RAB-based model, combined with a regulatory regime that is ineffective at preventing HAL from acting on those incentives. This is a stark and critical omission. Understanding the root causes of the consistently poor outcomes at Heathrow across several price control periods is essential to ensure that reform options are properly targeted and effectively designed. This approach is inconsistent with the CAA's own regulatory logic. When the CAA first introduced economic regulation at Heathrow, it did so as an *a priori* response to market structure and HAL's substantial market power – not in response to observed poor outcomes. The CAA recognised that market structure creates harmful incentives that warrant regulatory intervention. The same logic applies here: the CAA must assess whether the current regulatory model creates harmful incentives, not merely whether outcomes have been poor to date. By not fully engaging with the incentive structure that drives poor outcomes, the Working Paper risks pursuing incremental governance tweaks that treat symptoms rather than causes and cannot address the structural problems with the current model.

³ CAA, CAP 3195: Working paper on regulatory models, 2025, paragraphs 2.75 and 2.76, [link](#)

⁴ An illustrative calculation combining data on the 2024 passenger volume at Heathrow (from Heathrow's website, [link](#)); average per passenger charges (i.e. £25.43 for 2024), and the Jacobs charges index data to calculate the change in Heathrow's total charges revenue if charges were in line with the average (mean) of European airports in the top 50 (excluding Heathrow) and taking the difference between the two figures.

⁵ CAA, CAP 3195: Working paper on regulatory models, 2025, paragraph 1.13, [link](#).

- **Second, there are specific areas where the analysis does not fully capture the strength of the available evidence or the scale of the challenges ahead.** It therefore understates how strong the case for change is – fundamental reform is unavoidable.
 - **Third, recognising why the changes to capital expenditure governance that the CAA introduced for the H7 price control are not capable of resolving the underlying issues leading to significant capital inefficiency.**
4. This section responds to the Working Paper's case for change analysis. For brevity, we do not repeat the evidence for changing the regulatory model at Heathrow set out in our February 2025 submission.⁶ Instead, this section has three broad complementary purposes, which we summarise below.
- **First**, it explains how, based on the evidence and observed outcomes, the current model does not achieve, and in fact constrains, the CAA's ability to discharge its primary duty to further the interests of users,⁷ its duty to promote economy and efficiency, and its duty to promote competition. The status quo is not a risk-free option – persisting with a demonstrably failing model is itself a failure to meet these duties.
 - **Second**, it addresses a critical gap in the Working Paper by looking at the root cause (i.e. why the current model does not achieve, and in fact constrains, the CAA's ability to discharge its statutory duties): Heathrow Airport Limited's (HAL's) structural incentives under the RAB-based model⁸ drive it to act against consumer interests across capital expenditure, operational efficiency, commercial activities, and service quality. The regulatory regime is ineffective at preventing HAL from acting on these harmful incentives. We explain how these incentives have resulted in the poor consumer outcomes set out in the Working Paper – the highest charges globally, inadequate and declining service quality, and substantial capital inefficiency – and, therefore, why addressing these structural incentive problems requires reforms that remove harmful incentives through effective competition and deliver a step-change in regulatory effectiveness (where competition is not deemed feasible or sufficiently effective). We set out our views on the package of reforms required in Section D.
 - **Third**, it responds to specific aspects of the Working Paper's case for change findings, strengthening the CAA's analysis and addressing gaps:
 - We provide additional independent expert evidence commissioned by Heathrow Reimagined, including quantitative benchmarking analysis by the world's leading experts of megaprojects management, Oxford Global Projects⁹ (OGP) which was co-founded by Prof. Bent Flyvbjerg and Alexander Budzier, PhD and an independent

⁶ Heathrow Reimagined, *Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*, February 2025, [link](#).

⁷ We use 'users', 'passengers', 'consumers', and 'airlines' interchangeably throughout this submission, except when referring specifically to the CAA's statutory duties (where we use 'users of air transport services' consistent with the Civil Aviation Act 2012) or when distinguishing airlines' commercial role as direct customers of airport operation services. Our terminology reflects both the need to align with statutory language and the practical reality that regulatory outcomes affect multiple parties.

⁸ RAB = Regulatory asset base. Further details on the current regulatory model (and the application of the RAB-based approach) are set out in our February 2025 submission; Heathrow Reimagined, *Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*, February 2025, [link](#).

⁹ Oxford Global Projects was founded by Professor Bent Flyvbjerg and Alexander Budzier, PhD. They are the world's leading experts on megaproject management with the most-cited scholars on megaprojects worldwide and over 30 years advising government and business, including using the largest high-quality datasets on project performance in the world.

assessment of capital governance and delivery by Dr Paul Mansell,¹⁰ a pre-eminent advisor and independent assurer of capital governance, with significant senior advisory roles for HM Government. This evidence responds to the Working Paper's findings on charges, service quality, and capital efficiency.¹¹

- We identify areas where the Working Paper's analysis does not fully capture the strength of available evidence or understates the scale of the problem, including methodological issues with HAL-commissioned benchmarking studies.
 - We explain why the H7 governance reforms face fundamental structural limitations and cannot address the underlying incentive failures.
5. In addition, we also set out why forward-looking challenges – including HAL's H8 Business Plan proposing a further significant increase in charges, and an expansion programme expected to cost at least £49 billion – make fundamental regulatory reform urgent and necessary. The timing of reform is critical: every year of delay increases the likelihood of committing substantial capital under a regulatory model that has demonstrated an inability to constrain substantial market power or control costs at Heathrow.

The current model falls short of enabling the CAA to meet its statutory duties

6. Under the Civil Aviation Act 2012 (CAA12), the CAA has extensive powers to impose ex ante regulation on HAL to protect consumers and other users from the harm that can result from HAL's substantial market power.¹² In exercising these powers, the CAA has statutory duties that must guide its assessment of whether the current regulatory model is fit for purpose and what reforms are required.
7. The CAA's primary duty is to exercise its functions in regulating operators of dominant airports in a manner which it considers will “*further the interests of users of air transport services regarding the range, availability, continuity, cost and quality of airport operation services*”. The current regulatory model is demonstrably preventing the CAA from meeting this duty.
- **Cost:** Independent evidence consistently shows that HAL's regulated charges far exceed those of its peers globally, even after controlling for factors outside HAL's control. Passengers are paying over £1 billion more per year¹³ to use Heathrow than if its charges were in line with those of other European hubs. HAL's H8 Business Plan proposes charges

¹⁰ Dr Paul Mansell is one of only a handful of advisors appointed by the UK Government to the highest levels of independent assurance. He has led over 90 reviews for the Infrastructure and Projects Authority (now part of NISTA) for projects typically over £1bn and was pivotal in reporting to Cabinet Office, DfT and HMT the HS2 cost escalation. Paul worked with Department for Transport on establishing its Portfolio Office when Reference Class Forecasting (as developed by Oxford Global Projects) was first introduced.

¹¹ The CAA should see this additional evidence as supplementary to the evidence already presented to it by Heathrow Reimagined.

¹² Using these powers, the CAA currently sets limits on the average price per passenger HAL can charge, and imposes minimum service standards that HAL should meet. The control on HAL's average charges is based on a RAB-based building blocks model.

¹³ An illustrative calculation that applies the 2024 Jacobs' charges index data to the 2024 average passenger charges at Heathrow.

to rise by an estimated 47% on a like-for-like basis by the end of H8 vs the end of H7¹⁴ before taking account of spend on capacity expansion.¹⁵

- **Quality:** Across multiple respected independent sources – including Skytrax rankings and ACI's Airport Service Quality data – the evidence shows that service quality at Heathrow is inadequate and declining. Heathrow fell from 8th globally in Skytrax rankings in 2021 to 22nd by 2023,¹⁶ where it has remained. Despite paying charges far higher than those at peer airports, passengers are required to use ageing infrastructure: Terminal 3 dates from 1961 and Terminal 4 from 1986.¹⁷ Declining airport service quality impacts passengers' perceptions of their airline experience.
 - **Range, availability and continuity:** The CAA's duty to exercise its powers for regulating operators of dominant airports in a manner which further users' interests applies to both current and future users. With expansion expected to cost at least £49 billion, the regulatory model's inability to control costs threatens not only current passengers but also future users who depend on affordable, high-quality hub capacity being delivered. Without fundamental reform, expansion risks being unaffordable, threatening the delivery of enhanced capacity and connectivity that expansion is intended to provide.
8. In carrying out its duty, the CAA must also have regard to the need to promote “*economy and efficiency*” in the provision of airport operation services (AOS). The current model does not achieve this:
- **Capital efficiency:** Substantial independent evidence, including quantitative benchmarking analysis by OGP and assessment of capital governance by Dr Paul Mansell, demonstrates structural capital inefficiency at Heathrow. We summarise this evidence below.¹⁸
 - **Operational efficiency:** Even HAL's own commissioned analysis in its H8 Business Plan shows that HAL's operating efficiency has been below the average of comparator airports for most of the past 15 years. This sustained below-average performance demonstrates weak operational efficiency incentives under the current model.
9. When exercising its primary duty under CAA12, the CAA must, where appropriate, carry out its functions “*in a manner which it considers will promote competition*” in the provision of AOS. Despite HAL's monopoly in the provision of AOS at Heathrow for over 15 years, the CAA has not meaningfully pursued regulatory remedies that introduce greater competition. **Under Section 1 of CAA12, the CAA's primary duty is mandatory, not discretionary.** Persisting with a model that prevents the CAA from meeting this duty creates regulatory and legal risk.
10. The CMA's 2009 BAA decision established that structural remedies, including ownership separation, are appropriate where regulation alone cannot protect consumers. The CAA must

¹⁴ Letter to CAA from London (Heathrow) Airline Consultative Committee (LACC-IATA) and the Heathrow AOC from August 2025 which estimates the impact on charges of the H8 Business Plan to be 47% on a like-for-like, real terms basis, moving from £24.28 to £35.57. This takes factors into account that are omitted from average level implied in CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 2.68, [link](#). (i.e. moving from £24.28 per passenger at the end of H7 to an average level of £33.26 per passenger “during H8 under a two-runway configuration”).

¹⁵ Estimate per letter from LACC-IAATA and Heathrow AOC to CAA dated 8 August 2025., which includes like-for-like factors excluded from CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 2.68, [link](#).

¹⁶ Skytrax, *World Airport Awards – Winner History*, 2021 – 2025, [link](#).

¹⁷ Heathrow Reimagined, *Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*, February 2025, [link](#).

¹⁸ These reports have been shared in full with the CAA to support Heathrow Reimagined's response to the Working Paper. For brevity, we do not repeat all of the findings of these reports in this document.

consider whether the current model's failure to deliver good consumer outcomes warrants similarly fundamental intervention.

11. The Working Paper recognises that *“well-functioning competition can be more effective than regulation in furthering the interests of consumers”* and that, even for natural monopolies, *“a blend of regulation and competition may be better at protecting consumers than regulation alone.”* We strongly agree. Well-functioning competition is the only remedy that fixes the underlying harmful incentives embedded in the current model; regulation can police them, but cannot eliminate them. As explained in detail in Section D, harnessing competition to reset HAL's incentives where feasible and effective, complemented by a step-change in regulatory effectiveness, is essential to improving outcomes and enabling the CAA to fully meet its statutory duties.
12. The status quo is not a risk-free option. Persisting with a model that prevents the CAA from meeting its duties is, itself, a failure of regulatory duty. **The CAA cannot discharge its duties without addressing the root cause of poor outcomes: the structural features of the current model that create harmful incentives for HAL to act against consumer interests, combined with a regulatory regime that has demonstrated it is ineffective at preventing HAL from acting on those incentives.** The poor outcomes – very high charges, inadequate and declining service quality, degrading levels of underlying resilience, and substantial capital and operational inefficiency – are not incidental. They are the predictable result of this structural misalignment (explained below) that incremental adjustments to processes (regulatory and governance) cannot fix.

The root causes - HAL's harmful incentives and ineffective regulatory constraints – are not adequately considered in the Working Paper

13. **The Working Paper correctly identifies that consumer outcomes have been poor across charges, service quality, and capital efficiency.¹⁹ However, it does not explain why these outcomes have occurred at Heathrow – particularly given that other major hub airports have consistently achieved materially better outcomes for much lower charges. This is a critical omission, and one that risks the CAA pursuing reforms that treat symptoms rather than causes.** Poor outcomes result from the interaction of two structural features of the current regulatory model:
 - The primary failure is that HAL's substantial market power and the current RAB-based regulatory model create harmful incentives for HAL to act against consumer interests.
 - The secondary fundamental failure is that the regulatory model is ineffective at policing HAL's ability to act on these harmful incentives.²⁰

Understanding this hierarchy is critical: governance reforms – alone – cannot be effective if the underlying incentive structure remains misaligned. **Focussing only on outcomes, or attempting to fix governance without addressing the underlying incentives, will result in**

¹⁹ CAA, 2025, *CAP 3195: Working paper on regulatory models*, paragraph 2.61, [link](#).

²⁰ Heathrow Reimagined, *Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*, February 2025, [link](#).

poorly-targeted interventions that treat symptoms rather than causes. The pursuit of its statutory duties means that the CAA must consider the drivers of poor consumer outcomes.

HAL's structural incentives under the current regulatory model

14. **HAL has a monopoly on the provision of AOS at Heathrow, so airlines and consumers have no choice but to use AOS provided by HAL.²¹ As a result, and absent effective remedy, HAL has both the ability and incentive to take decisions that are primarily in its own interest and against the interests of passengers and other users.**
15. The current application of the RAB-based model at Heathrow is not effectively constraining or incentivising HAL – rather, it actively creates harmful incentives for HAL and fails to prevent it from acting on those incentives. The current regulatory model is failing to further the interests of consumers, promote economy and efficiency, or promote competition. These harmful incentives operate across four critical areas:
 - **Capital expenditure:** HAL's allowed revenues and returns grow as the RAB grows. Once expenditure enters the RAB, HAL earns a return on that investment regardless of whether it was efficiently incurred or delivers the anticipated benefits set out to justify the spend. This means that HAL is incentivised to prioritise projects that maximise RAB growth over those that maximise value for users, or design delivery of projects (i.e. phasing) in ways that maximise capital deployment. Further, HAL benefits from higher project costs (through larger RAB additions), undermining its incentive to rigorously manage the risks of inflated project costs, including cost overruns. While the CAA has introduced new *ex ante* capex incentives in H7 to address this, as we discuss below, these mechanisms face fundamental challenges in establishing efficient baselines for major projects and do not address the overarching incentive misalignment.
 - **Service quality and user responsiveness:** HAL has weak incentives to be innovative and responsive to user needs. In well-functioning markets, firms have strong incentives to respond to user needs through innovation and efficient investment, driven by competition and the risk of losing customers to rivals. However, HAL's monopoly position means it does not need to worry about being innovative or ensuring that its services meet the needs of consumers or airline customers. The CAA introduced a new service quality regime – Outcome Based Regulation (OBR) – in H7, having recognised deficiencies in its previous Service Quality Rebate and Bonus scheme. It comprises of six consumer outcomes and 40 measures (with reputational and financial incentives; see Annex 4). However, OBR does not address HAL's underlying incentive problem and is therefore unlikely to be effective on its own. Specifically, it cannot correct the misalignment that encourages HAL to prioritise RAB growth over meaningful improvements in passenger experience and timely delivery of infrastructure upgrades.²² Even where investment delivers user experience improvements, there is no inherent incentive for HAL to deliver them quickly or consistently across its campus, as reflected in its expensive masterplan proposals, which do not materially improve user experience until the 2040s.

²¹ HAL holds substantial market power in two dimensions: it has a complete monopoly on the provision of AOS at Heathrow, and Heathrow is the UK's only hub airport capable of providing the connectivity required by consumers and airlines. This dual market power reinforces HAL's ability to act against user interests.

²² The CAA has acknowledged that "it is not yet practical to determine the longer-term effect of this framework on consumer outcomes" (CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 2.66, [link](#)).

- **Commercial activities:** The single-till model, which we strongly support, is intended to ensure that commercial operations maximise their net present value (NPV) contribution in a way that drives the lowest possible aeronautical charges for users. However, under the current regulatory model, HAL has no overall incentive to ensure that investments in infrastructure for commercial activities are NPV positive because it is compensated for any shortfalls in recovery through regulated charges. This shields HAL, at the expense of consumers, and results in a further weak incentive to deliver commercial efficiency and innovation that would benefit passengers through lower charges. The result is that consumers risk missing out on the benefits of a well-functioning single-till regime. A reformed regulatory regime needs to ensure that consumers reap the maximum benefit from the single-till model.
 - **Operating expenditure:** HAL faces some incentives to improve operational efficiency within each price control period. However, as HAL does not benefit commercially from longer-term operational savings (which ultimately flow through to users as lower charges), its incentive to pursue transformational efficiency improvements is dampened. The CAA does not tie HAL's capital projects to its delivery of long-term operating efficiencies.
16. These are not governance failures or temporary shortcomings – they are structural features embedded in how the RAB-based model operates at Heathrow. Understanding this distinction is critical: governance reforms seek to police HAL's incentives, but they cannot remove harmful incentives. Without addressing the underlying incentive structure, HAL retains every reason to act in ways that prioritise RAB growth and its own financial interests over consumer outcomes.

The current regulatory model is ineffective at policing HAL's ability to act on its harmful incentives

17. The Working Paper recognises material limitations on the current regulatory framework's ability to effectively police HAL's ability to act on its harmful incentives. The regulation of Heathrow faces specific challenges. However, these challenges are not simply technical or operational deficiencies that can be resolved through incremental improvements. They represent the second fundamental structural failure of the current regulatory model: the governance arrangements are ineffective at preventing HAL from acting on the harmful incentives described above.
- **Information asymmetry and burden:** Given HAL's substantial market power, its control of information, procurement, and capex governance processes, it should be HAL's responsibility – as the regulated entity – to demonstrate efficiency to the CAA as regulator. The current information asymmetry is not accidental – HAL has strong commercial incentives to control and manage information flows and capex governance processes to maximise capital spending and RAB growth. In addition, the CAA effectively delegates capital scrutiny to airlines that lack the powers, information, technical resources, and decision-making authority needed to perform this function. The Working Paper acknowledges that capital governance has been ineffective – this represents a failure of the regulatory model itself rather than merely the process alone.
 - **Information control:** Recent experience demonstrates that while airlines have the theoretical right to reject projects, HAL can (and does) create situations where the consequences of rejection are unacceptable – giving airlines no practical alternative but

to approve investments despite serious concerns. Even with formal approval rights, HAL retains control over timing, information release, and framing of consequences in ways that constrain airlines' practical ability to protect consumer interests.^{23,24}

- **Benchmarking challenges:** The CAA is right to note that there are some challenges with benchmarking specific elements of HAL's business.²⁵ However, these challenges are compounded by HAL's control over the underlying information needed to construct meaningful benchmarks. While cross-sector benchmarking could, for example, be undertaken to improve the situation, with only a single provider for terminal development and operations at Heathrow, there is no realistic prospect that either airlines or the CAA can identify a relevant cost benchmark for each individual capital project that withstands HAL's litany of justifications for Heathrow-specific costs.
 - **Financeability constraints:** The CAA's interpretation of financeability considerations has constrained its (implicit or explicit) willingness to disallow inefficient costs. This interpretation has, in effect, protected HAL from the consequences of its own financing decisions rather than protecting consumers from inefficient expenditure. For the last two decades, HAL has operated with significantly higher gearing than the 60% assumed in the notional regulatory capital structure, meaning regulatory disallowances could trigger covenant breaches (or otherwise put actual financeability at risk).²⁶ **HAL is effectively incentivised to make itself financially vulnerable, as doing so constrains the CAA's ability to apply the full range of regulatory interventions.** Consumers asymmetrically face the downsides of HAL's financing choices (through constrained regulatory action) but do not share in the benefits HAL and its shareholders derive from high leverage and equity distributions. This transfers what should be equity risk onto the regulator and consumers – where the CAA has become constrained in its ability to penalise underperformance and condition efficiency of capital spend, due to its misplaced interpretation of financeability. Consumers are left to carry both the risk premium and the cost of HAL's strategic financing choices, while HAL's shareholders consistently retain the benefits of high leverage, equity distributions, automatic inflation protection through RAB indexation, and a constantly growing asset base with minimal downside risk.
18. This outcome is neither inevitable nor appropriate. The CAA should not interpret its financeability duty in a manner that weakens consumer protection. Financeability must be assessed on the basis of efficient costs and appropriate financing structures – and not as a constraint that allows past financing decisions to dictate future regulatory outcomes.
19. These two structural failures compound each other. Harmful incentives drive HAL to prioritise its financial interests over consumer outcomes, while the regulatory model is ineffective at policing HAL's ability to act on these harmful incentives. This interaction explains the pattern of poor outcomes the CAA has identified (i.e. high charges, declining and inadequate service

²³ We explain the problems with the current capex governance model in more detail in Section D, as well as the content shared with the CAA in December 2025.

²⁴ For example, as Heathrow Reimagined has previously explained to the CAA, airlines were recently faced with a choice of approving the T2 baggage project at G3 despite serious concerns over cost escalation and expected performance, or incur >£100m of additional costs due to the delay as a consequence of how HAL chose to procure for the project, and further delays to the wider T2 expansion programme.

²⁶ As we have explained in previous submissions, it is our understanding that the CAA was forced to make the £300 million COVID RAB adjustment simply to avoid financial failure of the airport.

quality, and evidence of capital inefficiency). Understanding this causal mechanism is essential to evaluating which reform options will be effective in improving consumer outcomes.

The evidence in the Working Paper understates the case for change

20. The Working Paper presents an analysis of evidence on charges, service quality, and capital efficiency. We support the CAA's overall approach and agree with many of its findings. However, there are specific areas where we consider that additional factors should be weighed or where the analysis and findings could be strengthened.

The Working Paper understates the gap between HAL's charges and those of its peers

21. The Working Paper recognises that "*the evidence we have seen consistently suggests that HAL's charges in 2024 appear to be higher than those at a broad selection of other airports.*"²⁷ While we agree, the Working Paper's finding understates the strength of evidence – it is not that they "*appear*" to be "*higher*", they are substantially higher and persistently so. In our February 2025 and August 2025 submissions, we presented evidence based on both Jacobs Review of Airport Charges publications and aeronautical charges per passenger that demonstrated that HAL's charges exceed its peers substantially and over a sustained period. Independent analysis by OGP positions Heathrow's significant capital projects at the 75th-90th percentile of global cost distributions after controlling for local input costs. This pattern persists across all asset types, indicating that structural delivery inefficiency drives the charges gap.
22. We agree with the CAA in having "*concerns around the transparency and robustness of KPMG's analysis.*"²⁸ The Working Paper is right to reject KPMG's adjustments for operating hours, business model, and operating model. As we set out in our August 2025 submission, these adjustments are not well-founded and, in some cases, rely on flawed methodologies. We also agree with the CAA's decision to dismiss KPMG's arguments in relation to rail access and the 'other factors presented by KPMG', as set out in Appendix B of the Working Paper. We also share the CAA concerns "*regarding the small number of airports considered and the omission of relevant comparators*", as we also set out in our August 2025 submission.
23. However, the Working Paper accepts three adjustments that are not well-founded, which materially narrow the gap between Heathrow's charges and those of other airports (referred to as the 'charges gap' by the Working Paper) – and, ultimately, understates the 'charges gap'.

i) Construction cost adjustments

24. The CAA's decision to rely solely on the Arcadis International Construction Costs (ICC) index results in materially larger adjustments than those from alternative indices, as set out in our August 2025 submission. The CAA has not presented any sensitivity analysis to show the

²⁸ CAA, CAP 3195: Working paper on regulatory models, 2025, paragraph 2.37 and Appendix B, [link](#).

impact on its findings of using other indices. If it had, it would have found that the ‘charges gap’ was materially larger than set out in its Working Paper.

25. Independent academic analysis reinforces why construction cost adjustments based on Arcadis should be treated with caution. OGP conducted a detailed methodological appraisal of HAL's commissioned benchmarking studies, including their reliance on Arcadis ICC indices. As set out in its full report,²⁹ OGP identifies systematic flaws in how construction cost adjustments have been applied across HAL's evidence base.

- **Inflation mis-sequencing and double-counting:** HAL's commissioned studies convert foreign project costs to GBP using nominal exchange rates, then apply UK construction inflation. This applies two inflation systems to the same value, artificially raising comparator costs. The economically correct approach converts to UK-equivalent price levels at the project's cost year using purchasing power parity (PPP), then applies UK inflation.
- **Foreign exchange treatment creates systematic bias:** Using market exchange rates rather than PPP introduces volatility unrelated to construction costs. OGP's analysis shows that for key comparators (US, Korea), FX-based conversion inflates GBP-denominated costs by 20-35% compared to PPP-based conversion.
- **Arcadis index choice is unexplained but consequential:**
 - Arcadis ICC ranks London 1st globally for construction costs among 50 cities. Alternative reputable indices show materially different rankings: Turner & Townsend ranks London 10th; [REDACTED].
 - HAL's commissioned studies rely exclusively on Arcadis without acknowledging alternative indices exist or justifying why Arcadis should be preferred. OGP notes: “*No study provides sensitivity analysis showing how results change under alternative assumptions.*”
- **Index and FX adjustments interact to compound bias:** Because Arcadis ICC already embeds productivity, wage, and material cost differentials, combining it with nominal FX conversion captures overlapping effects.

26. These methodological and evidence choices are highly consequential, and, as OGP concludes, act to create the perception that Heathrow is closer to its peers than it actually is.³⁰ OGP finds that there is a systematic pattern across HAL-commissioned benchmarking studies, including KPMG's charges benchmarking: small, selective samples with undisclosed selection criteria; cumulative uplifts that overlap in what they measure; inflation sequencing that artificially raises comparator costs; and exclusive reliance on Arcadis ICC. OGP concludes that these studies “*share methodological weaknesses that reduce the reliability*” of HAL's case and that

²⁹ Oxford Global Projects, *Heathrow Airport Limited: Technical Review and Critique of Commissioned Benchmarking Studies*, November 2025.

³⁰ For example, OGP finds that KPMG's study claims that Madrid's construction costs are around [REDACTED]% lower than London's. Yet, when recalculated using PPP conversion and construction-sector productivity indices, the true differential falls to approximately 35-40%.

33. A related, but different, concern to these three adjustments by KPMG is the CAA's approach to amending our comparison of major capex spending at European peer airports, which leads to an under-estimate of the extent of the problem. The Working Paper applies a uniform 74% uplift to all comparator airport costs based on the factors deemed beyond HAL's control.³² There are two problems with this:
- First, the CAA's approach appears to assume that adjustments for taxes and wider revenues applied to the charges analysis also apply to airport construction projects. We disagree. We see no basis for including the 'wider revenues' adjustment – these relate to the revenues from operating the airport, not building it. We disagree that the same tax adjustment should apply to building airports as operating them. For example, we see no basis for including the business rates tax adjustment, yet this is a major element of the tax adjustment that KPMG proposes for certain airports.
 - Second, this uniform adjustment assumes that the factors affecting construction at Heathrow apply equally to all comparators. This is not the case. For example, construction costs vary by airport. If the CAA made bespoke adjustments to each comparator reflecting their specific circumstances, the profile of costs per passenger and per square metre would differ from the Working Paper's Figures 6 and 7 – but Heathrow would still be the most costly, and by an even greater margin than the uniform adjustment suggests.
34. By accepting construction cost adjustments that overstate the extent to which exogenous factors can explain high charges and costs, the Working Paper understates the true scale of HAL's relative inefficiency and, therefore, the role that inefficiency clearly plays in explaining the 'charges gap' identified by the CAA. Independent academic analysis by Oxford Global Projects confirms that the methodological foundations of HAL's case are not robust, and that correcting for these issues reveals a wider gap than HAL's commissioned studies suggest.
35. Relatedly, we also note that, regardless of historical performance, the trajectory for charges under HAL's H8 Business Plan (which the airlines firmly disagree with) is for significant further increases (estimated 47% real terms increase to £35.57 by the end of H8) on what are already the highest charges amongst major international airports before spend on capacity expansion is taken into account.³³ This reinforces the urgency of reform – regulatory reform is necessary irrespective of expansion. It is a 'today' problem.

The CAA understates the problems with service quality

36. As detailed in our February 2025 submission, HAL's service quality is inadequate and declining. HAL's pandemic excuse too readily, and does not interrogate HAL's capital allocation choices. The CAA is right to examine service quality trends carefully.³⁴ However, key additional evidence demonstrates that service quality problems are structural, driven by the regulatory model's harmful incentives, and shows that HAL's service quality has been inadequate and in decline post-pandemic:

³² CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraphs 2.57-2.58, [link](#).

³³ Letter to CAA from London (Heathrow) Airline Consultative Committee (LACC-IATA) and the Heathrow AOC from August 2025 which estimates the impact on charges of the H8 Business Plan to be 47% on a like-for-like, real terms basis, moving from £24.28 to £35.57. This takes factors into account such as business rates that are omitted from average level implied in CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 2.68, [link](#).

³⁴ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraphs 2.42-2.49, [link](#).

- **Skytrax rankings collapsed post-pandemic and remain depressed.** Heathrow fell from 8th globally in 2021 to 22nd by 2023, where it has remained (21st in 2024, 22nd in 2025).³⁵ This sustained decline happened after HAL resumed substantial capital expenditure.³⁶ Other major hub airports recovered service quality faster post-pandemic. The Working Paper notes that “*we are concerned that the Skytrax data suggests that, more recently, HAL’s service quality has not recovered to the same extent as other airports.*”³⁷ We share the CAA’s concerns. This differential recovery is significant; airports facing similar pandemic disruption have returned to or exceeded pre-pandemic service levels, while Heathrow has not – consistent with its harmful incentives.
- **2024 performance problems persist despite higher capex.** ACI’s ASQ data, which HAL regularly cites, shows that Heathrow achieved a score of just 4.05 in Q3 2025.³⁸ This is below average for airports globally (4.34), European airports (4.10), and large airports (those over 40 million passengers per year, 4.40).³⁹ Passengers and airlines continued to suffer from service interruptions. For example, HAL experienced baggage system outages in 2024, rising to 100% in 2025 (i.e. up 100%, with the costs of repatriation being borne by airlines).⁴⁰ It also ranked poorly in accessibility. This occurred while HAL continued to undertake substantial capex.
- **Service quality rebates demonstrate that the framework functions as a limited safety net.**⁴¹ While rebates grew during 2021-2023 and have since returned to pre-pandemic levels, the CAA notes that “*we have not seen a similar improvement in HAL’s Skytrax rankings.*”⁴² This disconnect demonstrates that regulatory service quality regimes inevitably fail to capture all aspects that matter to consumers. The existence of rebates indicates particularly poor service quality, but the absence of rebates does not mean service quality is good – the regime is simply failing to capture the drivers of poor service quality perceptions.

37. HAL service quality was also inadequate pre-pandemic:

- Service quality rebates data in Figure 4 of the Working Paper shows substantial rebates from 2008 to 2015. As noted above, the fact that rebates were lower (or zero) between 2016 and 2019 does not necessarily indicate good service quality. Indeed, airlines have consistently raised concerns about the weakness of the rebate and service quality regime, as evidenced by HAL consistently achieving ‘green’ performance rating for baggage system delivery in 2025, despite the large volume of missed bags and separate baggage incidents.
- While Heathrow achieved higher Skytrax ratings between 2014 and 2021⁴³ compared to the rankings collapse post-pandemic, its rankings over this period (and its ACI ASQ scores, which have declined compared to 2017)⁴⁴ need to be viewed in the context of charges that

³⁵ Skytrax, *World Airport Awards – Winner History, 2021 – 2025*, [link](#).

³⁶ e.g. £1.1 billion in 2024.

³⁷ CAA, *CAP 3195: Working paper on regulatory models, 2025*, paragraph 2.49, [link](#).

³⁸ Heathrow (SP) Limited, *Investor Report, December 2025*, [link](#).

³⁹ ACI, *ASQ Barometer, 2025*, [link](#); Heathrow (SP) Limited, *Results for the year ended 30 September 2025*, [link](#).

⁴⁰ Based on AOC data. The winter 2024/25 peak period alone saw 100% incidents across 10 terminals, affecting over 100 bags requiring repatriation. Terminal 1 experienced two (Priority) events, with over 100 bags left behind and airlines bearing both the financial and reputational cost.

⁴¹ We note that the recent increase in baggage system outages is consistent with both HAL’s incentives and the weak SQR regime.

⁴² CAA, *CAP 3195: Working paper on regulatory models, 2025*, paragraph 2.47, [link](#).

⁴³ Skytrax, *World Airport Awards – Winner History, 2014 – 2021*, [link](#).

⁴⁴ Heathrow Airport Limited, *Annual Report, 2017*, [link](#).

far exceeded those of its peers. Heathrow's historical service quality has not been commensurate with having the world's highest charges for a major international airport. It has consistently provided passengers and airlines with poor value for money.

38. Suggestions that the decline in service quality is due to insufficient capex by HAL do not stand up to scrutiny, and are inconsistent with the evidence and HAL's own H8 business plan:

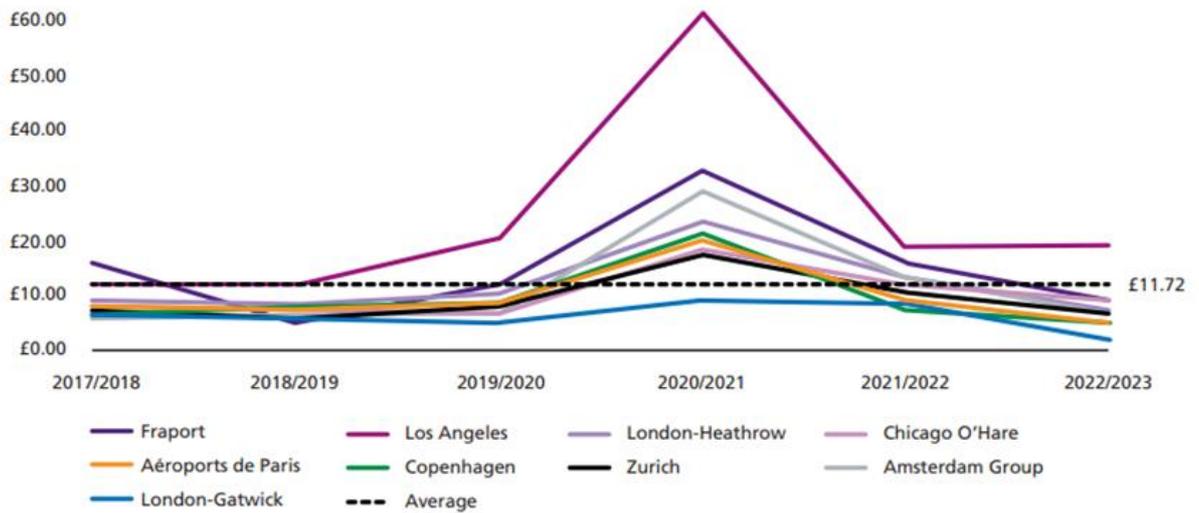
- HAL has incurred over £8 billion in capital expenditure since 2014,⁴⁵ while falling from 8th to 22nd in Skytrax's rankings. If inadequate capital investment were genuinely the binding constraint on service quality, we would not see this combination of outcomes. This pattern suggests that the issue is capital inefficiency and allocation, not availability.
- HAL's H8 Business Plan benchmarking shows HAL's average capital expenditure per passenger exceeded comparator airports during the period when service quality deteriorated (i.e. the last 10 years; see Figure 1 below). As we set out in our August submission, unlike Heathrow, many of the comparator airports used by HAL were investing in major infrastructure upgrade projects during this period.⁴⁶ This indicates that there was no shortage of capex for service quality improvements.
- HAL retained discretion over capital allocation within regulatory allowances. Even during periods when overall investment envelopes were relatively lower (Q6, anticipating expansion; pandemic recovery in early H7), HAL controlled how available capital was allocated across competing projects. The choice, for example, to defer asset renewal in T3 was HAL's decision. HAL could have prioritised differently to maintain service quality – the regulatory framework provided capital allowances; HAL chose how to spend them and did so in ways that reflected its weak service quality incentives.

⁴⁵ Heathrow Airport Limited, *Annual Report, 2014 – 2024*; Heathrow (SP) Limited, *Investor Report*, December 2025.

⁴⁶ Los Angeles has been undertaking a major airport-wide redevelopment programme involving double-digit billions of capital spend over several years ([link](#)). Chicago O'Hare has been undertaking its O'Hare21 programme, which has involved major investments in terminal expansion and new satellite concourses ([link](#)). Frankfurt has been undertaking major investment in its new Terminal 3 project, which is one of Europe's largest infrastructure projects ([link](#)). Amsterdam Schiphol has been investing in a major new pier extension project ([link](#)).

Figure 1: Capital per passenger (from HAL's H8 Business Plan)

Figure 107: Capital per passenger.



Source: Heathrow Airport Limited, *Heathrow's H8 Business Plan: 2027-2031, 2025*, [link](#).

39. These patterns reinforce that poor service quality outcomes reflect the regulatory model's harmful incentives, rather than exogenous constraints. HAL faces no meaningful downside from service quality underperformance – the framework provides limited penalties, rebates are modest relative to total revenues, and HAL continues earning returns on its RAB regardless of passenger experience. This is precisely the type of outcome that a well-designed regulatory model should prevent.
40. The Working Paper does not engage with important evidence on the age and condition of HAL's infrastructure as a driver of poor service quality. In our February 2025 submission, we presented analysis showing that significant portions of HAL's operational infrastructure are outdated and approaching or beyond design life.⁴⁷ HAL's decision to allow these terminals (i.e. T1, T3, and T4) to age while simultaneously incurring over £8 billion in capital expenditure (which flows into the RAB) since 2014⁴⁸ shows that the issue is capital allocation driven by harmful incentives, not capital availability.
41. This matters because the question is not whether ageing infrastructure constrains service quality – the evidence shows it does – but why HAL has chosen not to improve its major infrastructure (particularly terminals) that has a direct impact on service quality and consumer outcomes, and the role that the regulatory model plays in incentivising HAL to do so (or not). There has been no shortage of capex at Heathrow – rather, it has been inefficiently spent and poorly prioritised. A well-designed regulatory model should ensure that maintaining and renewing critical infrastructure that directly affects passenger experience is commercially

⁴⁷ Heathrow Reimagined, *Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*, February 2025, paragraph 208, [link](#).

- Terminal 3 opened in 1961 and remains largely in its original configuration despite handling 16 million passengers annually, making it one of the oldest terminals in operation among major European hubs.
- Terminal 4 opened in 1986 and similarly has received only piecemeal upgrades over nearly 40 years.
- Terminal 1 infrastructure, including its baggage system, was transferred to T2 as an interim solution following T1's closure in 2015, rather than investing in purpose-designed modern systems.

⁴⁸ Heathrow Airport Limited, *Annual Report, 2014 – 2024*; Heathrow (SP) Limited, *Investor Report*, December 2025.

imperative for the operator, not an optional choice that can be indefinitely deferred while returns continue unhindered regardless of service outcomes.

42. The current regulatory model (and the associated incentives) may, in practice, encourage HAL to defer modernising older facilities. Specifically, HAL can pursue a long-term strategy that prioritises capital investment in brand new assets – maximising RAB growth – while allowing legacy infrastructure to deteriorate. Over time, as airlines and passengers experience increasing harm from substandard facilities, and an inadequate focus on resilience planning and innovation, HAL’s case for demolishing and rebuilding those older assets (the most capital-intensive option on a constrained brownfield site) becomes progressively stronger. Hence, these poor service quality outcomes are the predictable result of a regulatory model that incentivises HAL to prioritise RAB growth through capital-intensive new builds while deferring maintenance and renewal of infrastructure that is important for passenger experience.
43. The CAA cannot meet its duty to exercise its powers in a way that furthers users' interests regarding the quality of AOS without addressing this structural misalignment in incentives. This is an example of why the CAA's focus in the Working Paper on outcomes alone, without addressing the incentive structure driving those outcomes, risks pursuing reforms that cannot succeed.

Further evidence demonstrating HAL’s capex inefficiency

44. We welcome the CAA's analysis of capital efficiency, including its examination of Terminal 2 and Terminal 5 costs.⁴⁹ The Working Paper is right to conclude that there is evidence that these costs “*were relatively high*”. However, the available evidence supports a far stronger conclusion than there is “*some evidence to suggest*” inefficiency. While the CAA may not have “*to date, found direct evidence of material inefficiency*,”⁵⁰ this reflects the inherent limitations of analytical approaches,⁵¹ and shortcomings of the regulatory model, rather than providing evidence that capital was deployed efficiently. The CAA has nonetheless identified an unexplained charges gap at Heathrow, even after accounting for Heathrow-specific factors. Given that the CAA concluded that capital costs are the “*principal driver of increasing charges at Heathrow*” in the Working Paper,⁵² the inefficiency of capex must be central to explaining the gap between charges at Heathrow and other airports. HAL’s efforts to explain the gap through commissioned reports have failed to demonstrate efficiency in its capital projects.

⁴⁹ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraphs 2.50-2.60 and Appendix A, [link](#). We note that while the Working Paper focuses on our analysis of the costs of Terminal 2 and 5 compared to similar projects at peer airport in the February 2025 submission, that was not the only evidence relevant to HAL’s capex inefficiency set out in that submission – see, for example, the analysis set out in paragraphs 196 to 205 of Heathrow Reimagined, *Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*, February 2025, [link](#).

⁵⁰ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 2.61, [link](#).

⁵¹ For example, the CAA has recognised that it is “challenging to establish in retrospect what should reasonably have been considered at the time of an investment decision,” and that this “results in a high bar being set for costs to be excluded on the basis of inefficiency, even where out-turn costs are much higher than the expected budget”. CAA, *CAP 2365: Economic regulation of Heathrow Airport: H7 Final Proposals Section 2: Building Blocks*, 2022, paragraph 7.16, [link](#).

⁵² CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 2.29, [link](#).

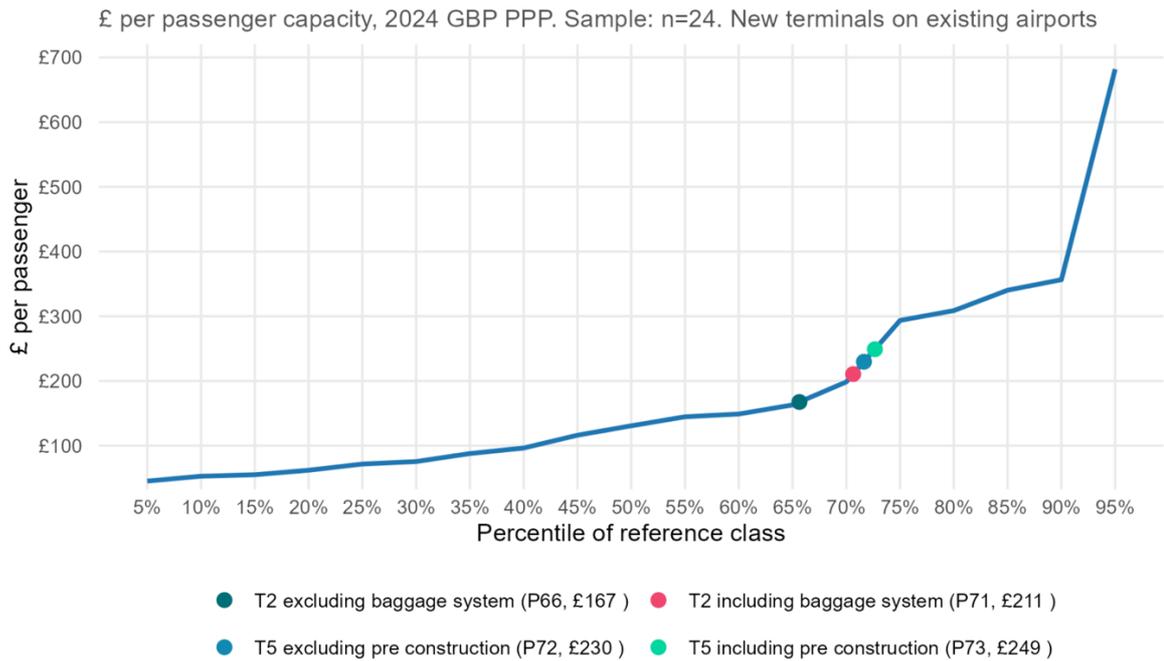
45. To provide additional evidence on this critical question, Heathrow Reimagined commissioned two independent expert analyses from leading specialists in infrastructure delivery and benchmarking:
- Oxford Global Projects (OGP),⁵³ the world's leading experts of megaproject management, which was co-founded by Prof. Bent Flyvbjerg and Alexander Budzier PhD., conducted comprehensive international benchmarking using Reference Class Forecasting (RCF) methodology (a methodology endorsed by HM Treasury's Green Book and used by infrastructure regulators globally) applied to over 100 global airport projects.
 - Dr Paul Mansell of Green Impact⁵⁴, an internationally recognised infrastructure delivery expert with significant senior advisory roles for HM Government, including direct advice on HS2, Smart Meters, and other major UK programmes, who undertook an independent assessment of HAL's capital governance and delivery performance.
46. OGP's report provides quantitative evidence of the cost of HAL's capex projects relative to international peers. As detailed in its report,⁵⁵ OGP applied RCF to position HAL's projects within the empirical cost distributions of comparable airport assets worldwide. The analysis controls for variables outside of airports' control, including local input costs. The analysis provides compelling evidence of HAL's capital inefficiency, and its findings are consistent and stark:
- **Terminal buildings:** T2 and T5 (including baggage systems) sit at the 70th-90th percentiles on all three metrics – cost per m², cost per gate, and cost per passenger capacity. When the comparison is restricted to brownfield terminal expansions at existing hub airports (the most contextually relevant subset), both terminals move to approximately the 91st percentile, meaning roughly nine out of ten comparable global projects delivered at lower unit cost, including those with flagship design ambitions and/or with site-specific requirements such as seismic resilience and redundancies.

⁵³ Oxford Global Projects was founded by Professor Bent Flyvbjerg and Alexander Budzier, PhD, they are the world's leading experts on megaproject management with the most-cited scholars on megaprojects worldwide and over years advising government and business, including using the largest high-quality datasets on project performance in the world.

⁵⁴ Dr Paul Mansell is one of only a handful of advisors appointed by the UK Government for the highest levels of independent assurance. He has led over 90 reviews for the Infrastructure and Projects Authority (now part of NISTA) for projects typically over £1bn and was pivotal in reporting to Cabinet Office, DfT and HMT the HS2 cost escalation. Paul worked with Department for Transport on establishing its Portfolio Office when Reference Class Forecasting (as used by Oxford Global Projects) was first introduced.

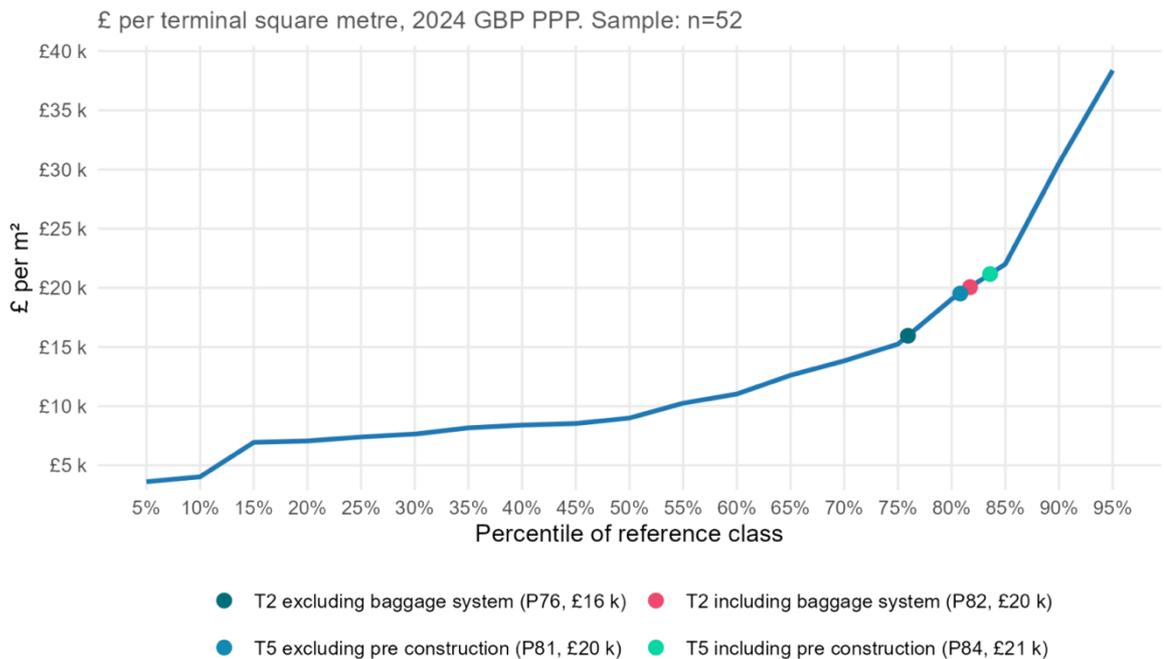
⁵⁵ Oxford Global Projects, *Heathrow Benchmark Report*, November 2025.

Figure 2: OGP analysis, £ per passenger capacity, 2024 GBP PPP



Source: OGP, Heathrow Benchmark Report, 2025.

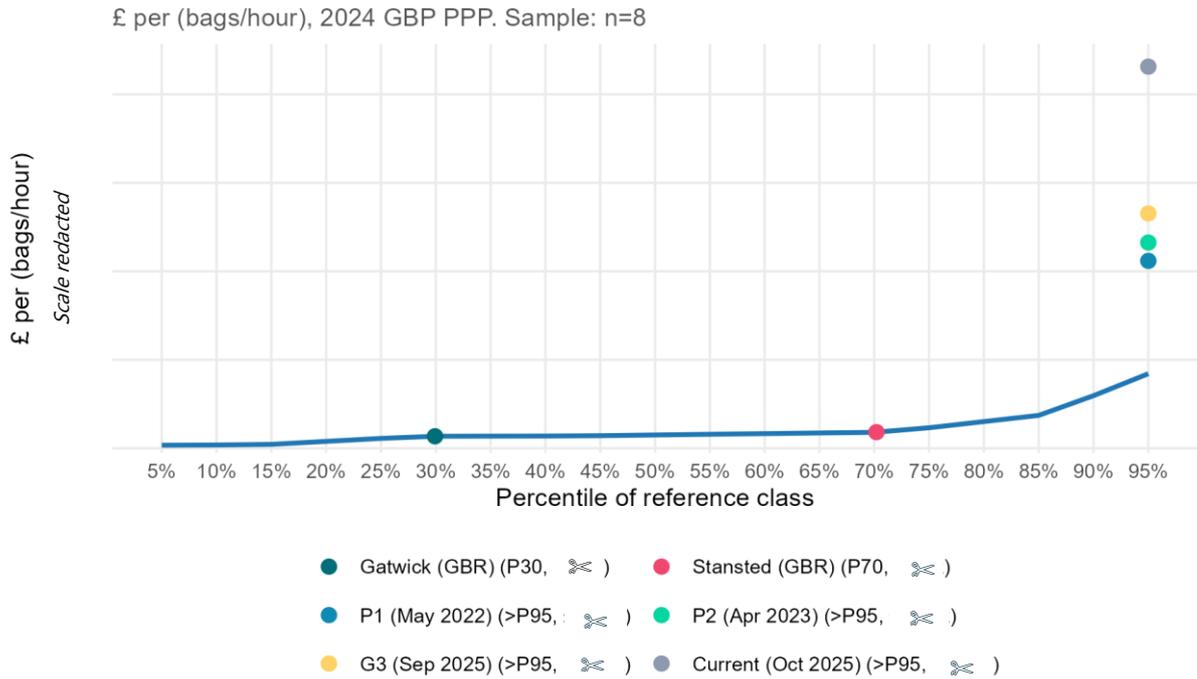
Figure 3: OGP analysis, £ per terminal square metre, 2024 GBP PPP



Source: OGP, Heathrow Benchmark Report, 2025.

- Baggage handling systems:** T2 and T3 baggage handling systems are extreme outliers above the 95th percentile, with unit costs per bag throughput 10-20 times higher than other UK airport systems, including Gatwick and Stansted. Because these airports operate in the identical construction cost environment – same labour markets and material costs, same construction regulations – this extreme premium cannot be explained by UK-specific geographic or cost factors, and is instead a consequence of the regulatory regime.

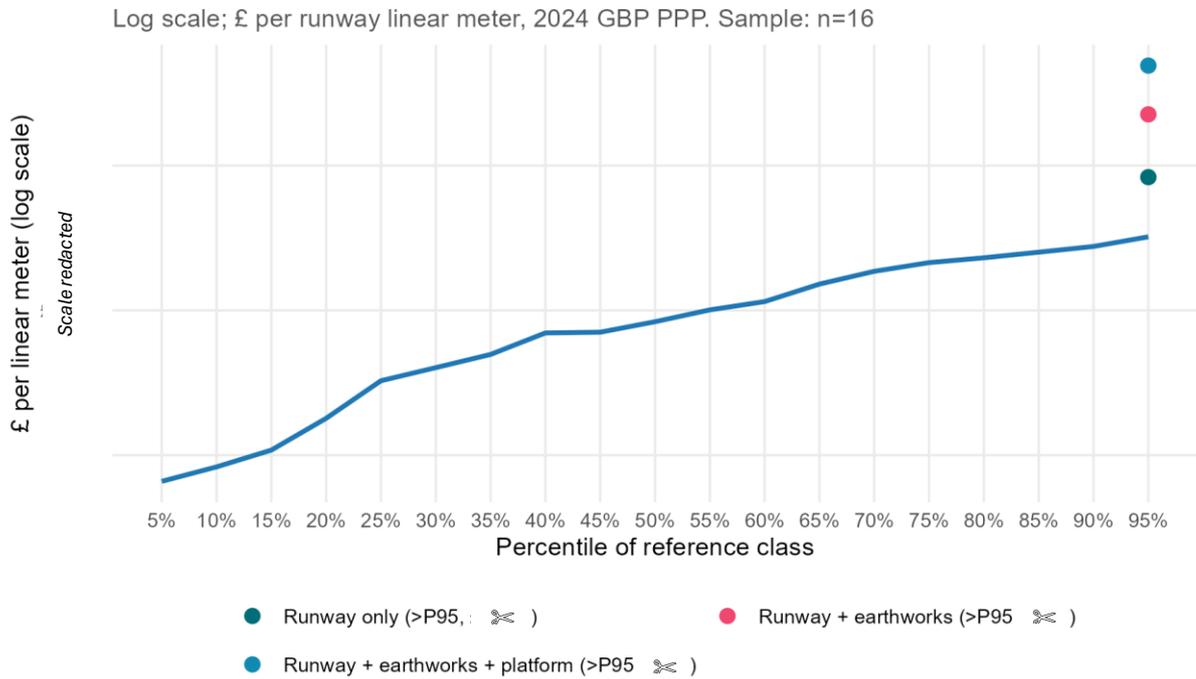
Figure 4: OGP analysis, baggage cost per throughput, 2024 GBP PPP



Source: OGP, Heathrow Benchmark Report, 2025.

- Scale efficiency:** Econometric analysis shows that large terminals globally benefit from economies of scale, with costs rising sub-linearly as project size increases. Heathrow's terminals should therefore be cheaper per unit than smaller comparators – yet they sit significantly above the fitted cost curve for their size. This means HAL's cost premium cannot be explained by scale, complexity, or ambition – it reflects delivery inefficiency. When airports of comparable or smaller size deliver at P50-P60 costs, HAL's P70-P90 position reveals systematic problems in project efficiency.

Figure 5: OGP analysis, cost per runway length, 2024 GBP PPP



Source: OGP, Heathrow Benchmark Report, 2025

- **Structural pattern:** The cost premium is consistent across every asset type examined (terminals, baggage systems, runways, car parks) and persists across different scope metrics. OGP concludes this “points to a structural inefficiency in project planning and delivery rather than to contextual cost conditions.”
47. These findings corroborate the CAA’s analysis, and those produced previously by Heathrow Reimagined, by using a large international dataset and an empirically robust methodology. This strengthens the conclusion that capital efficiency problems at Heathrow are structural, systemic, and ongoing.
 48. The Mansell Report’s assessment identifies persistent governance and delivery problems, supporting and strengthening the CAA’s findings, including:⁵⁶
 - Recent major projects show significant cost escalations ranging from 50% to nearly 400%, including the Main Baggage Tunnel, Cargo Tunnel, and T2 Baggage system.
 - Current governance processes generate extensive documentation but fail to provide airlines with useful information to inform decisions, or focus scrutiny where risk is concentrated. Airlines lack the portfolio-level visibility, timely information, or decision-making authority needed to challenge HAL’s proposals or prioritise investments effectively. This information asymmetry mirrors problems identified in HS2 and the Smart Meters programme, where governance generated extensive paperwork without preventing significant cost overruns.

⁵⁶ Dr Paul Mansell of Green Impact, *Independent Assurance of Governance for Heathrow Airport’s Expanding Capital Expenditure Plans*, December 2025.

- The problems the CAA identified in T2 and T5 are not confined to historical periods – they persist in current H7 projects, suggesting that the governance reforms introduced in H7 have not fully addressed the underlying issues.
 - HAL's governance systems struggle with today's portfolio of approximately 150 projects. H8 plans to scale to 450 projects. The Mansell Report warns that *“the central question is whether the existing cracks in capital delivery will widen and lead to more serious failures as the scale and ambition of projects increase,”* concluding that without fundamental governance reform, the system risks being overwhelmed.
49. We share the CAA's concern about the forward-looking challenges associated with HAL's H8 Business Plan.⁵⁷ HAL's Business Plan indicates that H8 capex spend will be c.£10 billion (up from £4.5 billion in H7),⁵⁸ with the total number of projects tripling.⁵⁹ This unprecedented scale-up is set to take place before capacity expansion begins. The Mansell Report concludes that, given HAL's track record of cost escalations and delivery challenges, there is a pressing concern about whether HAL can successfully manage this complexity or whether existing problems will intensify into more serious failures. We note that HAL has already flagged to airlines, via its 

Steer's report for HAL is fundamentally flawed and should not be relied upon

50. The Working Paper cites a report by Steer, commissioned by HAL, as counter-evidence to concerns about capital efficiency. The CAA notes that *“a report by Steer commissioned by HAL presents examples of airport projects at JFK, Manchester and Newark airports that appear to be more expensive on a pounds per square metre basis”* than Terminal 5 and Terminal 2.⁶⁰ Any reliance on the Steer report is misplaced and it should be disregarded entirely. As we set out in detail in August 2025, the Steer report is fundamentally flawed in ways that systematically favour HAL. Independent academic analysis by OGP corroborates these concerns and identifies the same methodological weaknesses across HAL's commissioned evidence base.^{61,62}
51. The core issues with Steer's analysis are:⁶³
- **Metric selection masks real inefficiency:** The report uses capital expenditure per square metre (£/m²) as the sole metric. This systematically rewards space-inefficient designs – a terminal could be extremely expensive per passenger but appear reasonable per m² if built with excessive space.⁶⁴ When the cost-per-passenger metric is used instead,

⁵⁷ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraphs 2.67-2.68, [link](#).
⁵⁸ Heathrow Airport Limited, *Heathrow's H8 Business Plan: 2027-2031*, 2025, page 115, [link](#).
⁵⁹ Heathrow Airport Limited, *Heathrow's H8 Business Plan: 2027-2031*, 2025, pages 114-115, [link](#).
⁶⁰ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 2.54, [link](#).
⁶¹ Oxford Global Projects, *Heathrow Airport Limited: Technical Review and Critique of Commissioned Benchmarking Studies*, November 2025.
⁶² Our thoughts are also set out in detail in Heathrow Reimagined, *Fundamental reform of Heathrow: Case for change - Presentation of why HAL's claims, arguments and commissioned reports should be disregarded*, August 2025, [link](#).
⁶³ Two additional issues we identified in our August 2025 submission compound these concerns: HAL explicitly requested that JFK Terminal One be added to the sample after discussions with Steer, demonstrating direct sponsor influence over comparator selection; and despite analysing global terminal projects, the Steer report excludes T2 and T5 themselves from the comparative sample – a surprising omission given these are precisely the projects whose efficiency is in question.
⁶⁴ A terminal that costs twice as much per passenger but happens to have generous retail space, wide corridors, or extensive back-of-house areas will appear efficient on a £/m² basis while delivering poor value to the passengers funding the investment through charges.

Terminal 2 and Terminal 5 emerge as global outliers, delivering the most expensive terminal infrastructure per passenger.

- **Sample selection lacks transparency and representativeness:** The report is based on only 20 terminal projects globally – insufficient for robust benchmarking. No published inclusion criteria are provided, and the dataset is neither geographically representative nor balanced in terms of project maturity. The sample over-represents mature European markets while omitting major international terminals, and combines design-stage estimates with completed projects, which introduces optimism bias.
- **Lacks transparency on adjustments:** The sample combines design estimates with outturn costs, and refurbishment with new builds, but Steer provides insufficient detail on how these differences were adjusted for in the analysis. Projects including baggage systems, piers, and extensive infrastructure are benchmarked against simpler buildings without disclosed adjustment methodology.
- **Relies solely on Arcadis index:** Like KPMG's charges analysis, Steer applies construction cost adjustments based exclusively on the Arcadis 2024 International Construction Costs index, without sensitivity analysis or consideration of alternative indices. As discussed below, this choice produces materially more HAL-favourable adjustments than alternative methodologies.

52. As covered in paragraph 25, OGP's analysis demonstrates these are not isolated issues specific to Steer – they represent a systematic pattern across HAL-commissioned benchmarking studies. Steer, like KPMG, relied on small, selective samples with undisclosed selection criteria; applied cumulative uplifts that overlap in what they measure; used inflation sequencing that artificially raises comparator costs; and relied exclusively on Arcadis ICC without testing sensitivity to alternative indices. OGP concludes that these studies “*share methodological weaknesses that reduce the reliability*” of HAL's cost efficiency case and that “*the evidence suffers from selective data use, weak normalisation and opaque adjustment processes that cumulatively distort the findings.*”
53. Heathrow Reimagined considers this evidence (i.e. the combination of the OGP analysis and Mansell Report, plus the weaknesses of HAL's commissioned analysis covered in the Working Paper) contributes to a strong overall case for concluding that capex inefficiency is a major driver of HAL's very high charges and why they have increased so sharply compared to HAL's peers over the last 20 years. Indeed, **Heathrow Reimagined considers that flaws in the regulatory regime (and the incentives it creates) and the resulting capital inefficiency are the primary drivers in explaining the 'charges gap'⁶⁵ once factors outside HAL's control are taken into account.**

The Working Paper does not consider operating efficiency and our concerns regarding HAL's commercial activities

54. The CAA notes that “*operating costs and commercial revenues have largely offset each other*” over time.⁶⁶ This appears to be the basis for not assessing HAL's historical operating efficiency or the implications of its harmful incentives in relation to commercial activities. There is absolutely no conceptual basis why operating costs and commercial revenues should track

⁶⁵ CAA, CAP 3195: Working paper on regulatory models, 2025, paragraphs 2.40-2.41, [link](#).

⁶⁶ CAA, CAP 3195: Working paper on regulatory models, 2025, paragraph 2.29, [link](#).

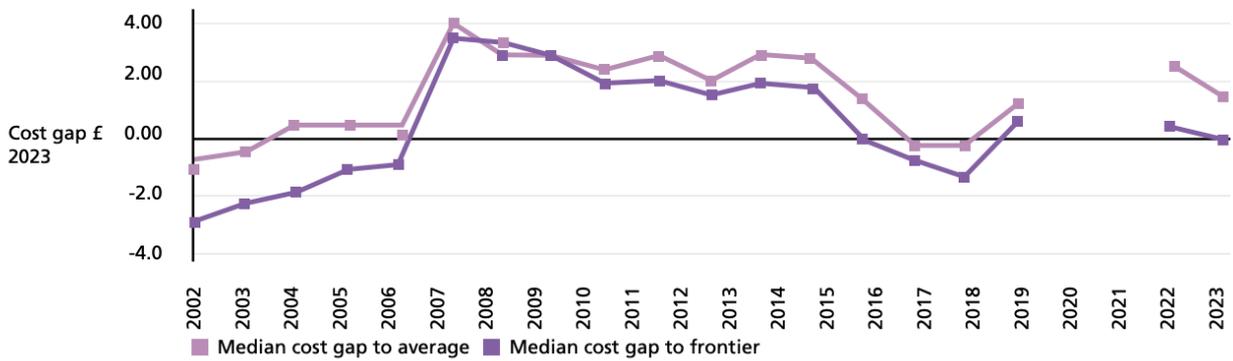
each other, and the fact that they do does not negate the need to consider HAL's performance in relation to both factors. Inefficiency in relation to operations or commercial activities could still have contributed to higher charges.

- 55. The Working Paper does not substantively assess HAL's operating efficiency performance. There is no detailed analysis of whether: HAL's operating cost base is efficient relative to peer airports; HAL's capex has driven down its operating costs; or the current regulatory model creates appropriate incentives for operational excellence. Operational excellence is central to the passenger experience and therefore the CAA's primary duty to further the interests of users by promoting economy and efficiency.
- 56. This is a notable omission, particularly given the findings of HAL's own commissioned analysis (covered in our August 2025 document).⁶⁷ In its H8 Business Plan, HAL presents the results of a KPMG operating cost efficiency benchmarking study. The study finds that, for most of the past 15 years, including since 2019, HAL's operating efficiency has been below the average airport in KPMG's sample. **HAL commissioned this study, presumably expecting it to support claims of efficiency - yet even this HAL-commissioned analysis reveals sustained below-average performance.**

Figure 6: HAL's operating cost efficiency, benchmarked by KPMG against comparators

Figure 124: Efficiency results: Median of seven cost models.

Conclusions



Source: HAL, Heathrow's H8 Business Plan: 2027 - 2031, Figure 124, p318

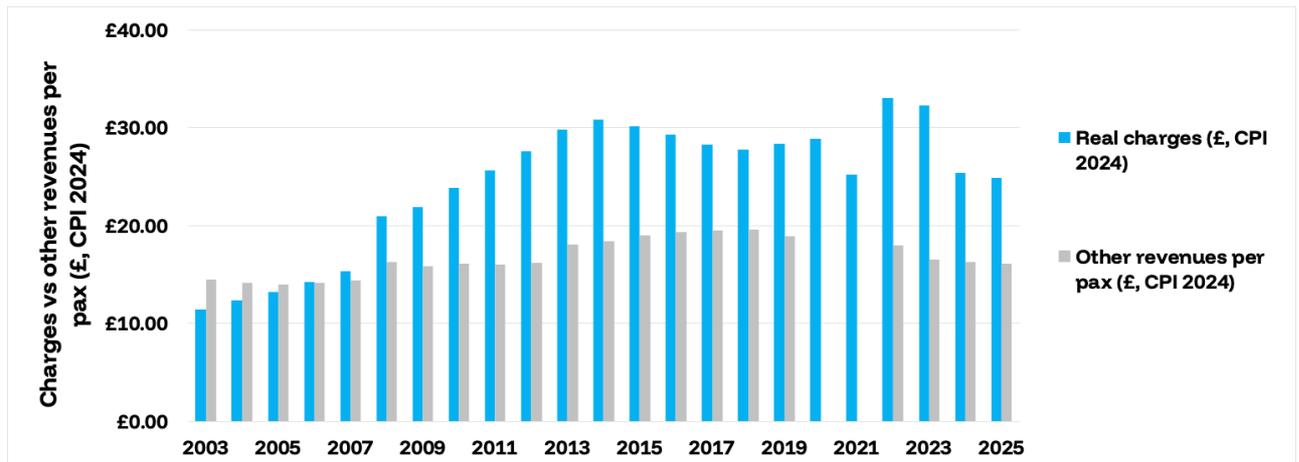
⁶⁷ Heathrow Reimagined, *Fundamental reform of Heathrow: Case for change - Presentation of why HAL's claims, arguments and commissioned reports should be disregarded*, August 2025, [link](#).

57. The level of performance with respect to costs and efficiency implied by HAL's own commissioned analysis is not good enough. It further illustrates the harmful operational efficiency incentives under the current regulatory model. The following factors compound this finding:
- HAL operates at a greater scale than most comparators, which should deliver economies of scale that drive operating costs per passenger below average, not above.
 - Below-average efficiency implies that HAL is materially worse than the most efficient airports in KPMG's sample. A well-functioning regulatory model should incentivise HAL to be a sector leader in operational efficiency, rather than consistently lagging behind the average.
 - HAL spends more capital than its peers, which should be driving innovation and operational efficiencies.
 - The pattern persists across multiple regulatory cycles, suggesting that this is a long-standing, structural issue.
 - This confirms the diagnosis in our February 2025 submission: the current application of the RAB model, alongside HAL's monopoly power, creates weak operating efficiency incentives. HAL can remain below average indefinitely without commercial consequence.
58. Operating efficiency warrants greater attention in the CAA's assessment of whether the current regulatory model adequately protects consumers. The evidence of sustained below-average efficiency performance – even in HAL's own commissioned study – suggests this is a material weakness of the current regulatory model that should inform the assessment of reform options.
59. The Working Paper does not engage with the lack of incentive for HAL to deliver NPV-positive commercial activities. Heathrow Reimagined explained in the February 2025 submission⁶⁸ that HAL's lack of incentive to ensure commercial activities are NPV positive risks consumers missing out on the benefits of the single-till. In 2003, commercial revenues per passenger represented c.60% of the costs per passenger. In 2023, it was c.35% – nearly half. Consistent with this – and the incentives set out above – the growth in aeronautical charges over time has substantially outstripped the growth in non-aeronautical revenues per passenger, to the detriment of consumers.⁶⁹

⁶⁸ Heathrow Reimagined, *Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*, February 2025, paragraph 30, [link](#).

⁶⁹ HAL's approach to commercial activities also extends to leveraging its monopoly position over on-airport businesses. Arora Group hotels on Heathrow's campus are charged approximately twice the market rate for electricity (£0.37/kWh vs £0.19-0.21/kWh at comparable off-airport hotels) and ten times the market rate for water and sewerage (£22.79/m³ vs £2.25-2.33/m³), based on Heathrow Airport Limited General Notice 01/01/2026 and Arora Group hotel utility invoices for 2026, plus off-airport comparators operating in the same geographic area (specifics about these comparators can be shared with the CAA if helpful). These multiples cannot be explained by cost-to-serve differences and demonstrate monopoly rent extraction where HAL faces no competitive constraint.

Figure 7: Charges vs other revenues per pax (£, CPI 2024)



Source: See footnote.⁷⁰

- 60. HAL’s commercial activities are largely focused on terminals and related infrastructure (e.g. car parks). These assets have the potential to generate high income while reducing airport charges. HAL generated £772 million in retail revenues in 2024. £274 million of this was generated by retail concessions, and £185 million was generated by car parking charges.⁷¹ Understanding the role that failings in the current regime play in these activities is important in the context of designing appropriate reforms that will further the interests of users.

Structural problems mean that the H7 capital governance changes are incapable of addressing the fundamental problems with the current regulatory regime

- 61. The evidence on capex inefficiency shows how the current model operates in practice: HAL’s incentive to maximise the RAB drives inefficiently scoped projects, gold-plating and cost escalation (harmful incentives), while information asymmetries and weak governance prevent effective challenge (ineffective regulation), producing the systematic capital inefficiency borne out by the evidence (poor outcomes).
- 62. The CAA sought to improve capital governance processes in H7, including through the introduction of ex ante capex incentives and the Delivery Obligations framework.⁷² However, our experience of the H7 framework in practice, supported by independent expert analysis, suggests that these changes face fundamental structural challenges that limit their effectiveness – particularly in the context of major capital programmes. In short, the changes

⁷⁰ CAA, Economic Regulation of BAA London Airports 2003 - 2008, 2003; CAA, Economic Regulation of Heathrow and Gatwick Airports 2008 – 2013, 2008; CAA, Economic regulation at Heathrow from April 2014: final proposals, 2013; CAA, Economic regulation of Heathrow Airport: H7 Final Decision – Summary, 2023; CAA, H7 Price Control Model; CAA, A consultation on extending by one year the current price regulation at Heathrow and Gatwick airports, 2011; Heathrow Airport, Airport Charges for 2019 Consultation Document, 2018; CAA, Economic regulation of Heathrow Airport Limited from January 2020: notice of licence modifications, 2019; CAA, Statement on Heathrow Airport Interim price cap, 2021; CAA, Economic Regulation of Heathrow Airport Limited: setting a holding price cap for 2023, 2022; CAA, Regulator proposes changes to Heathrow Airport Limited’s airline charges in response to CMA appeal, 2024; ONS, RPI All Items Index, 2024; ONS, CPI All Items Index, 2024; OBR, March 2024 Economic and fiscal outlook – detailed forecast tables: economy, 2024. Note: no data available for ‘Other revenues’ in 2013 so midpoint between 2012 and 2014 taken.

⁷¹ Heathrow Airport Limited, *Annual Report*, 2024

⁷² CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraphs 2.63-2.66, [link](#).

made in H7 are not capable of addressing the fundamental problems we set out in our February 2025 submission and above.

63. As set out in a presentation to the CAA in December 2025, the current capex governance processes do not provide effective oversight and challenge to HAL's capex decision-making, compounding the failure of the regulatory model that creates incentives acting against users' interests. The governance process suffers from: narrow scope (it does not cover long-term capital planning, which is critical to ensuring charges remain affordable over time); inadequate accountability mechanisms (including inadequate sanctions); processes that create information asymmetry and quality of information concerns; and HAL's control over all aspects of the capex lifecycle and governance, which allows it to manage processes to its own benefit.
64. In our view,⁷³ the H7 governance reforms (and indeed any similar incremental changes to the current regulatory regime) cannot resolve the underlying problems because they do not adequately address HAL's harmful incentives or the structural imbalances that prevent effective scrutiny. The current capital governance regime suffers from five fundamental and interdependent failures:
- **HAL has strong incentives to actively undermine the effectiveness of capital governance.** The *ex ante* capex incentives as part of the RAB-based model mean that HAL benefits from inflating cost baselines, extending project timelines (which reduces delay penalties), and managing delivery obligations to its advantage (which limits accountability for poor performance). The CAA designed the incentive framework to address these issues, yet HAL has consistently challenged and sought to water down governance arrangements, including through its H7 appeal, and it has every incentive to frustrate airline scrutiny. We also note the recent comments in HAL's H8 Business Plan that seek to further weaken aspects of the H7 changes (e.g. Delivery Obligations) introduced by the CAA and, as cited in the Working Paper, longer price control periods with higher premiums for delivery risk.
 - **The regime focuses primarily on whether infrastructure is delivered to specification (outputs) rather than on whether investments deliver the user benefits (e.g. reliability, capacity, or service improvements) and value for money that justified the expenditure (outcomes).** While the CAA's guidance recognises a potential role for outcome-based DOs, in practice, these require HAL's agreement⁷⁴ and are not the standard approach as set out in the relevant DO guidance. HAL can meet all DO criteria while users miss out on the experience improvements they are paying for. The narrow focus on outputs harms passengers in the longer term.
 - **The regime demands significant time and expertise but provides poor information for effective decision making.** Airlines are required to make a go/no-go decision on projects at Gateway 3, with responsibility for ensuring that capex furthers consumer interests effectively delegated to them by the CAA.⁷⁵ However, there are significant information asymmetries. HAL controls all the data, models, and technical resources needed to define baselines and delivery standards, and evaluate financial and operational impacts. HAL can also control the timing and flow of this selective information to its own advantage. The rapid growth in number and scale of projects due for delivery by HAL – as identified by Dr

⁷³ As presented to the CAA in December 2025.

⁷⁴ We note that HAL made significant arguments during the H7 appeal to push back on outcome-based DOs.

⁷⁵ This is exemplified by the examples presented to the CAA in December to do with the T2 Baggage System and Compass Centre.

Mansell – exacerbates the challenge. Most critically, while airlines have project approval rights, their role remains largely consultative – HAL retains ultimate control over portfolio composition, project scoping, and delivery approaches, and it can manage the approvals process to engineer the results it wants.⁷⁶

- **While the Independent Fund Surveyor (IFS) provides useful assurance input, it does not bridge the structural gap between Heathrow and the airline community.** The IFS is jointly appointed and operates within a defined and limited remit, which constrains both its independence in practice and its ability to challenge outcomes. The IFS’ substantive role is focused on the pre-investment decision stages (primarily Gates 2-3), and it has no authority to prevent Heathrow progressing a project, even where material risks or concerns are identified. Its assessments are limited to reviewing the credibility and internal consistency of Heathrow’s cost estimates and assumptions, rather than testing whether the proposed solution represents the most cost-efficient or value-for-money outcome. Critically, the IFS does not benchmark Heathrow’s costs against comparable projects elsewhere, does not assess alternative delivery or scope options, and does not undertake project-by-project value-for-money analysis from an airline or consumer perspective.⁷⁷ These forms of cost efficiency challenge are explicitly outside its scope. As with other stakeholders, the IFS remains reliant on information provided by Heathrow and cannot independently test options or costs that are not presented. The result is an assurance function that supports internal confidence but lacks the scope, tools, and structural position to deliver robust external cost challenge or to mitigate information asymmetry in line with the licence’s efficiency and consumer protection objectives.
- **The baseline change process creates opportunities for HAL to adjust project parameters after Gateway 3 approval.** The regime allows HAL to use “reactive changes” to re-baseline based on predefined exclusions and assumptions, some broadly defined, without airline permission. While airlines are provided with some visibility through governance forums, this requires them to robustly challenge HAL, but airlines face the systemic disadvantages described above. Experience from other regulated sectors, including in telecoms, demonstrates that such processes can be systematically misused by substantial market power operators that hold persistent information advantages over customers.⁷⁸

These five failures (HAL’s incentives to undermine governance; focus on outputs not outcomes; poor information for effective decision-making; the IFS lacking scope to deliver effective cost challenge; and baseline changes enabling post-Gateway 3 adjustments) are inherent to the current regime design, rather than implementation issues that can be resolved through incremental adjustments.

Experience on a variety of projects has seen costs and timeframes escalate. Estimates rise from the moment they are set out in the Business Plan for the price control period and on a significant number of projects rise significantly after the G3 gateway, when costs are added to the RAB, with negligible disallowance. The refurbishment of the main tunnel and cargo tunnel are over a decade late and hundreds of millions over the original estimate. Proposals for essential car park refurbishments have escalated in scope and cost and delivery of pre-

⁷⁶ For example, see the T2 Baggage experience set out in our December 2025 presentation.

⁷⁷ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 4.28, [link](#).

⁷⁸ See the ‘Deemed Consent’ example set out in our December 2025 presentation.

conditioned air at aircraft stands has taken years to arrive at a solution comparable in cost and capability of other airports.

These examples demonstrate that airlines have limited control on out-of-control projects but still bear the consequences. Consumers suffer poor outcomes as a result.

65. Other experience from recent H7 projects further confirms these problems are not theoretical. In our presentation to the CAA in December 2025, we detailed specific examples:
- **T2 Baggage System:** Airlines were effectively forced to approve major expenditure despite serious concerns about cost, timeline, and performance accountability – because HAL had engineered a situation where the consequences of non-approval (contractual penalties, lost manufacturing slots, prolonged use of failing T1 system) were unacceptable. The final G3 pack was delivered to airlines after approval had been given.
 - **Compass Centre acquisition:** Airlines were given two weeks to review a major investment decision not included in H7 plans, believed the price was approximately twice market value, but approved it because HAL presented this as now-or-never, and the alternative was operational chaos from forced relocation of critical functions.

These examples demonstrate that airlines' theoretical right to reject projects does not translate into genuine ability to protect consumer interests when HAL controls timing, information, and the consequences of rejection. Consumers suffer poor outcomes as a result.

66. In our view, this evidence further strengthens the CAA's finding that reform is warranted (indeed, it is unavoidable) and demonstrates why it must address the underlying incentive structure and not solely look to refine existing processes within the current model. The capital inefficiency problems the Working Paper identifies are not confined to historical periods nor will they be resolved by H7 reforms – they are ongoing, structural, and will intensify under H8 and expansion unless the regulatory model is fundamentally reformed. Addressing these problems requires fundamental changes in three areas:
- Resetting incentives through greater use of competition.
 - Strengthening capital governance where regulation remains necessary through genuine airline decision-making power and enforcement of delivery against consumer outcomes.
 - Targeted interim changes to protect consumers until fundamental reform is delivered.

Forward-looking challenges underline the urgency of reform

67. We agree with the CAA's assessment that forward-looking challenges strengthen the case for considering reform.⁷⁹ The Working Paper is right to highlight that future price control periods will be characterised by significant new investment and a scale of financial commitments that will challenge the resilience of the business. It is right to recognise that major capital programmes of this scale pose particular regulatory challenges, including complexity and potential impacts on consumer outcomes, including charges.
68. These challenges create further scope for HAL to use its systemic advantages (including information asymmetries) to leverage the regulatory system to its advantage. The CAA needs

⁷⁹ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraphs 2.67-2.71, [link](#).

to ensure that the reformed regulatory regime is capable of properly protecting consumers from such risks. However, it also needs to be careful that such factors are not used inappropriately by HAL as an excuse for transferring the consequences of its failing to adequately manage such factors to consumers. For HAL to have strong incentives to properly manage capex activities, it must face the consequences of its own failings.

69. The scale and immediacy of these challenges reinforce the urgency of fundamental reform.
- HAL's H8 Business Plan proposes a substantial increase in average charges before taking account of spend on capacity expansion, as set out above.
 - HAL's masterplan for Terminal 3 replacement (which includes, but is not limited to, Terminal 2 expansion) envisages spending £15 billion to provide capacity for 35 million passengers per year⁸⁰ – implying a cost of approximately £428 per passenger across the programme.⁸¹ Within this programme, the proposed Terminal 2 expansion alone would cost £6.8 billion but deliver capacity for only 2 million additional passengers – an incremental cost of approximately £3,400 per additional passenger.⁸² This is over 20 times the per-passenger cost of T2's original construction and far exceeds international benchmarks. The evidence provided by Dr Mansell⁸³ suggests the cost is also likely to increase significantly as the project matures. To put this into context, HAL spent £6.8 billion (real, CPI 2024) on Terminal 5⁸⁴ and £3.3 billion (real, CPI 2024) on Terminal 2⁸⁵ – both were expensive by international standards and contributed to the major increases in HAL's charges over the last 20 years. The masterplan does not include a replacement for Terminal 4 (which would be 60 years old by the end of the masterplan) nor the associated road and railway costs – highlighting the absence of coherent long-term masterplanning despite decades of high capital expenditure.
70. The timing of reform is critical. Once expansion commitments are made, changing course becomes prohibitively costly – decisions made at the outset lock in costs and performance for the long-term. Every year of delay under the current model increases the likelihood that the CAA commits passengers to funding tens of billions in expansion capital through a regulatory

⁸⁰ Based on a document from Heathrow, presented to the Heathrow Future Portfolio Group during August 2024. The £15 billion masterplan involves replacing Terminal 3 and expanding Terminal 2 to accommodate 35 million passengers per year – comprising the existing c.20 million passenger capacity in Terminal 3 (as set out in documents shared by HAL with the airline community), plus an additional 15 million passengers in new capacity. The plans set out what appears to be a significant upgrade and expansion of Terminal 2, along with a brand new baggage handling system for Terminal 2 and its satellite buildings. The plans also include: demolition of old buildings (Terminal 1 and parts of Terminal 3) and rerouting of services; transport improvements including new road layouts, a temporary bus station, and better access to maintenance areas; new infrastructure including four new fuel tanks and utility upgrades to support the expanded terminals; and car park improvements around Terminal 4 and better road access.

⁸¹ Using HAL's own capacity figures of 20 million passengers per year for Terminal 2 and 33.5 million passengers per year for Terminal 5, the current proposed masterplan appears to be much more expensive than either Terminal 2 (£165) or Terminal 5 (£203) on an approximate per passenger basis.

⁸² CAA, *CAP 3195: Working paper on regulatory models, 2025*, paragraph 2.60, [link](#). The Working Paper states that Terminal 2 expansion would cost £6.8 billion to serve 22 million passengers. However, Terminal 2 currently handles approximately 20 million passengers per year. The £6.8 billion investment therefore delivers only 2 million passengers of additional capacity, implying an incremental cost of £3,400 per additional passenger – not the £310 figure that results from dividing total cost by total capacity. This incremental cost comparison is the economically relevant metric for assessing value for money of new investment.

⁸³ Dr Paul Mansell of Green Impact, *Independent Assurance of Governance for Heathrow Airport's Expanding Capital Expenditure Plans, 2025*.

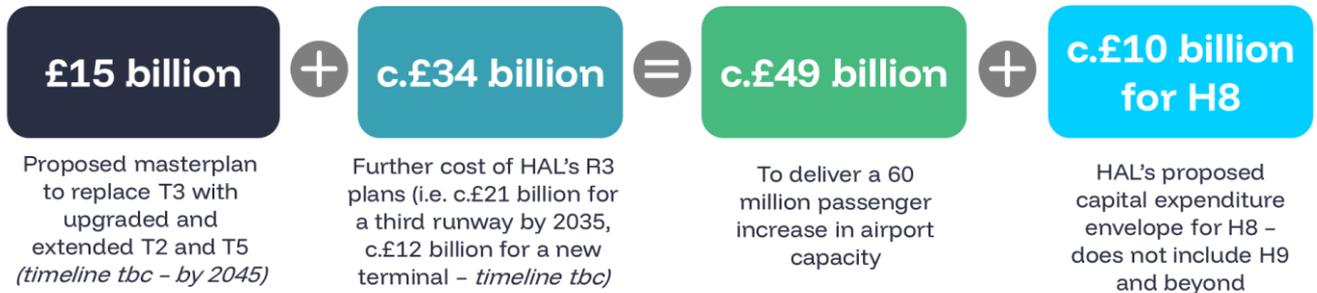
⁸⁴ Parliament UK, House of Commons Transport Committee, *The opening of Heathrow Terminal 5, 2008*, [link](#); ONS, *CPI All Items Index, 2024*.

⁸⁵ Airport Technology, *London Heathrow Airport Terminal 2 Redevelopment, 2023*, [link](#). ONS, *CPI All Items Index, 2024*.

approach that has demonstrably failed to control costs. The time to reform is before expansion, not after.

71. Critically, HAL’s central cost estimate for the expansion programme is at least £49 billion (excluding c.£10 billion proposed during H8, future control periods, and any further surface access developments that HAL has said it intends to promote and Government has been clear it will not fund). This compares to a RAB today of around £21 billion.⁸⁶ Charges will inevitably increase significantly beyond the very substantial increase HAL has proposed for H8, raising serious affordability concerns.

Figure 8: Upcoming capital expenditure at Heathrow



Source: Heathrow Airport Limited, *Heathrow’s H8 Business Plan: 2027-2031, 2025*; Heathrow, *Our proposal for expanding Heathrow, 2025*.

72. Expansion can only deliver consumer and economic benefits if airlines invest in the additional services and connectivity needed to utilise new capacity. Unaffordable expansion significantly damages airlines’ incentives to invest. The significant demand risk associated with unaffordable expansion worsens the business case for airlines to invest in new capacity at Heathrow. If airlines do not invest the billions of pounds on aircraft to fill expansion capacity at Heathrow, charges per passenger will rise further due to RAB cost recovery mechanics. This would trigger a self-reinforcing contraction – higher charges, weaker demand, capacity withdrawal, falling revenues, and financeability deterioration. The regulatory model must prevent this outcome by ensuring expansion is delivered efficiently and affordably.
73. The question is not, therefore, whether the UK needs additional hub capacity, but whether expansion can be delivered in an affordable way that makes Heathrow a more (not less) attractive airport for the passengers and airlines that serve it. Under the current regulatory model, where HAL earns returns on inflated costs regardless of efficiency, Heathrow Reimagined is very concerned that expansion will be so expensive that it risks defeating its own economic purpose.

Concluding remarks

74. We strongly support the CAA’s conclusion that there is sufficient evidence to warrant revisiting the current regulatory model.⁸⁷ However, the Working Paper understates the strength of the case for change, thereby risking that the CAA takes insufficient action. The available evidence

⁸⁶ Heathrow (SP) Limited, *Investor Report*, December 2025, [link](#).

⁸⁷ CAA, *CAP 3195: Working paper on regulatory models, 2025*, paragraph 1.13, [link](#).

consistently demonstrates that fundamental reform of the current regulatory regime is necessary and urgent:

- Poor outcomes are not incidental nor confined to historical periods – they result from structural features of the current regulatory model that create harmful incentives and prevent effective scrutiny.
 - The H7 reforms have not addressed – and are not capable of meaningfully addressing – these underlying structural problems, and recent experience demonstrates that inefficiency and governance weaknesses persist.
 - The unprecedented capex scale-up planned for H8, combined with the extortionate expansion programme, means these problems will intensify unless fundamental reform occurs soon.
 - The characteristics of major capital programmes that the CAA correctly identifies as challenging do not justify accepting the current approach – they strengthen the case for structural reforms that other regulators have successfully employed.
75. The reforms required must be comprehensive rather than incremental. The CAA cannot rely on further tweaks to the capex governance processes or service quality metrics within the existing framework, but instead requires a package of reforms that:
- Realigns HAL's incentives through competition wherever possible, enabling the market to reveal efficient costs and deliver better outcomes for consumers.
 - Fundamentally strengthens the ability of the CAA and relevant stakeholders to police HAL's behaviour where regulation remains necessary; through transparency, independent oversight, effective accountability mechanisms, and genuine decision-making influence over capital investments.
 - Explicitly addresses the structural weaknesses that enable HAL to act on harmful incentives, including information asymmetries, ineffective oversight and scrutiny, and outcome-focused rather than output-focused accountability.

C. FRAMEWORK FOR EVALUATION

Introduction

This section sets out Heathrow Reimagined's views on the CAA's proposed framework for evaluation. It addresses the following:⁸⁸

- The CAA's proposed broad approach of using the framework to assess alternative regulatory models.
- Whether the proposed framework is complete and appropriately reflects the CAA's statutory duties.
- The CAA's proposed use of qualitative assessment, supported, where practicable, by quantitative analysis.
- How the CAA should weight the evaluation elements to ensure its assessment is guided by its statutory duties, particularly where trade-offs exist between short-term implementation practicality and long-term consumer outcomes.

76. The evaluation framework for assessing regulatory models is critical. Getting it right determines whether the CAA's reform process will comprehensively address the structural failures identified in Section B – HAL's harmful efficiency incentives, systemic capital inefficiency, and declining service quality – or whether it will prioritise short-term implementation convenience over fundamental reform and improved consumer outcomes.

77. Heathrow Reimagined agrees that the CAA's evaluation must be guided by its statutory duties, and that the framework must identify reforms that enable the CAA to fulfil its primary duty. As we set out in this section:

- **The CAA's statutory duties must guide the evaluation.** As an independent regulator, the CAA's assessment of reform options must place primacy on the pursuit of its statutory duties in relation to the regulation of operators of dominant airport, in particular its primary duty to carry out its functions in a manner which it considers will further the interests of users of air transport services, regarding the range, availability, continuity, cost and quality of AOS and, where appropriate, promote competition in the provision of AOS. Where the Government's objectives conflict with the CAA's statutory duties, the CAA must prioritise the pursuit of its duties.
- **Evaluation criteria must prioritise elements that address structural failures.** The CAA's assessment must focus on elements that will address the fundamental problems with the current regulatory model – namely, the promotion of efficiency (Element B), effective competition (Element E), appropriate service quality (Element F), and affordability (a new Element G). These elements must be weighted more heavily than criteria focused on short-term implementation considerations that do not address the CAA's duties.
- **Affordability is critical to realising expansion benefits.** Expansion can only deliver consumer and economic benefits if it is affordable for airlines, enabling them to invest in

⁸⁸ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 3.47, [link](#).

the connectivity growth needed to utilise new capacity. If expansion is unaffordable, it triggers a self-reinforcing contraction that undermines the economic growth case and harms existing passengers. The CAA must ensure the regulatory model has mechanisms to take affordability into account over the long-term. The Working Paper's evaluation criteria do not explicitly include affordability. Given its clear importance, we propose adding affordability as Element G.

- **We provide detailed views on each evaluation element.** We set out specific comments on how the CAA should consider each of the six evaluation elements identified in the Working Paper (Elements A-F), and explain why affordability must be added as Element G.

The CAA's statutory duties must guide its assessment of regulatory models

78. As the Working Paper sets out,⁸⁹ the CAA's work on economic regulation of airports, including this review, is governed by its statutory duties as set out in CAA12.⁹⁰ The CAA's primary duty is to carry out its functions in respect of the regulation of operators of dominant airports in a manner which it considers will "*further the interests of users of air transport services regarding the range, availability, continuity, cost and quality of airport operation services*". It must also, where appropriate, carry out these functions "*in a manner which it considers will promote competition in the provision of airport operation services*". The CAA also has 'secondary' duties, requiring it to have regard – among other things – to the need to:
- secure that each holder of a licence is able to finance its provision of AOS in the area for which the licence is granted;
 - secure that all reasonable demands for AOS are met; and
 - promote economy and efficiency on the part of each holder of a licence in its provision of AOS at the airport to which the licence relates.⁹¹
79. The Government has set out a number of objectives for capacity expansion at Heathrow, including a timetable, and tests in relation to climate change, noise, air quality and contributing to economic growth. Heathrow Reimagined supports the efficient, affordable and timely delivery of new capacity at Heathrow. The CAA may wish to consider the Government's objectives for expansion, but, as an independent regulator, the CAA's assessment of reform options must place primacy on the pursuit of its statutory duties, in particular its primary duty as outlined above.⁹² To the extent that there is any conflict between the Government's objectives and the CAA's statutory duties, the CAA must prioritise the pursuit of its duties. However, pursuing fundamental reform to ensure efficiency and affordability directly supports

⁸⁹ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 3.4, [link](#).

⁹⁰ Heathrow Reimagined, *Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*, February 2025, [link](#).

⁹¹ See our February 2025 submission for a more detailed discussion of the CAA's statutory duties.

⁹² The Secretary of State's duties under CAA12 section 2 mirror the CAA's duties under section 1, including the primary duty to further users' interests regarding range, availability, continuity, cost and quality of AOS (s.2(1)), and to promote competition where appropriate (s.2(2)). The Secretary of State must also have regard to the need to promote economy and efficiency (s.2(4)(c)) and to secure that all reasonable demands for AOS are met (s.2(4)(b)). Where there is a conflict between interests of different classes of users or between different matters in s.2(1), the Secretary of State must further such interests as they think best (s.2(6)).

the Government's objective that expansion contributes to economic growth – the two are complementary, not in tension.

Evaluation criteria must prioritise elements that address structural failures

80. As set out in Section B, the current regulatory model has systematically failed consumers: the world's highest charges, declining service quality despite record capex, and poor capital efficiency. These are structural failures arising from a regulatory model that creates harmful incentives and lacks effective constraints.
81. **This means that when weighting the evaluation elements, the CAA must prioritise those that most directly address these structural failures and align with its statutory duties.** Indeed, the CAA's own framework already highlights elements that are central to user interests:
- Costs (Element B) – directly addresses HAL's harmful efficiency incentives and systemic capital inefficiency;
 - Promotion of effective competition (Element E) – the statutory preference in CAA12 and the most effective mechanism for resetting harmful incentives; and
 - Service quality (Element F) – addresses the declining standards and poor value for money identified in Section B.

These elements must, therefore, carry greater weight than considerations of administrative convenience or perceived ease of implementation.

82. **An additional element must be given priority consideration on the basis of its critical importance to consumer interests: affordability (new Element G).** The Working Paper's evaluation criteria do not explicitly include affordability. Given the scale of planned investment in H8 (c.£10 billion) and expansion (at least £49 billion), alongside unquantified sums in H9 or for surface access, ensuring capital expenditure is affordable for airlines and passengers must be a core evaluation criterion. Without affordability, airlines cannot invest in the connectivity growth that delivers the economic benefits underpinning the expansion case.
83. **Reforms (either individually or as part of a comprehensive package of reforms) that are not capable of materially furthering these key elements, and therefore addressing the fundamental problems with the current regulatory regime (i.e. the incentives that drive poor consumer outcomes), must be deprioritised** by the CAA at the earliest stage. Continuing to rely on models that leave HAL's harmful incentives largely intact, or that deliver only marginal improvements in costs, competition or service quality, would not be consistent with the CAA's duties.
84. While the CAA has an obligation to carry out its primary duty in a way that has regard to the financing of AOS, ensuring that the regulatory model promotes efficiency, affordability, and competition is critical to enabling expansion and modernisation to be financed at an efficient cost. Heathrow Reimagined considers that all credible regulatory models can be financed efficiently. However, financeability assessments must account for the full trade-off between financing costs and consumer outcomes. Models that offer lower costs of capital but create harmful incentives resulting in capital inefficiency ultimately cost consumers more. The CAA

must assess financeability in this broader context, and correctly prioritise its consumer duty over financeability considerations.⁹³ Heathrow can remain financeable without weakening protections for consumers against inefficient spending.

85. Table 1 summarises Heathrow Reimagined's position on which evaluation elements should be given primacy.

Table 1: Which evaluation elements should be given primacy in the CAA's assessment?

Evaluation Element	Should it be given primacy?
A: Appropriate support for capacity expansion	No – While expansion can benefit consumers through increased capacity and connectivity, models that prioritise short-term expedience/expansion delivery timelines over comprehensively fixing the current regulatory model (i.e. expansion under a flawed regulatory model) will not, ultimately, further the interests of users and therefore are not consistent with the CAA's statutory duties.
B: Costs	Yes – HAL's harmful incentives and the ineffectiveness of the current regulatory regime to prevent it from acting on those incentives that drive inefficiency and high costs, and therefore are key factors contributing to the poor consumer outcomes at Heathrow today. Comprehensively addressing these failings is critical to meeting the CAA's duty to promote economy and efficiency.
C: Finance	No – Financeability must focus on ensuring operators can finance efficient investment, not minimise financing costs at consumers' expense. Different models involve different financing trade-offs: RAB models may have lower financing costs but create incentives for capital inefficiency that increase overall costs to consumers. Finance considerations are relevant to detailed implementation, not to choosing between fundamentally different approaches. Any consideration of financeability also needs to recognise that unaffordable expansion is unfinanceable.
D: Practicality	No – While reforms need to be practical to develop and apply in a timely manner, practicality considerations should not be used as a reason to prioritise short-term expedience and ease over the longer-term interests of users. Where the CAA does not currently have the necessary powers to implement all aspects of a particular model, Government can confer those powers as part of its wider expansion legislative activities.
E: Promotion of effective competition	Yes – Directly aligns with the CAA's statutory duties and forms part of the CAA's primary duty. The current regime exists because HAL holds substantial market power (i.e. is a monopolist); effective competition directly addresses this and resets harmful incentives. Competition is inherently more effective than regulation at aligning operator incentives with consumer interests. The CAA should adopt a presumption in favour of competition.
F: Service quality	Yes – Heathrow's service quality is inadequate and has declined, consistent with its harmful incentives and an ineffective regulatory regime. Ensuring that reforms promote an appropriate level of service quality and value for money is a core element of furthering the interests of users and the pursuit of the CAA's statutory duties.

⁹³ As also discussed in Section B.

<p>G: Affordability</p>	<p>Yes – Ensuring affordable charges is essential to furthering user interests, the CAA's primary duty. Given the scale of planned investment (c.£10 billion in H8, at least £49 billion for expansion), the reformed regime must ensure capex efficiency and charge affordability. Without this, airlines cannot invest in connectivity, triggering a self-reinforcing contraction where, capacity underutilisation drives higher charges, further weakening demand and connectivity. The risk of dehubbing that follows would undermine the economic growth case for expansion and harm existing and future passengers.</p>
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Source: Heathrow Reimagined.

Why affordability is critical

86. Affordability is essential to realising the benefits of expansion. **Expansion can only deliver consumer and economic benefits if airlines invest in the additional services and connectivity needed to utilise new capacity.** This requires airlines to commit (at risk) billions in additional aircraft, crew, network planning, route development and supply chains – with aircraft orders typically having 3-5 year lead times and in some cases longer.⁹⁴ For airlines to make these critical investments, they must have sufficient confidence that the business case is sufficiently attractive to be able to finance it efficiently. **This requires Heathrow's charges to be affordable and deliver sufficient value for money for both airlines and their passengers.**
87. If charges are prohibitively high, airlines will not deploy scarce aircraft and capital inefficiently at Heathrow. The result would be under-utilised terminals and runway capacity, weaker connectivity, fewer UK jobs created, and higher charges for existing passengers as very high expansion costs are recovered from a smaller base of users. This would undermine the economic growth test in the Airports National Policy Statement (ANPS), and risks making expansion self-defeating (weakening the existing aviation market that exists today).
88. If the additional airport capacity is under-utilised, a self-reinforcing contraction follows. The RAB-based approach to setting charges means that fewer passengers across whom to spread the recovery of very high expansion costs drives charges higher still. Higher charges further weaken airline deployment incentives, leading to further capacity withdrawal, declining connectivity, lower revenues, and reduced financeability and affordability. This spiral is not theoretical – it is the inevitable outcome of expansion that is affordable only if airlines act contrary to economic incentives.⁹⁵ This risks multiple harms: stranded investment, under-utilised infrastructure, declining competitiveness of UK aviation, and increasing pressure on either the financeability of HAL or the affordability for passengers.

⁹⁴ i.e. expansion phasing needs to also account for airline capital cycles. Phasing that forces premature capital commitment from airlines before they can deploy capacity creates acute affordability risk. Regulatory models that align investment timing with airline readiness by ensuring operators bear the consequences of building ahead of demand help to address this risk.

⁹⁵ This risk is acknowledged across the stakeholder base. HAL's own report (by Santander and Freshfields) identifies "Airline Demand - lower usage due to lack of demand and/or higher airport charges" as the first key risk facing the expansion programme. The report provides no explanation of how the status quo regulatory model – which has systematically delivered the world's highest airport charges – will prevent this outcome from materialising. See Santander/Freshfields, *Funding an Expanded Heathrow, 2025*, [link](#).

89. The risk of unaffordable expansion is acute given:
- HAL already charges its users significantly more than its peers, with this gap increasing further under HAL's proposed increase to fund c.£10 billion of capital spend in H8 that airlines strongly oppose⁹⁶.
 - HAL's proposed capex for expansion would mean further very substantial increases in HAL's charges – these increases would completely dwarf those under H8, which are already unacceptable.
 - Value for money is already poor and is only going to get worse, given the scale of the proposed increases in charges by HAL that passengers and airlines face, even before any new infrastructure is operational.
 - Airlines operate in highly competitive markets, typically with already thin margins, and face other commercial headwinds from operating in the UK (e.g. APD, business rates, increased costs associated with sustainability obligations, such as the UK Sustainable Aviation Fuel mandate and the Emissions Trading Scheme).
90. We recognise that Government has a critical role in decisions about expansion that will drive affordability – particularly project scope and funding arrangements – but the CAA is responsible for the regulatory model and can and must act within its remit to:
- Ensure that the regulatory model flowing from this review has the right mechanisms in place to take affordability considerations into account; and
 - Comprehensively address the fundamental problems with the current regulatory model that further harm affordability. This means ensuring that expansion and modernisation are based on a structurally reformed regulatory model that incentivises airport operators to deliver infrastructure that meets user needs efficiently and effectively, comprehensively addressing the failings of the current model.
91. If the CAA is to meet its statutory duties, it must prioritise both requirements in its assessment of reform options. Prioritising short-term expedience to meet an ambitious delivery timeline over pursuing reforms that will secure users' longer-term interests cannot be consistent with the CAA's statutory duties.

The elements of the CAA's proposed analytical framework

92. In this section, we set out Heathrow Reimagined's views on each of the six elements of the CAA's proposed analytical framework. We also set out an additional important element that we consider must feature in the CAA's considerations: affordability (i.e. new Element G).

Element A: Appropriate support for capacity expansion

93. The CAA's assessment of options should place primacy on comprehensively addressing the underlying reasons why the current regulatory model has resulted in poor outcomes for passengers and other users of Heathrow.

⁹⁶ The Airline H8 Alternative Business Plan submission sets out that the £10 billion capital envelope has been rejected by airlines because it is neither deliverable, warranted nor in keeping to address the overall level of charge.

94. **Models that support the delivery of the very significant capex required for expansion or prioritise short-term expedience/expansion delivery timelines without properly addressing the underlying failings in the current regulatory model will not further the interests of consumers and therefore are not consistent with the CAA's statutory duties.**⁹⁷
95. While in principle expansion should deliver greater choice and competition for consumers and therefore meet the CAA's statutory duties, this is not the case if it is not affordable. Expansion cannot be pursued at any cost; it must be grounded in a regulatory model that promotes efficiency and affordability; otherwise, it will be self-defeating. For expansion to be a success, it needs to result in an airport that is attractive for passengers and the airlines that serve them. This will only be the case if Heathrow's charges are affordable and represent good value for money, enabling airlines to operate profitably without compromising passenger demand because of higher fares. Without fundamental reform, it is difficult to see how HAL's expansion plan can meet the Government's test to deliver economic growth.

Element B: Cost efficiency

96. Heathrow Reimagined strongly supports the CAA's consideration of whether each regulatory model could, either individually or as part of a comprehensive package of reforms, be used to ensure that the capital costs of expansion are kept to an efficient level from the outset and that the risks of costs escalating are appropriately managed.
97. As Heathrow Reimagined has set out in detail previously, HAL's harmful incentives to pursue inefficient capital expenditure and the ineffectiveness of the current regulatory regime to prevent it from acting on those incentives drive the poor consumer outcomes that the CAA has rightly identified at Heathrow today. **Heathrow Reimagined does not accept that consumers and other users at Heathrow should have to pay so much more at Heathrow for a service that falls short of that offered by its global peers.** Ensuring that the reformed regulatory framework will comprehensively address these important failings is critical to the success of the CAA's review.
98. However, ensuring that the future regulatory regime delivers efficient capital expenditure is not the only cost-efficiency consideration that the CAA needs to take into account. As set out in Section B, even on HAL's own analysis, it has a poor track record on operating efficiency. The future regulatory regime also needs to ensure that Heathrow, both as it stands today and post-expansion, is operated efficiently and effectively.
99. This means that reforms need to:
- **Create strong incentives for efficient investment:** Directly counter HAL's current incentive to spend inefficiently. This requires a regulatory regime that prioritises and rewards efficiency in delivering projects and investing in proportionate, value-for-money solutions for both expansion and ongoing capital expenditure that delivers clear, measurable benefits for Heathrow's users and the UK economy. In practice, this could be achieved by prioritising the use of competition wherever feasible – both in the operation of AOS and in scheme design and procurement – as competitive pressures create fundamentally stronger efficiency incentives than regulatory oversight alone.

⁹⁷ In line with HMG 10-year UK Infrastructure Strategy link “to prioritise long-term outcomes over short-term announcements”, to repeating any “failure to properly design and stick to project plans, poor commercial leadership, construction beginning too early, and political decision making that is erratic, short term and ultimately undeliverable”.

- **Maximise the contribution of commercial activities:** Ensure the regulatory model creates effective incentives for commercial investments to be NPV-positive over their lifetime and deliver value to users within the single-till, rather than allowing capital deployment irrespective of commercial viability.
 - **Promote operational efficiency:** Implement stronger drivers for operating efficiency, including through greater use of competition.
100. The current regulatory model has not effectively protected consumers from poor outcomes at the airport under its current configuration. Therefore, and as Heathrow Reimagined set out in our June 2025 submission,⁹⁸ the CAA's consideration of reform options must not only focus on promoting efficient expansion; it must also ensure that the reformed regulatory model results in the two-runway airport operations and related capital expenditure being efficient. Failing to address the root causes of the poor consumer outcomes today across all aspects of the provision of AOS would be inconsistent with the CAA's statutory duties.
101. As set out in Section B, the scale of forward-looking costs even before expansion – including HAL's proposed charge increase in H8 and £15 billion two-runway masterplan – underscores the urgency of reform. Heathrow Reimagined, therefore, welcomes the CAA defining regulatory models as not being limited to only those that relate to the delivery of capacity expansion.⁹⁹
102. The CAA must, however, also ensure that its evaluation criteria are similarly balanced and not skewed towards capacity expansion at the expense of addressing the fundamental problems with the current model. **Heathrow Reimagined advocates introducing competition and fundamental reform to the existing two-runway airport, regardless of whether or when material capacity expansion occurs. The poor outcomes for consumers under the current regulatory model – high charges, declining service quality, degrading levels of resilience, and capital inefficiency – require urgent remedy now.** The assessment framework must therefore give substantial weight to reforms that materially improve efficiency, service quality and affordability at the current airport, recognising that any model chosen must be fit for purpose across both a two-runway and three-runway configuration.
103. The key question the CAA should be asking itself under this assessment element is: does the regulatory model, either on its own or as a comprehensive package of reform, address the harmful efficiency incentives identified in our February 2025 submission (and repeated above) and the ability of the airport operator(s) to act on those harmful incentives?

Element C: Finance

104. Heathrow Reimagined recognises that a reformed regulatory model needs to have regard to¹⁰⁰ notionally efficient airport operators being able to access sufficient debt and equity finance, and at an efficient cost. But, as set out above, **finance considerations should not be given primacy in the CAA's assessment, nor should the actual capital structure choices of an operator.** Also, financeability should be considered in the context of affordability. If the

⁹⁸ Heathrow Reimagined, *Fundamental Reform of Heathrow: to comprehensively address the failing with the current model of economic regulation at Heathrow*, June 2025, [link](#).

⁹⁹ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 4.2, [link](#).

¹⁰⁰ In paragraph 3.7 the Working Paper sets out that the CAA's secondary duties include to “secure the ability of the licensee to finance its activities”. As set out above, the CAA's ‘secondary’ duties require it to have regard to “the need to secure that each holder of a licence is able to finance its provision of airport operation services in the area for which the licence is granted”.

business case is sound and affordable for airlines, then HAL or other developers will be able to secure financing.

105. The CAA should consider financeability based on the net impact on consumer charges, not operator financing costs in isolation. RAB-based models offer lower costs of capital by transferring risk to consumers, but as Section B demonstrates, they can create incentives that drive substantial capital inefficiency. The result is higher charges despite lower financing costs. Competition-based models may involve higher – but still efficient – costs of capital, yet deliver lower charges through strong efficiency incentives. **The CAA's duty is to ensure operators can finance efficient investment at efficient cost, not to minimise financing costs at the expense of efficiency.** An 'efficient' cost of capital should be assessed within the regulatory model's incentive structure: higher financing costs under competition may deliver better consumer value than lower costs under RAB.

Financing costs and their drivers should be considered at the aggregate level

106. Not only should financing costs be considered with due weight alongside other features of the future regulatory model, but the assessment of financing costs must itself be circumspect. **For expansion and modernisation to be a success, the reformed regulatory model needs to enable all service providers at the airport, not just the airport operator(s), to access efficiently the finance necessary to invest – which requires efficient and affordable airport charges that support airline and other investment decisions.**
107. As set out previously, expansion is dependent on airlines investing billions to make efficient use of additional airport capacity. Regulatory choices that affect Heathrow's charges and risk allocation affect airline financing costs and investment decisions. If CAA choices reduce HAL's financing costs by transferring risk to airlines or other parties, aggregate financing costs may not fall; if those parties are less able to manage the transferred risks, then aggregate costs may rise. **Ultimately, consumers will pay the price for decisions that unduly focus on risk for one service provider at the expense of an efficient allocation or level of risk across the service providers at the airport as a whole.**
108. Financing costs and their drivers must be considered across all commercial entities at Heathrow – the airport operator(s), airlines, concessionaires and contractors – with a focus on the net impact on consumer charges. The CAA is not being asked to regulate airline or other stakeholder financing – but it must recognise that regulatory choices have wider consequences. Regulatory models that shift risk inefficiently can affect financing costs across the aviation system, and those costs ultimately flow through to passengers.
109. However, this does not mean that the consequences of HAL's historical financing decisions should be socialised across the aviation ecosystem. HAL chose to gear up aggressively (responding to the incentives of the current regime) and prioritise shareholder outcomes; these choices have transferred equity risk onto consumers and constrained regulatory action. Alternative regulatory models should be assessed on whether they improve consumer outcomes compared to the current baseline, not whether they result in HAL or its shareholders bearing consequences of HAL's past strategic choices to maximise leverage.

Regulatory reform can be a catalyst for investment

110. The context for the CAA's consideration of finance matters should be that, as has been shown in other sectors, major regulatory reform can be a catalyst for, not a hindrance to, major investment, including by unlocking access to efficient finance. **Establishing a long-term**

sustainable regulatory model based on efficient investment incentives can reduce long-term regulatory risk for all market participants, unlocking a greater willingness for investors to support long-term investments at efficient cost.

111. The scale of regulatory reform needed at Heathrow will require effort to implement, and may result in some short-term increase in regulatory uncertainty while the CAA makes the necessary decisions. But the costs to consumers of persisting with a demonstrably failing regulatory model are high. By comprehensively addressing the underlying fundamental incentive problems with the current model, the CAA will provide much greater long-term certainty for all businesses at Heathrow necessary to make investment decisions.
112. Persevering with a regulatory model that has demonstrably failed consumers and is not capable of supporting efficient and affordable expansion and modernisation in the name of regulatory certainty or stability will not provide investors with confidence that the regulatory model is sustainable. It will, therefore, be self-defeating. Well-designed regulatory reform reduces, not increases, long-term regulatory risk.

Ensuring capex is efficient and affordable is critical

113. Prioritising a regulatory regime that promotes efficient and affordable expansion and modernisation is critical to ensuring that airport operator(s) have access to the finance needed for expansion and modernisation at an efficient cost. As the CAA has previously explained:

“The capital programme that HAL is proposing is very large and it will be in the interests of consumers and airlines to incentivise HAL to deliver expansion in a way that is both efficient and affordable.”¹⁰¹

While we agree, the CAA must be clear about what 'efficient and affordable' means, it cannot mean, for example, minimising airport operators' financing costs through maximum regulatory certainty (which would prioritise operator interests). **'Efficient and affordable' should mean minimising total cost to consumers through charges, requiring a regulatory model that creates strong capital efficiency incentives even if financing costs for operators are higher.** The CAA's reference (below) to 'affordable charges' supports this consumer-focused interpretation.

114. Financeability and affordability are not, however, synonymous. Under the current RAB model, HAL can finance even inefficient capex because the model protects it from demand risk and guarantees cost recovery. Affordability crises only become apparent after infrastructure is built and charges have risen to levels that undermine airline investment, connectivity and profitability – by which point it is too late. This is why the CAA must prioritise regulatory models that create far stronger *ex ante* efficiency incentives, rather than relying on financeability constraints to discipline investment. The CAA has previously recognised this relationship, noting that:

“Affordable charges are also important to airlines and consumers in the medium and longer-term, and would also support overall financeability by making Heathrow airport more competitive.”¹⁰²

¹⁰¹ CAA, CAP 1782: Economic regulation of capacity expansion at Heathrow: policy update and consultation, 2019, paragraph 8. [link](#).

¹⁰² CAA, CAP 1876: Economic regulation of Heathrow Airport Limited: further consultation on regulatory framework and financial issues, 2020, paragraph 10. [link](#).

This recognition is correct, but it reinforces the need for regulatory models that ensure affordability from the outset through strong efficiency incentives. Reforms that deliver value for money and affordable charges support demand growth and airline investment, strengthening the business case and credit quality of the airport. Promoting efficient and affordable charges helps de-risk expansion for all service providers.

115. **Competitive mechanisms – whether through market contestability and/or competitive procurement processes – should also strengthen financeability by enabling capital requirements to be spread across multiple operators and investors, rather than concentrating all expansion financing on a single highly-leveraged entity.** This reduces execution risk by diversifying financing sources and can enable access to equity capital beyond existing shareholder bases, supporting the scale and pace of investment required for major infrastructure programmes.¹⁰³
116. However, it is also critically important that airport operators face strong incentives to invest and operate efficiently. More efficient delivery and stronger incentives to maximise commercial revenue contributions reduce the total amount that needs to be financed, directly supporting financeability. The CAA has previously also recognised this relationship:

“A key driver of HAL’s financeability during capacity expansion will be the delivery by HAL’s management of capacity expansion in a way that is efficient and represents value for money.”¹⁰⁴

117. This means that **finance considerations must be assessed in the round.** While ensuring that airport operator(s) incur financing costs that are no higher than necessary is important, we would disagree with an assessment that focuses solely on minimising the cost of capital for HAL (or other airport operators), which underpins the regulated rate of return. In establishing the right future regulatory model for Heathrow, and assessing finance issues, the CAA needs to appropriately balance these considerations, alongside the impact on financing costs for other operators within the Heathrow aviation system.
118. Critically, the assessment should focus on the net impact on charges and consumer outcomes, recognising that models with higher operator financing costs but strong efficiency incentives may deliver better value than models with lower financing costs but harmful incentives that drive capital inefficiency. **The CAA must not interpret its financeability duty as requiring it to minimise HAL’s (or other operator’s) cost of capital if doing so comes at the expense of efficiency and consumer outcomes.**

HAL’s choice to take on very high levels of debt must not constrain the CAA’s pursuit of its duties and the interests of consumers

119. Under the current regulatory regime, there has been a cycle of HAL growing the RAB and using it (and the regulatory commitments associated with the RAB) to increase its leverage through issuing further debt (including at levels that firms normally would not be able to access). This additional debt enables it to further expand the RAB (by funding additional capital expenditure) and increase its returns, thereby perpetuating the cycle. The result is very high

¹⁰³ Analysis commissioned by HAL recognises that design-build-finance models for discrete parts of expansion can “remove some of the additional debt burden from Heathrow’s balance sheet”. Santander/Freshfields, *Funding an Expanded Heathrow*, 2025, [link](#). As S&P notes (below), HAL’s “aggressively leveraged balance sheet” already constrains its financing capacity, with further debt accumulation expected during expansion.

¹⁰⁴ CAA, *CAP 1782: Economic regulation of capacity expansion at Heathrow: policy update and consultation*, 2019, paragraph 1.9. [link](#)

levels of debt and gearing, while the regulatory framework transfers the resulting risk to consumers through higher charges and constrained regulatory action.

120. In its December 2025 note on Heathrow Funding Ltd, S&P Global Ratings reiterates just how indebted Heathrow is:

“Heathrow has the highest indebtedness of the European hubs and other rated airports on the continent with a forecast of FFO to senior debt of close to 8.0% and FFO to debt of close to 6.0% in 2025-2029, as well as a £10 billion investment plan and forecast distributions to serve subordinated debt and shareholder dividends averaging £700 million per year. This compares with FFO to debt of 15.7% for ADP and 15.9% for Schiphol, for example.”¹⁰⁵ [emphasis added]

121. S&P further notes that:

“Despite better profitability, its metrics are also among the most leveraged.”¹⁰⁶ [emphasis added]

“Debt at the ring-fenced structure is growing, to finance investments and distributions. Our financial risk assessment for HFL’s debt ratings is constrained by its aggressively leveraged balance sheet, resulting in credit metrics at much weaker levels than other European rated airports. Once H8 starts and Heathrow increases its investments to above £1.5 billion annually, this could lead to negative FOCF. This, together with outflows from the ring-fenced structure -- including both interest payments on the debentures to Heathrow Finance PLC (HF) and dividends to the ultimate shareholders -- will likely lead to additional debt in its already leveraged capital structure.”¹⁰⁷ [emphasis added]

122. In theory, HAL’s financing choices and their consequences should not affect charges (which are based on the costs – including the cost of capital – for a *notionally* efficient and notionally geared company). **As a matter of principle, consumers should not bear any adverse consequences of HAL’s financing choices, particularly as they do not receive the benefits.**

123. However, as set out in Section B, in practice the very high levels of debt, the financing terms and the resulting importance to HAL of ensuring it meets its obligations linked to that debt and reissuing debt when required (on sufficiently attractive terms), has inevitably become part of the broader context to the CAA’s decisions in tackling (or not) inefficiency as part of the charge control process; they make it far more likely that HAL’s *actual* financing and debt choices, rather than those of the *notional* company, drive the CAA’s decisions. This creates a perverse dynamic where HAL is incentivised to make itself financially vulnerable through its contractual obligations to lenders through its financial structure commitments, levels of debt and range of debt instruments, as doing so constrains regulatory action. Such reinforcement of HAL’s already harmful capex incentives is clearly harmful to consumers’ interests.

124. Airlines have paid HAL through regulated charges for more than two decades on the basis of a prudent notional capital structure of 60% debt and 40% equity. That structure is financeable

¹⁰⁵ S&P Global Ratings, *Heathrow Funding Ltd*, December 2025, page 11, [link](#).

¹⁰⁶ S&P Global Ratings, *Heathrow Funding Ltd*, December 2025, page 12, [link](#).

¹⁰⁷ S&P Global Ratings, *Heathrow Funding Ltd*, December 2025, page 17, [link](#).

and seen as such by the CAA. HAL's choice to gear significantly beyond that level is an equity risk that should be borne by its shareholders, not by consumers or the regulator.

125. Any assessment of risk allocation under alternative regulatory models must be made against this context. The question is not whether alternative models involve different risk allocation compared to an efficient baseline – it is whether the alternative models improve on the current situation where consumers bear operational and cost risk while HAL is protected, and where HAL's financing choices constrain regulatory action.
126. Further, fundamental reform is needed to break the cycle. In designing its package of reforms, the CAA must ensure that:
 - HAL's own financing decisions do not constrain its pursuit of reforms that would address the consumer harm arising from the current model. This is consistent with previous CAA findings, including that “*we remain very firmly of the view that the choice of HAL's actual capital structure is the responsibility of its directors*”¹⁰⁸ and “*it will remain the responsibility of HAL's management to decide on its actual financial structure and ensure that its business is financeable*”¹⁰⁹; and
 - the package of reforms effectively addresses how financeability considerations today reinforce HAL's harmful capex incentives.

Element D: Practicality

127. In order for a regulatory model to be effective, it needs to be practical to develop and apply in a reasonably timely manner. Heathrow Reimagined considers that the reform options it has discussed with the CAA to date could be implemented in such a manner, using the extensive powers already available to the CAA as supplemented by legislation where required. Heathrow Reimagined anticipates that the Government will need to engage in legislative activities, including a new aviation bill, to support expansion. Any new legislation required to implement these reform options could similarly be put in place in a timely manner.
128. The experience from other sectors (e.g. telecoms, energy) and the Competition Commission's market investigation into BAA shows that while fundamental reforms can involve a degree of complexity and difficulty to appropriately design and implement, including leading to implementation and transition costs (and the risks arising from legal challenges), the longer-term consumer benefits of exposing as much of the value chain to effective competition as possible, and ensuring that the regulatory regime is fit-for-purpose where effective competition is not viable, far outweigh the short-term costs.¹¹⁰
129. The CAA proposes considering whether a model would lead to “*a disproportionate level of disruption to HAL's business activities.*”¹¹¹ This test must be applied carefully. Regulatory reform commonly disrupts incumbent business models – indeed, that can be its purpose. For example, the creation of Openreach in the telecoms sector involved very substantial and disruptive changes to BT's business – functional and, ultimately, legal separation of its network division, transfer of thousands of employees, complex IT system separation, and major

¹⁰⁸ CAA, *CAP 1658: Economic regulation of capacity expansion at Heathrow: policy update and consultation*, 2018, paragraph 1.23, [link](#).

¹⁰⁹ CAA, *CAP 1782: Economic regulation of capacity expansion at Heathrow: policy update and consultation*, 2019, paragraph 1.18, [link](#).

¹¹⁰ Heathrow Reimagined, *Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*, February 2025, [link](#).

¹¹¹ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 3.31, [link](#).

changes to commercial relationships – but the consumer benefits that have flowed from the competition those regulatory reforms supported have been transformational. The CAA must also be careful not to create an incentive for HAL to make itself more vulnerable to potential disruption (akin to the dynamic we have set out above in relation to financeability).

130. Therefore, any assessment of proportionality must properly take into account the potential consumer benefits associated with a model addressing the underlying reasons why the current regulatory model has failed consumers, not just the costs, difficulty or disruption to HAL's current business arrangements from effective reform. Anything else would be to actively prioritise the interests of the regulated monopoly (i.e. HAL) over its users. The Government itself has accepted that delivering expansion involves practical complexities: the ANPS process has experienced delays, and promoters are developing DCOs amid regulatory uncertainty. If the Government recognises that expansion cannot proceed on an idealised timeline, the CAA should similarly prioritise getting the regulatory model right over expedience. Implementing inadequate reforms to meet delivery timelines would condemn consumers to decades of poor outcomes.

Element E: Promotion of effective competition

131. Heathrow Reimagined strongly supports the CAA assessing the opportunity to make greater use of competition in the provision of AOS at Heathrow. As set out above, **this is one of the elements the CAA should focus on when assessing regulatory options and reform, particularly given its direct linkage to the CAA's statutory primary duty.**¹¹²
132. Heathrow Reimagined agrees with the CAA that reforms that promote well-functioning competition in the provision of AOS to the maximum extent possible could “*allow consumers to benefit from... lower costs, more innovation and better quality and/or performance in the provision of airport operation services.*”¹¹³ As we set out in our February 2025 submission,¹¹⁴ we also agree with the CAA that “[i]t has been widely acknowledged that well-functioning competition can be more effective than regulation in furthering the interests of consumers”.¹¹⁵ Indeed, we would go further – well-functioning competition *is* more effective than regulation. There are examples of this taking place at Heathrow: cargo handling, ground handling, and passenger airline services all function under competition, delivering innovation, efficiency, and consumer choice that regulation alone could not achieve. The CAA regulates Heathrow only because airport-level competition is absent. Introducing competition through other means is, therefore, a logical solution.
133. **Fostering competition would fundamentally reverse the harmful incentives that HAL currently faces, and also its current ability to act on those harmful incentives.** For example, in well-functioning competitive markets, firms cannot recover inefficiently incurred costs from consumers – if they try, they risk losing customers to more efficient rivals. This creates both ex ante incentives to be efficient and ex-post discipline if they are not. By contrast, under the

¹¹² Competition is not just an evaluative criterion but a statutory preference under CAA12 (where practicable). As a matter of regulatory principle, competition should be the default approach and regulation the fallback where competition is not feasible. Economic regulation exists at Heathrow precisely because of the absence of airport competition and HAL's resulting substantial market power. Where competition can be introduced – whether between terminals, in procurement, or through competitive tendering – it should be prioritised over regulatory substitutes. The CAA should adopt a presumption in favour of competition, only resorting to regulation where competitive mechanisms genuinely cannot be applied.

¹¹³ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 3.34, [link](#).

¹¹⁴ Heathrow Reimagined, *Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*, February 2025, [link](#).

¹¹⁵ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 1.7, [link](#).

current RAB-based monopoly model, HAL can recover its costs regardless of efficiency, provided the regulator does not *ex post* disallow them¹¹⁶ – a far weaker constraint that, in practice, has proven ineffective at preventing inefficiency.

134. There are two main mechanisms that can be used to promote greater use of competition:

- **Competition-for-the-market:** harnessing rivalry between firms vying to win the opportunity to supply services or infrastructure to customers. This includes competitive tenders or rights/licence auctions. In the context of Heathrow, competition to run assets (e.g. terminals) or to win the right to develop specific infrastructure would involve competition-for-the-market. Competition-for-the-market can deliver rapid efficiency benefits – for example, through competitive processes to develop new terminals or procure major infrastructure, as seen with the competitive selection of terminal operators at Houston Intercontinental, New York LaGuardia, and New York JFK (see Annex 2). Such processes can reveal efficient costs and innovative delivery approaches even before terminals are operational. Competition-for-the-market can also be applied through mechanisms such as Direct Procurement for Customers (DPC), as used in the water sector.
- **Competition-in-the-market:** harnessing ongoing rivalry between firms competing over price, service quality, innovation, etc to attract customers to their proposition. Examples of policymakers fostering competition-in-the-market in other sectors include: retail and wholesale telecoms markets; or power generation and retail in energy markets. In the case of Heathrow, terminal competition would enable independent terminals to compete to attract customers (principally airlines and their passengers), delivering sustained efficiency incentives.

135. The CAA's consideration of reform options should explore the potential to make use of both of these competitive mechanisms in combination to ensure that consumers benefit to the maximum extent possible from competition. Given the current monopoly position in the provision of AOS, increasing competitive tension would deliver consumer benefits and reveal additional information on efficient costs and service quality (i.e. an interaction with other criteria) and support ongoing regulatory processes (e.g. more effective benchmarking).

136. To that end, HAL's land ownership should not prevent the development of competition. The relevant policy question is which model best aligns operator incentives with consumer interests, not who holds land title. This should be informed by market-testing through competition-for-the-market mechanisms which can attract long-term infrastructure investors seeking stable returns, while ensuring returns remain anchored to efficient costs through periodic competitive tendering. Long-term concessions can balance investment certainty with consumer protection – long enough to support efficient financing, yet frequent enough to prevent returns detaching from efficiency.

Element F: Service quality

137. Heathrow Reimagined strongly supports the CAA assessing the impact of regulatory models on service quality. As set out above, we consider that this element should be one of those that

¹¹⁶ We note that the Working Paper acknowledges the “*high bar*” historically set for costs to be excluded on the basis of inefficiency (paragraph 2.64) and the “*lesser degree of scrutiny over capex efficiency*” as a result of the historical division of responsibilities between the CAA and Competition Commission (paragraph 2.62).

the CAA places primacy on when assessing options. **Ensuring that consumers and other users receive an appropriate level of service quality and value for money is a core element of furthering the interests of consumers and the pursuit of the CAA's statutory duties.**

138. As set out in our February and June 2025 submissions, HAL's service quality is inadequate and has declined, particularly given the cost to use.¹¹⁷ This is consistent with HAL's poor incentives in relation to service quality and a regulatory model that is ineffective at preventing it from acting on those incentives. The fact that service quality has declined despite the existence of detailed service quality metrics and financial incentives demonstrates the limitations of metric-based regulation under monopoly conditions. Effective reform must comprehensively address these failings through structural changes that create robust incentives, not simply through recalibrating metrics.
139. The CAA sets out that it will "*seek to evaluate whether each model is capable of being used to promote an appropriate level of service quality both during and after the delivery of expansion*" [emphasis added].¹¹⁸ It also states, "*[c]ould the regulatory model be used to promote appropriate service quality levels once new capacity has been delivered?*" [emphasis added].¹¹⁹
140. **We disagree that the CAA should focus only on the impact of regulatory models on service quality in the context of expansion; such expansion-centric framing is too narrow.** Failing to address adequately the poor service quality incentives and ineffective regulatory arrangements at the airport today would be inconsistent with the CAA's duties and miss an important opportunity to deliver meaningful change ahead of a proposed c.£10 billion capital programme in H8, which itself would lock in the disbenefit of today's regulatory regime. **The CAA must consider reforms that would address poor service quality and value for money, including in a two-runway Heathrow,** as Heathrow Reimagined set out in detail in our June 2025 submission.
141. The CAA proposes to consider "*[c]ould the regulatory model have a negative impact on the quality of service experienced by customers at the airport during the construction of new capacity?*"¹²⁰ Heathrow Reimagined reiterates the points made above about the need to appropriately balance short-term disruption or implementation costs with the longer-term benefits to consumers of having an effective regulatory regime in place.

New Element G: Affordability

142. **Major capex plans (either for expansion or other activities) that do not support affordability and the attractiveness of the hub for passengers and the airlines that serve them risk being counter-productive. Supporting affordability, therefore, must be an important element of the CAA's evaluation framework.**
143. Ensuring that the regulatory regime provides strong incentives for efficiency will play an important role in ensuring that it is affordable. However, efficient provision of AOS does not necessarily mean that those services will be affordable – even at an efficient cost, capex plans

¹¹⁷ Heathrow Reimagined, *Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*, February 2025, [link](#); Heathrow Reimagined, *Fundamental Reform of Heathrow: to comprehensively address the failing with the current model of economic regulation at Heathrow*, June 2025, [link](#).

¹¹⁸ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 3.38, [link](#).

¹¹⁹ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 3.38, [link](#).

¹²⁰ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 3.38, [link](#).

may not be consistent with an affordable charges trajectory. Therefore, affordability must be considered separately.

144. **Heathrow Reimagined is surprised that affordability does not feature as a central element of the evaluation framework in the Working Paper**, given that the CAA has previously acknowledged that *“it is very important to consumers that capacity expansion is delivered in a way that is affordable”*¹²¹ and *“[t]he capital programme that HAL is proposing is very large and it will be in the interests of consumers and airlines to incentivise HAL to deliver expansion in a way that is both efficient and affordable.”*^{122,123}
145. Heathrow Reimagined also notes that despite Government remaining open to promoters other than HAL bringing forward applications for expansion, the CAA assumes in the Working Paper that expansion will be delivered by HAL.
146. The CAA has also previously explained that:

*“We have continued to assume that affordability can reasonably be judged in terms of airport charges per passenger that are broadly consistent with 2016 levels in real terms. It was in 2016 when the Secretary of State indicated his preference for capacity expansion at Heathrow and stated that “the aim should be to deliver a plan for expansion that keeps landing charges close to current levels”. In assessing affordability, and considering our approach to affordability in the future, we will continue to be guided by our overall focus on the interests of consumers, informed by the views of airlines, and retaining their support for capacity expansion at Heathrow.”*¹²⁴ (emphasis added)

However, this framing assumes that passenger volumes will grow to fill expanded capacity. That assumption is not guaranteed – it is not necessarily the case that ‘if we build it, they will come’. If charges rise to levels that undermine airline profitability and investment, airlines are unlikely to deploy capacity at Heathrow – resulting in lower passenger volumes than forecast and therefore higher per-passenger charges to recover fixed expansion costs. Affordability must, therefore, be assessed on the basis of total aeronautical revenue requirements and realistic demand scenarios, not simply projected per-passenger charges assuming full utilisation.

147. This approach is consistent with the CAA’s understanding of HAL’s pre-pandemic position (although, based on its estimates, it appears that this is no longer HAL’s position):

“HAL said that it understands stakeholders’ concerns over affordability, is committed to trying to deliver capacity expansion with airport charges remaining close to

¹²¹ CAA, *CAP 1782: Economic regulation of capacity expansion at Heathrow: policy update and consultation*, 2019, paragraph 1.11, [link](#).

¹²² CAA, *CAP 1782: Economic regulation of capacity expansion at Heathrow: policy update and consultation*, 2019, paragraph 8, [link](#).

¹²³ The Government has also emphasised the importance of affordability. In announcing support for Heathrow expansion in October 2024, the Secretary of State for Transport stated that the Government would work to ‘minimise cost for passengers and customers’ and ensure ‘effective cost controls.’ ([see link](#)) These commitments to efficiency and affordability must be reflected in the regulatory model. Both the CAA and the Government have made clear that expansion cannot proceed at any cost – the regulatory framework must ensure affordability is a central consideration, not an afterthought.

¹²⁴ CAA, *CAP 1812: Working paper summarising affordability and financeability modelling for capacity expansion at Heathrow airport*, 2019, paragraph 1.12, [link](#).

*current levels in real terms, and has made affordable charges a key criterion for developing its expansion masterplan.*¹²⁵

148. It remains critically important to consumers that expansion and modernisation capex (and indeed all other forms of capex) is delivered in a way that is affordable. It must enhance the attractiveness of the airport and value for money for airlines and passengers, not harm it as is the current direction of travel. Failure to achieve this goal risks undermining the economic objectives set out by Government in support of expansion.
149. **While we recognise that Government has a critical role in decisions about expansion (particularly on project scope and funding arrangements), the CAA is responsible for the regulatory model that determines whether expansion can be delivered affordably.** The CAA must ensure that the long-term regulatory model flowing from this review has the right mechanisms in place to continuously take affordability considerations into account over the long-term. This criterion should, in essence, place a requirement on scheme promoters to publish comprehensive assessments of scheme costs (in current year valuations) and the expected impact on passenger charges, enabling informed scrutiny by airlines, consumers, and the CAA. Transparency on affordability must be built into the regulatory framework from the outset.¹²⁶

The CAA's proposed use of qualitative and quantitative assessments

150. The CAA may not be able to practicably quantify all aspects of its assessment of regulatory models. It will, therefore, need to combine both quantitative and qualitative assessments. However, regardless of how the CAA undertakes its assessment, it must:

- Appropriately weight the various elements of the assessment for the reasons set out above. This is particularly important in the context of the demonstrable failings of the current regulatory model to further the interests of consumers.

As set out above, evaluation criteria that directly relate to the CAA's primary duty – namely costs/efficiency (Element B), promotion of effective competition (Element E), service quality (Element F), and affordability (Element G) – must be weighted more heavily than criteria focused on implementation considerations such as practicality (Element D) or support for expansion timelines (Element A). Finance considerations (Element C) should focus on net consumer impact, not minimising operator financing costs.

The CAA should adopt a clear hierarchy: first, prioritise regulatory models that introduce competition, as this is linked to the CAA's primary duty and the only mechanism that fundamentally resets harmful incentives rather than attempting to police them. Second, where competition is found not to be feasible or sufficiently effective, prioritise regulatory models that comprehensively address efficiency, service quality, and

¹²⁵ CAA, *CAP 1658: Economic regulation of capacity expansion at Heathrow: policy update and consultation*, 2018, paragraph 1.4, [link](#).

¹²⁶ Affordability is an established cross-sector regulatory principle in UK economic regulation. Ofwat made affordability a central pillar of its PR24 price review, explicitly challenging water companies to address customer concerns about bill levels in their business plans. Ofgem's multi-year strategy commits to 'deliver the clean, affordable, and secure energy system our customers need and deserve,' recognising affordability as a core regulatory objective. See: Ofwat, *PR24 – Summary of water companies' published plans for affordability for 2025-30*, 2024, [link](#); Ofgem, *Ofgem's multi-year strategy*, 2024, [link](#).

affordability failures. Third, among models that meet these criteria, consider practicality and implementation factors.

This approach recognises that while any fundamental reform involves implementation challenges and uncertainty, the status quo's demonstrable failures create greater long-term risk to consumers than well-designed reform. The CAA's duties require it to prioritise consumer outcomes over regulatory convenience or the preservation of existing structures that have failed consumers.

- Be capable of assessing packages of reforms/models, not only individual models, for the reasons explained in the following section.
- Be robust. The assessment must give stakeholders confidence that the resulting regulatory model has properly addressed the structural failings of the current model and, therefore, is capable of providing a sustainable long-term framework that all investors, not just the airport operator(s)', can make long-term investment decisions upon.

**D. OPTIONS FOR THE
REGULATORY MODEL**

Introduction

This section sets out Heathrow Reimagined's views on the CAA's proposed long-list of options for the regulatory model. It addresses the following questions:¹²⁷

- Do you agree with our description of the regulatory models we have identified, and do you have initial views on the advantages and disadvantages of these models?
- Are there additional variants of the current regulatory model or additional alternative regulatory models that we should consider, and what would be the advantages and disadvantages of these approaches?

151. This review represents **a once-in-a-generation opportunity to establish the right long-term regulatory framework for Heathrow**. The decisions taken now will shape consumer outcomes and the UK's international connectivity for decades to come. Getting the regulatory model right is essential – not just desirable – for the following reasons:

- The current model has demonstrably failed consumers, resulting in the highest charges in the world, declining service quality, and substantial evidence of capital and operational inefficiency. Incremental adjustments will not fix a fundamentally broken model.
- It is critical – and aligned with the CAA's duties – that any reformed regulatory model can ensure capital expenditure is affordable and supports Heathrow's attractiveness to passengers and the airlines that serve them. Allowing further spending increases by HAL will also undermine the Government's underlying benefits case for supporting expansion.
- The scale of capital expenditure at stake is unprecedented. HAL plans nearly £60 billion of investment over the coming decades.¹²⁸ Terminals represent 68% of Heathrow's existing asset base, and will continue to represent a significant share of Heathrow's total assets after expansion.¹²⁹ Subjecting Heathrow's massive capital expenditure programme to the same harmful incentives that drove inefficiency in Terminal 5 and Terminal 2 delivery would impose significant costs on consumers and risk making expansion unaffordable.
- Establishing a credible, effective long-term regulatory framework now will provide all stakeholders - HAL, potential alternative providers, airlines, and investors - with the clarity needed to make efficient long-term investment decisions. Failing to adequately address the demonstrable failings will result in prolonged regulatory uncertainty and will introduce new risks, such as the affordability of any new runway capacity take-up.
- UK and international precedent shows that fundamental regulatory reform, while requiring short-term effort, delivers enduring long-term benefits. The UK has led the world in pro-competitive regulatory reform in sectors such as telecoms and energy. Regulation of Heathrow has not kept pace; this review is the opportunity to catch up.

¹²⁷ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 4.108, [link](#).

¹²⁸ c.£10 billion for H8, £15 billion for terminal modernisation, plus £34 billion for expansion infrastructure (i.e. new runway and terminal)

¹²⁹ Heathrow (SP) Limited, *Regulatory Accounts*, 2024. Assets reported by net book value, percentage calculation excludes assets under construction, investment properties and intangibles.

- Selecting reforms that fail to address the fundamental problems stemming from HAL's harmful incentives, or deferring difficult decisions, would condemn consumers to decades of poor outcomes and would represent a failure of regulatory duty.

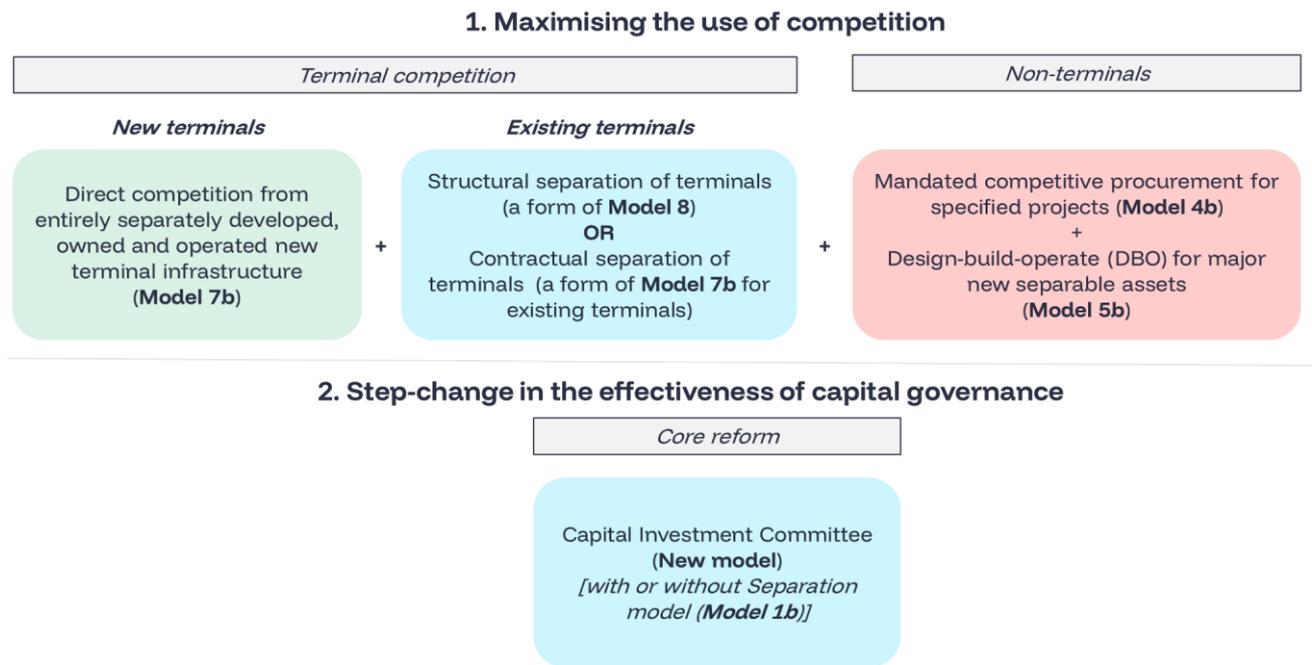
Summary of the package of reforms required

152. Heathrow Reimagined considers that the following package of reforms is required to comprehensively address these failings and enable the CAA to meet its statutory duties. The package has three core elements:

- **Terminal competition to reset HAL's incentives and introduce competition for both existing and new terminal facilities:** Using both competition-for-the-market (competitive tender to select operators) and competition-in-the-market (competition between terminal providers to attract and retain airlines) mechanisms, terminal competition enables market forces, rather than regulatory judgement, to determine key market outcomes. Terminal operators would compete to design, build, finance, and operate terminals, revealing the efficient cost of infrastructure. This directly replaces HAL's harmful incentives with incentives to invest in and operate terminals efficiently, be innovative and responsive to the needs of users, and contribute to a more attractive and affordable airport experience. By sharing the costs of expansion and modernisation across multiple operators, rather than relying solely on HAL (which is highly indebted), terminal competition builds financial resilience and ensures that expansion and modernisation can attract the significant finance needed at pace.
- **Design-build-operate and competitive procurement for semi-separable assets:** Where full terminal-style competition is not feasible, using competitive processes for development of non-terminal infrastructure to: (i) more effectively reveal the efficient cost of infrastructure through competitive tender; and (ii) promote infrastructure that better meets the needs of passengers and airlines. While these mechanisms will not remove HAL's harmful incentives where it remains the operator, they use competitive pressures to deliver discrete infrastructure at efficient cost, contributing to a more attractive and affordable airport.
- **Enhanced capital governance, resulting in a step-change in the effectiveness of capital governance.** The current capital governance regime is ineffective – it does not cover all necessary elements of the capital lifecycle, its processes and mechanisms are not set up for success, and it leaves too much control in the hands of a monopoly provider. Major changes are required to deliver the reforms needed to fix capital governance. The CAA needs to take control of the regulation of capex and ensure capital efficiency across the campus.

153. The package of regulatory reforms necessary to deliver this is summarised in Figure 9 below.

Figure 9: Summary of the package of reforms required



Source: Heathrow Reimagined.

154. **These three elements should not be seen as alternatives.** Effective competition resets incentives; competitive procurement introduces discipline where full competition cannot be achieved; enhanced governance polices incentives that cannot be addressed through competition, and ensures system-level coherence. **Only a package that incorporates all three can comprehensively address the current model's shortcomings.**

155. These core reforms¹³⁰ map on to specific regulatory models in the CAA's long-list:

- **Model 7b or 8** (terminal competition through third-party ownership/operation).
- **Model 4b** (mandated competitive procurement) and **Model 5b** (design-build-operate).
- **Model 1** (enhanced capital governance including through functional/legal separation).

156. The CAA's Working Paper recognises that **“a blend of regulation and competition may be better at protecting consumers than regulation alone.”**¹³¹ Heathrow Reimagined strongly agrees. This package harnesses that principle – maximising competition where possible, combined with enhanced regulation, and ensuring system-level coordination across both competitive and regulated elements.

157. The remainder of this section:

- Explains why a package of reforms is needed to comprehensively address the failings of the current regulatory model and ensure that the benefits of expansion for consumers are capable of being delivered.

¹³⁰ Figure 2 also includes reference to Model 1a and 2 – we explain later in this section our views on these two models, but do not consider them core to the substantive package that we are proposing. The rest of this section also explains any areas of divergence between the CAA's explanation of its long-list of models and our interpretation of them (and any necessary changes).

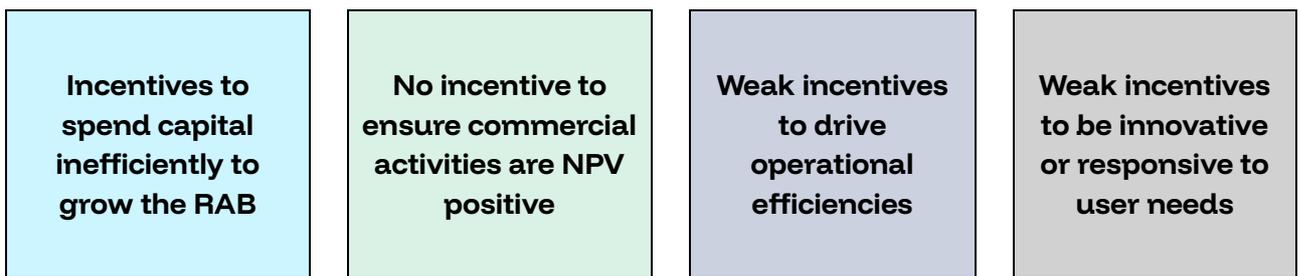
¹³¹ CAA, CAP 3195: Working paper on regulatory models, 2025, paragraph 1.7, [link](#).

- Details how each core element of the package works and the benefits it delivers for consumers.
- Maps these core elements to the CAA's long-list and identifies any gaps in the long-list.
- Discusses the remaining models on the CAA's long-list that are not core elements of the package of reforms identified by Heathrow Reimagined (with further detail of some in Annex 3), along with a brief summary of our response to the consultation question.

Structural reform is needed to comprehensively address the failings of the current regulatory model and ensure that any benefits of expansion for consumers are maximised

158. As set out above, the poor consumer outcomes at Heathrow – the highest charges globally, ageing infrastructure, declining service quality, and substantial capital inefficiency – are neither coincidental nor primarily driven by external factors. They are the predictable consequence of a regulatory model that creates harmful incentives¹³² and then fails to prevent HAL from acting on them.

Figure 10: HAL's harmful incentives under the current regulatory regime



Source: Heathrow Reimagined.

159. This is not simply a governance issue that better processes can fix. The problem is structural: RAB-based regulation creates incentives to grow the asset base regardless of efficiency, combined with weak incentives to deliver value for money in capex decisions. These incentives are embedded in the model itself. Incremental governance reforms – Gateway reviews, Independent Funds Surveyor, Constructive Engagement – have attempted to police these incentives, but cannot remove them. Expanding the IFS's remit or increasing airline involvement earlier in the process, for example, would not change this fundamental dynamic; such adjustments leave control over information, timing, and decision-framing with HAL, allowing it to continue engineering outcomes that suit its commercial interests. Only fundamental reform that (a) removes the harmful incentives through competition to the maximum extent feasible; and (b) replaces the current capex governance model with an alternative governance model can adequately address this problem.

160. The scale and timing of future capital expenditure make structural reform urgent, especially given its focal role in consumer harm at Heathrow. The RAB has grown from £5 billion in 2003¹³³ to more than £21 billion today,¹³⁴ while charges have more than tripled. Terminals represent

¹³² Heathrow Reimagined, *Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*, February 2025, [link](#).

¹³³ CAA, *Q5 Final Decision*, 2008, [link](#)

¹³⁴ Heathrow (SP) Limited, *Investor Report*, December 2025, [link](#)

the largest and most separable capital investments at Heathrow – individually worth billions and accounting for 68% of Heathrow's existing asset base.¹³⁵ They are also a significant driver of future capital expenditure. This makes measures that introduce competition into terminals the highest-impact reforms; they reverse the incentive to undertake inefficient capex, the root cause of unaffordable charges, and offer significant opportunity to upweight customer experience benefits.

Why competition is critical to reform

161. Competition fundamentally differs from regulation: it resets harmful incentives by ensuring operators bear the cost of inefficiency and cannot pass it to consumers, whereas regulation seeks to police operators acting on those incentives.
162. The CAA states in its Working Paper that “*well-functioning competition can be more effective than regulation in furthering the interests of consumers*” and that, even for natural monopolies, “*a blend of regulation and competition may be better at protecting consumers than regulation alone.*”¹³⁶ Heathrow Reimagined strongly agrees with this assessment. This principle provides the organising framework for the package of reforms set out in this section.
163. Well-functioning competition creates strong incentives for firms to be efficient, innovative and focused on the needs of their customers. Critically, well-functioning competition also ensures that firms cannot pass inefficient costs to customers – this distinction is essential for understanding why competition fundamentally removes harmful incentives rather than simply policing them. Recognition of this underpins the extensive structural reforms that have taken place in other sectors (e.g. telecoms, energy) to expose as much of the value chain as possible to competition. **Regulation of Heathrow has not kept up.**
164. Despite its obligation to carry out its functions in a way that promotes competition for the provision of AOS, the CAA has not meaningfully pursued regulatory remedies that introduce greater competition. This must change; given the CAA's primary statutory duty under CAA12, this should be the first-order priority for the review Heathrow Reimagined, therefore, welcomes the CAA including a number of regulatory models in its long-list that would promote greater competition.
165. Competition can reveal efficient costs, drive innovation, and reset harmful incentives. For example, benefits can flow immediately from competitive bidding, in which multiple operators compete for a contract and must propose efficient cost structures to remain competitive. This is distinct from competition-in-the-market (ongoing rivalry between operators), which provides further ongoing discipline. Maximising the extent to which effective competition shapes consumer AOS outcomes at Heathrow must be the highest priority for this regulatory review. As we set out below, there are multiple mechanisms through which competition can play an essential role in a comprehensive package of reform.
166. Heathrow Reimagined recognises the clear distinction between activities and assets at hub airports that are well-suited to competition and those that are not. Terminals – comprising passenger facilities, security, baggage systems, gates, piers, lounges, and retail/catering space – are self-contained, separable operational and contractual units with clear revenue streams

¹³⁵ Heathrow (SP) Limited, *Regulatory Accounts*, 2024. Assets reported by net book value, percentage calculation excludes assets under construction, investment properties and intangibles.

¹³⁶ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 1.7, [link](#).

and measurable outputs. These are ideal candidates for competition. In contrast, core airport infrastructure – runway operations, taxiways, airfield maintenance, ground-based navigation systems, inter-terminal transit – are inherently integrated, shared, and difficult to separate contractually.

167. This distinction is not binary. Some assets fall between these categories. **The regulatory model must therefore:**

- **Introduce competition for clearly separable, self-contained assets (terminals) where it can drive substantial efficiency gains.**
- **Use design-build-operate and competitive procurement mechanisms for semi-separable assets where full competition cannot be achieved.**
- **Apply strengthened governance wherever competition is not sufficient to fully eliminate substantial market power. Strengthened governance is complementary to competition.**
- **Implement system-level coordination mechanisms to ensure coherence across all three categories.**

168. Different reforms are, therefore, required for different aspects of the provision of AOS.

- Where competition can be introduced – and evidence from other airports and sectors shows that it can be a comprehensive and effective remedy in its own right – it should be the primary intervention.
- In addition, a step-change in regulatory effectiveness is required to target the harmful incentives that cannot be addressed through competition alone and to prevent HAL or any other promoter from acting on those incentives.¹³⁷ However, regulation should not be viewed as an alternative to competition – it is a necessary complement at Heathrow. Even where competition is introduced for certain activities, enhanced system-level governance can ensure airport-wide coordination, control residual substantial market power, ensure capex efficiency, manage interfaces between competitive and monopoly activities, and set overall capex parameters that constrain the entire investment programme.

169. **It follows that only a package of reforms which comprehensively resets these underlying incentives – by introducing competition in relation to those aspects of AOS where feasible and effective, and delivering a step-change in regulatory effectiveness (including far stronger capital investment controls and governance) - can enable the CAA to meet its statutory duties. Incremental adjustments to governance processes or ex ante incentive mechanisms – while potentially useful as supporting measures – cannot resolve structural incentive misalignment alone. Attempting to do so would only serve to perpetuate consumer harm under the current regulatory regime.**

¹³⁷ Enhanced capital governance could also oversee competitive processes where they are introduced, manage system-level coordination across the airport, and ensure coherent airport-wide planning even where individual activities are competitively provided.

Maximising the use of competition in the provision of AOS to improve consumer outcomes

170. Capital expenditure plays a focal role in consumer harm at Heathrow. The terminal estate represents the major part¹³⁸ of Heathrow's existing asset base, and are the primary driver of future capital expenditure.¹³⁹ Terminals also account for a substantial share of operating costs and provide all major passenger touchpoints. This makes terminal competition a high-impact reform: it directly resets incentives for the activities that drive the majority of costs. Ensuring terminal investment and operation are delivered by operators with properly aligned incentives is therefore essential to addressing the inefficiency and poor consumer outcomes documented in Section B.
171. Well-functioning competition directly resets harmful incentives. Under competitive tender processes, operators competing to design, build, finance and operate terminals must propose efficient cost structures to win. Once appointed, they retain the benefits of efficiency and bear the consequences of inefficiency – they cannot pass costs to a captive customer base. This represents a fundamental departure from the current model, where HAL's incentives drive RAB growth regardless of efficiency.
172. There are two main ways that competition can improve AOS outcomes for consumers at Heathrow:
- **Primarily through introducing terminal competition** to allow competitive rivalry, rather than regulatory judgement, to drive better terminal-related AOS outcomes for consumers. This can be implemented in different ways. Independent operators compete through structured tender processes to design, build, finance and operate terminals over long-term concessions.¹⁴⁰ The competitive bidding process itself immediately reveals efficient costs and locks in strong operator incentives to deliver efficiently. This competition-for-the-market mechanism directly addresses the harmful incentives that drive capital inefficiency for the largest component of Heathrow's asset base. Competition-in-the-market (i.e. between terminal providers to attract and retain airlines) provides additional competitive discipline, which will increase further as capacity grows over time.
 - **Supplemented by greater use of competitive processes where regulation continues to be the primary mechanism for protecting consumers** – to better reveal efficient costs and support improved innovation, service quality and resilience as part of the enhanced capital governance model. Where full terminal-style competition may not be feasible, competitive tender processes can deliver meaningful improvements.

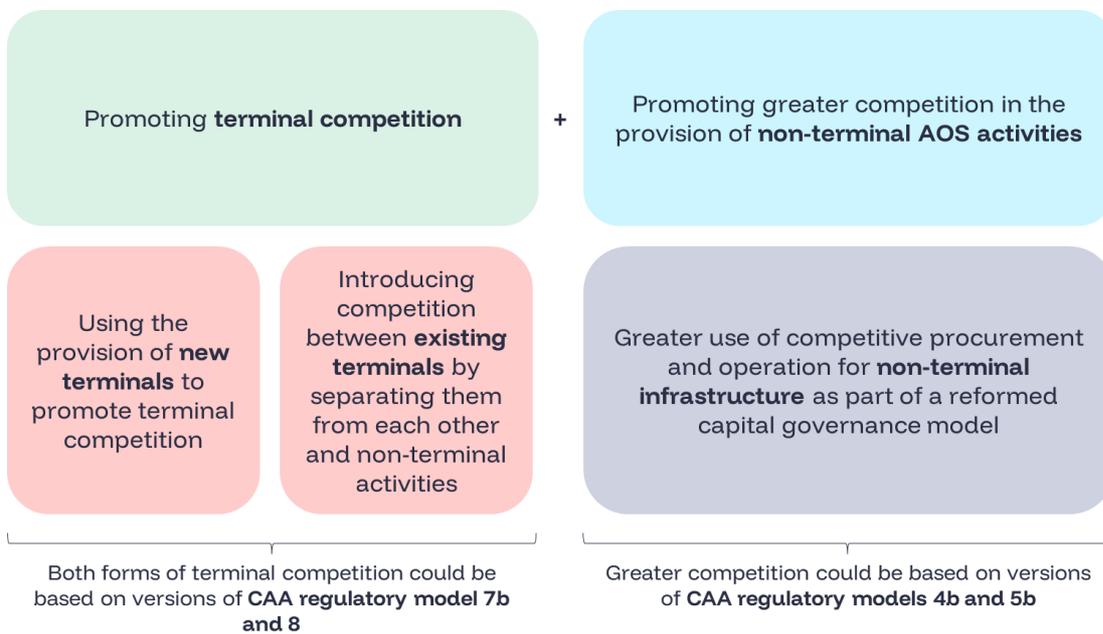
¹³⁸ Heathrow (SP) Regulatory accounts for 2024 show that terminal assets at Heathrow account for 42% of the total fixed asset base. This number increases to 68% when excluding assets in the course of construction, intangibles, and investment properties.

¹³⁹ As part of its long-term masterplan to 'modernise' Heathrow, HAL is proposing to upgrade "ageing" infrastructure across the airport campus by removing Terminal 3 (the airport's oldest terminal), extending Terminal 2 (delivery of two satellite piers) and redeveloping the Central Terminal Area. It sees that this would cost c.£15 billion. See Heathrow Airport Limited, *Our Proposal for Expanding Heathrow*, 2025, [link](#).

¹⁴⁰ Competition can be introduced across specific parts of the terminal lifecycle, each delivering distinct benefits: Design competition ensures terminals are designed efficiently and aligned with user needs rather than RAB growth. Build competition reveals efficient construction costs through effective tendering. Operational competition drives operational efficiency, service quality and innovation. Financing competition reveals efficient cost of capital and supports more efficient intergenerational cost recovery. However, full competition under independent ownership – where operators compete across all stages and bear the consequences of inefficiency – delivers the greatest incentive alignment and, therefore, the greatest consumer benefits.

173. Terminal competition can be introduced for both existing and new terminals, using either structural separation (divestment to independent operators who own and operate terminals; similar to **Regulatory Model 8**) or contractual separation (long-term leases enabling independent operators to run terminals while HAL retains freehold ownership;¹⁴¹ most similar to **Regulatory Model 7b**).
174. Both approaches can harness competition-for-the-market through structured tender processes and both can fundamentally reset operator incentives. Further, both offer several advantages compared to today.
175. We discuss these mechanisms for promoting competition in the provision of AOS in the following sub-sections. We first explain the importance of the CAA seizing the once-in-a-generation opportunity to introduce terminal competition in this review.

Figure 11: Maximising the use of competition in the provision of AOS to improve consumer outcomes



Source: Heathrow Reimagined.

It is imperative that the CAA seizes the once-in-a-generation opportunity to introduce terminal competition at Heathrow

176. The existence of multiple terminals, along with the need for additional terminal capacity to support expansion, creates a once-in-a-generation opportunity to introduce competition among terminals at Heathrow. It is imperative that the CAA seizes this opportunity.
177. As we explain in the following sub-sections:
- Direct competition between independent terminal operators should deliver very substantial consumer benefits, including through improved efficiency, greater responsiveness of terminal operators to the needs of consumers and other users, and enabling better benchmarking and regulation in non-terminal activities. These benefits

¹⁴¹ Heathrow Reimagined provided further details on such a model to the CAA in our September 2025 meeting.

would be maximised by ensuring that competition covers all existing and future terminals. Equivalent reforms in other sectors (e.g. telecoms) have supported investment and innovation while transforming consumer outcomes.

- The separation of terminal operations from airfield activities at other major international airports, including the world's busiest airport (Hartsfield-Jackson Atlanta), demonstrates that implementing a similar separation at LHR is operationally feasible.
- Reforms to introduce terminal competition would be consistent with the CAA's obligation to have regard to financeability when carrying out its primary duty, including ensuring that HAL can recover its efficiently-incurred costs (including those incurred for terminals). Diversifying financing sources by engaging third-party terminal owners and operators would support the financing of Heathrow expansion and modernisation. It would remove the reliance on a single, highly-indebted provider (i.e. HAL), while creating opportunities for additional investment to be unlocked for consumers at a faster pace than the unnecessarily slow modernisation planned by HAL.

Terminal competition can deliver substantial value and consumer benefits by resetting operator incentives

178. Immediate value from terminal competition flows from competition-for-the-market through structured competitive tender processes. Multiple operators competing to design, build, finance and operate terminals must propose efficient cost structures and credible operational plans to win. This reveals efficient costs and locks in strong incentives for the winning operator to deliver against its bid. Once appointed, terminals compete to attract airlines and passengers, providing additional competitive discipline where switching is viable and capacity allows (which will grow further over time as terminal operators invest to expand capacity).
179. This represents a fundamental reset of incentives. Under the current model, HAL's incentives mean that it prioritises and specifies capex projects that maximise the value of its RAB. It also influences how it manages design and build competitions, including the extent to which it ensures its contractual arrangements appropriately allocate risk between it and the third parties it contracts with. Because HAL owns and/or controls all AOS infrastructure, customers cannot switch to alternative AOS providers. Terminal competition removes these harmful incentives at source: operators retain the benefits of efficiency, bear the consequences of inefficiency, and must be responsive to attract and retain customers.
180. Given the importance of the terminal estate at Heathrow, there are very significant consumer benefits associated with ensuring that the model of terminal ownership, investment and operation across campus is fit for purpose: better aligning incentives and outcomes with the cost and service experienced by consumers.
 - **Greater capex efficiency:** direct competition for the right to develop and operate terminals, unencumbered by HAL's harmful incentives, would enable much greater capex efficiency, both for new terminals and maintaining, enhancing or redeveloping existing terminals. Those developing terminals would have a clear incentive to make efficient capital investment, given that such savings would be retained by the terminal operator through higher margins and greater passenger volumes through its terminal.

- **Improved operational efficiency:** direct competition between independent terminal operators would significantly strengthen incentives to operate terminals efficiently and effectively.¹⁴²
 - **Greater responsiveness to the needs of consumers and other users:** terminals competing to attract and retain airlines would face strong incentives to be responsive and innovative to the needs of users, else they would risk losing those users to other terminals.¹⁴³ This is evident at JFK, which is undertaking wholesale transformation – with multiple operators investing private capital – in response to historic poor performance (noting that historical issues at JFK have reflected factors outside terminal operator control, particularly TSA security and US Border controls, rather than fundamental issues with competition itself).¹⁴⁴
 - **Improved data for benchmarking:** multiple independent terminal operations at Heathrow would provide far richer data for benchmarking independent operator performance. This is particularly valuable given the many challenges faced by the CAA in adjusting benchmarks for UK- or London-specific drivers of cost: independent terminals on the same Heathrow campus would face the same such cost drivers.
181. Heathrow Reimagined expects that, over any reasonable time horizon, these benefits would very significantly outweigh any short-term implementation costs, as has been the case in other sectors where fundamental reforms have been introduced. Regardless, short-term implementation costs and disruption are not an appropriate counter-argument to the introduction of competition.
182. Introducing competition has direct regulatory precedent in UK airport regulation. The Competition Commission's 2009 BAA breakup addressed similar arguments about coordination benefits from common ownership, concluding that “*any relevant customer benefits of the AEC [adverse effect on competition] connected with common ownership would not be likely to be significant*”, while “*the net benefits of increased competition and concomitant savings or efficiencies likely to result from removal of the AEC would be substantial and outweigh the relevant net costs of divestiture*.”¹⁴⁵ That judgment – prioritising competitive discipline over integration arguments – was vindicated by post-breakup performance, as set out in the CMA's 2016 evaluation.¹⁴⁶ The same principle applies to introducing terminal competition at Heathrow. And, to the extent airport-wide masterplanning and coordination functions are required, these can be overseen by the CAA or CIC, ensuring system-level coherence while enabling competitive provision at the terminal level.

¹⁴² Such efficiency gains could be realised through, for example, lower operating costs and higher margins.

¹⁴³ Other terminals would have the ability to invest in developments to enable them to compete for additional customers.

¹⁴⁴ We note that the Working Paper highlights JFK's historically poor ranking in the Skytrax World Airport Awards compared to Heathrow (see Case Study 6). The Working Paper claims that the reasons for this include “*passenger congestion and a lack of cohesion between terminals when being run by different operators*”. The Working Paper also recognises that these issues are being addressed under the JFK Vision Plan, which is delivering major investment by multiple different sets of investors. Heathrow Reimagined considers that the historical issues at JFK are not symptomatic of a fundamental problem with inter-asset competition – indeed, the major investment to address service quality at JFK is taking place under the same model. Careful design and implementation of terminal competition at Heathrow, drawing on the lessons from JFK, other airports and other sectors, can ensure that the benefits to consumers from effective terminal competition.

¹⁴⁵ Competition Appeals Tribunal, *BAA Limited v Competition Commission*, 2009, 211 p79, [link](#).

¹⁴⁶ CMA, *BAA airports: Evaluation of the Competition Commission's 2009 market investigation remedies*, 2016, [link](#).

The CAA's conditions for effective competition

183. The Working Paper sets out conditions the CAA considers must be satisfied for competition to deliver benefits to consumers.¹⁴⁷ These conditions, as set out, seem to focus principally on models of competition that involve forms of tendering (competition-for-the-market), rather than competition-in-the-market (either based on actual competition or the threat of competition).
184. There is no magic number of competitors required for competition to constrain HAL and generate benefits for consumers. Indeed, increasing competitive tension compared to the current absolute monopoly position can be expected to deliver consumer benefits and reveal additional information on efficient costs and service quality, which can be used for more effective benchmarking.
185. Notwithstanding this, **Heathrow Reimagined expects that there would be considerable international interest in competing to operate, maintain and improve existing terminals at Heathrow.**¹⁴⁸ The underlying scale and attractiveness of the market mean that it would be highly appealing for operators to participate in the competitive provision of airport infrastructure and services at Heathrow. Furthermore, HAL's inefficiency creates significant opportunities for rivals to offer services (including enhancement and renewal activities) at lower costs and deliver a materially better user experience.
186. There are many international airport operators with the necessary expertise and experience to compete to operate terminals at Heathrow.¹⁴⁹
- Major international airport operators (e.g. Schiphol,¹⁵⁰ DAA,¹⁵¹ Changi,¹⁵² Fraport,¹⁵³ Munich Airport¹⁵⁴ and AENA)¹⁵⁵ already operate terminals at other international airports.
 - Beyond individual airports, major international infrastructure operators such as VINCI Airports¹⁵⁶ - the majority owner of Gatwick, Edinburgh and Belfast airports, and operator of more than 70 airports in 14 countries, including operating Terminals E and F at Atlanta International Airport - has extensive relevant experience.
187. We also expect strong interest in building new terminal infrastructure at Heathrow should the CAA support such competition. Based on, for example, the extensive investment by different infrastructure companies in new terminal infrastructure at US airports (set out in Annex 2), we would expect at least as strong an interest in undertaking such activities at Heathrow.

¹⁴⁷ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 4.49, [link](#).

¹⁴⁸ If helpful, Heathrow Reimagined would be happy to share further details about this with the CAA.

¹⁴⁹ The Working Paper references the experience of Haweswater Aqueduct Resilience Programme in the water sector (see paragraph 4.51) where there were a limited number of interested suppliers, and no UK firms were willing to bid for the project. The extent to which an individual competitive process attracts the interest of rivals will depend upon the individual circumstances of that process.

Processes can be designed to elicit the maximum level of competition possible – for example, despite Camelot's extensive incumbency advantages as the National Lottery licensee since the inception of the National Lottery, the process undertaken by the Gambling Commission to award the fourth National Lottery licence still elicited significant interest from a range of international bidders. This was based on an extensive programme of market testing and engagement. Furthermore, the circumstances in the water sector are significantly different to airports. Unlike the provision of water services internationally, which is often undertaken by local public bodies, there are numerous large international airport operators and investors, that would have the capabilities and likely interest to undertake international projects, including at Heathrow, if the circumstances were right. As the CAA notes, there are numerous precedents where airport operators have entered into agreements with third parties for the delivery and/or operation of airport infrastructure.

¹⁵⁰ See [here](#).

¹⁵¹ See [here](#).

¹⁵² See [here](#).

¹⁵³ See [here](#).

¹⁵⁴ See [here](#).

¹⁵⁵ See [here](#).

¹⁵⁶ <https://vinci-airports.com/>

Consistent with this, the Government's expansion process has reconfirmed the interest from third parties, including Arora Group.

Terminal competition would have a marginal impact on operations at Heathrow

188. Heathrow is already a multi-operator environment, with numerous different service and infrastructure providers, reflecting the separability of assets and activities. Terminal competition requires clear and robust working practices and protocols to manage “interface” changes, but the move to terminal competition is only an iterative step from the status quo. Protocols to manage interface changes can build on those already established and in place to manage the numerous hand-offs between different service providers operating at the airport.
189. The organisationally-separate operation of terminals from airfield activities at other major international airports, including the world's busiest airport (Atlanta International¹⁵⁷), demonstrates that introducing terminal competition at Heathrow is operationally feasible:
- **Terminals are highly separable** from each other, and from other assets and activities at Heathrow. Clear boundaries can be drawn based on physical assets and infrastructure, as well as the allocation of risks, responsibilities and obligations between terminal operators, HAL and other service providers at the airport.¹⁵⁸ For example, separate (and often competing) providers already exist for baggage services, ground handling, catering, cargo, air traffic control, etc.¹⁵⁹ Even where activities are at their most inter-terminal, such as the movement of connecting passengers' luggage from one terminal to another, third parties handle the activity, not HAL.
 - **Independent terminal operations already exist at Heathrow.** Cargo activities and the private aircraft terminal (operated by Signature) show how independent terminals can operate effectively at Heathrow. IAG Cargo and other cargo services providers already operate separate terminals at Heathrow alongside Signature's terminal. These terminals operate effectively, and all necessary coordination and hand-over points with HAL and other service providers at the airport are managed effectively.¹⁶⁰
 - **HAL already manages many aspects of terminals separately.** There is already a high degree of separation in the day-to-day management of terminals. For example:
 - Each terminal has its own dedicated operational management responsible for day-to-day operations of the terminals (e.g. Baggage Service Managers).
 - Many terminal staff, for example including security staff, are based in specific terminals.
 - Certain supplier contracts are terminal-specific (e.g. in relation to baggage systems).

¹⁵⁷ See Annex 2 for other examples.

¹⁵⁸ Heathrow Reimagined set out an illustrative example of how boundaries could be drawn in our September 2025 meeting with the CAA.

¹⁵⁹ Heathrow Reimagined considers that Heathrow's terminal operations are, if anything, more readily separable from the remainder of the airport than was the case for those parts of BT's telecoms network that were separated to facilitate greater competition. For example, enabling wholesale access-based competition in telecoms involved identifying the right boundaries to enable wholesale access within complex physical telecommunications networks, identifying spaces within BT's buildings to enable the co-location of different operator equipment, and more recently identifying protocols for managing boundary activities when alternative network operators connect their networks to BT's physical infrastructure (i.e. ducts and poles).

¹⁶⁰ To that end, IAG would be happy to provide further information to the CAA on its cargo operations at Heathrow if that would be helpful.

Indeed, historically HAL operated the terminals as semi-autonomous units, with terminal general managers, with budgets, performance targets and resource responsibilities. This also allowed local airline relations to be managed at the terminal level by the general manager.

- **Heathrow already operates as a complex multi-operator ecosystem.** More than 350 separate companies provide services at Heathrow, including catering, refuelling, de-icing, car parking, retail, passenger assistance, ground handling and baggage handling. These services are largely coordinated by airlines, not HAL. NATS operates air traffic control for the airfield and liaises directly with airlines; this would remain unchanged under terminal competition. From an operational and safety perspective, terminal competition represents no material change to these established coordination mechanisms.
 - **Day-to-day terminal management is not particularly integrated with non-terminal management.** As set out above, day-to-day management of HAL's terminals is undertaken by separate teams. Furthermore, British Airways already manages many aspects of the day-to-day operation of Terminal 5 independent of HAL.
190. To the extent that airport masterplanning activities are required to coordinate and facilitate activities and developments across the campus, this could be overseen by the CAA through the CIC. This would ensure system-level coherence while enabling competitive provision at terminal level.
191. While Heathrow's terminals may share certain infrastructure, systems and personnel (both amongst themselves and with the remainder of the airport), there is no reason why a well-managed carve-out process would raise particular risks of disruption. This was the case in relation to the break-up of BAA, where the carve-out of Gatwick, Stansted and other previously BAA airports necessitated managing issues related to shared staff, services and assets.
192. Further, the CMA has historically required various divestments and carve-outs under its merger control powers¹⁶¹ in cases that appear to be much more complex than would be the case with HAL's terminals. It has shown that they can be implemented successfully with little to no consumer disruption. This includes novating existing contractual arrangements that span both the residual and carved-out businesses. Both the CAA and industry would be able to draw on a broad range of highly experienced advisors to help manage any structural separation.
193. Indeed, terminal competition is likely to generate significant consumer benefits in relation to resilience and reducing the risks of disruption. Having separate operators and owners, each with their own arrangements for key personnel, services, and infrastructure, would provide greater diversity across the airport, making it less vulnerable to failures caused by single suppliers, personnel issues, or asset unavailability.¹⁶² Resilience is likely to be greater where infrastructure is managed by operators with incentives better aligned with their customers' interests – resilience would become a dimension of competition and a potential source of differentiation for operators.

¹⁶¹ e.g. [viagogo/Stubhub](#), [FNZ/GBST](#).

¹⁶² The benefits of having supplier diversity was demonstrated, for example, by the Collins multi-user check-in and gate operations software issues in September 2024.

Models of terminal competition can improve financeability of terminal investments

194. Terminal competition does not, in principle, increase the aggregate level of operational risk within the system of airport operations at Heathrow. With appropriate contracting and risk-sharing arrangements in place, the aggregate cost of financing the system should not increase, whether it is operated by HAL alone, or by HAL alongside one or more other parties. Therefore, terminal competition should not, in principle, increase the cost of finance at an aggregate system level. Indeed, there are strong arguments that new models of terminal competition could reduce aggregate finance costs at Heathrow.
195. **The real financeability challenge is not regulatory reform. It is HAL's plan to fund at least £49 billion (or more) for capacity expansion and modernisation through a single, highly leveraged operator – one with already the highest airport charges in the world and a complex, opaque debt structure with limited headroom.** Regulatory reform that enables diversified financing sources from third-party terminal operators addresses, rather than creates, financeability challenges. Furthermore, it does so in a way that protects and advances consumers' interests, rather than saddling them with the harmful consequences of HAL's decision to pursue such a highly-indebted business model.
196. Terminal competition could enhance financeability by:
- **Reduced quantum:** Competition drives more efficient delivery, reducing total project costs and the amount that needs to be financed.
 - **Diversifying financing sources:** Rather than relying solely on HAL's highly-leveraged balance sheet, expansion could access capital from multiple operators with greater debt capacity than HAL.
 - **Deleveraging HAL:** The proceeds from any terminal divestments could be used to reduce HAL's debt, providing more financing headroom to maintain an appropriate credit rating while undertaking expansion.
 - **Reducing concentration risk:** Financing challenges for one operator would not affect others or core airfield operations. Under the current regime, the pace and phasing of expansion and modernisation are dependent on the ability of a single, highly-indebted firm (HAL) having access to the necessary finance in a timely manner.
 - **Accelerating investment:** HAL's limited financial headroom poses a real risk to how quickly consumers will benefit from expansion. Under current plans, passengers are unlikely to see the expensive replacement for Terminal 3 operational until the 2040s, with any significant upgrades to Terminal 4 not yet planned (and, thus, likely to be even later).¹⁶³
 - **Attracting competitive financing terms:** Independent operators with strong credit profiles should also be able to access competitive financing terms. Indeed, a requirement to have an investment-grade credit rating could be a pre-condition for anyone participating in a competitive process. Competition between operators would reveal the efficient level of financing costs.

¹⁶³ Replacing Terminal 3 is part of the 'Modernising Heathrow' programme. HAL's H8 Business Plan (page 218) states: "*Modernising Heathrow is our programme to upgrade infrastructure and increase capacity over the next 15 years*". It also states: "*The first phase of Modernising Heathrow will increase capacity in Terminal 5; later phases involve expansion of Terminal 2 to enable the closure of Terminal 3, followed by improvements to surface access and optionality for future growth.*" See: Heathrow Airport Limited, *Heathrow's H8 Business Plan: 2027-2031, 2025*, page 218, [link](#).

197. Any suggestion that terminal competition would materially increase the cost of capital must be carefully scrutinised, given that:
- the fundamental business of operating terminals at Heathrow does not change;
 - more efficient operators present lower risk profiles;
 - international precedents demonstrate competitive financing terms; and
 - regulatory certainty post-implementation reduces risk compared to the current failing regime requiring ongoing intervention.
198. By contrast, persevering with incremental tweaks to the current failed model threatens financeability through inefficient and unaffordable investment, the ongoing regulatory risk associated with failing to comprehensively address the fundamental issues with the current model that have led to demonstrable consumer harm, and HAL's debt capacity constraints.
199. HAL's high level of indebtedness raises legitimate questions about its ability to raise material new finance at competitive rates that would be achievable by less highly geared prospective terminal competitors (i.e. there could be material financing benefits associated with introducing new operators to undertake capex at Heathrow, where those operators are not encumbered with HAL's very high levels of debt and financial gearing).¹⁶⁴
- S&P Global Ratings, in its December 2025 note on Heathrow Funding Ltd, set out that HAL's "*indebted capital structure within the ring-fenced perimeter has more than £15 billion debt with limited cushion for underperformance or additional debt*"¹⁶⁵ and that "*if Heathrow pursues the construction, the credit implications could be negative for Heathrow Funding Ltd.*"¹⁶⁶
 - S&P's April 2025 assessment provided additional detail, calculating that HAL's Class A debt has only about 10% headroom under maximum gearing triggers, translating to a theoretical capacity of approximately £2.2 billion in additional borrowing – a tiny fraction of the minimum £49 billion expansion cost.¹⁶⁷
 - The same (April 2025) assessment also warned that "*the new runway would be difficult to finance without strong equity backing*" and that Heathrow's debt ratings have "*limited headroom for significant additional leverage.*"¹⁶⁸ It also noted that expansion "*would increase Heathrow's already significant leverage and most likely give rise to a major step-up in aeronautical charges,*" with risks that the resulting charge increases "*could weigh on Heathrow's competitive position.*"¹⁶⁹
200. Terminal competition can be implemented in a way that enables airport operator(s) accessing the finance necessary to support expansion and modernisation at an efficient cost. Terminal

¹⁶⁴ It may be argued that if the CAA raises the maximum allowable yield to accommodate HAL's expansion capex, debt markets will readily finance HAL. However, this overlooks that HAL remains exposed to volume risk (albeit reduced by the risk-sharing mechanism). Volume risk combined with high indebtedness creates negative credit implications, regardless of any such adjustments to the maximum allowable yield. Furthermore, relying on a single, highly-leveraged operator introduces concentration risk and financing bottlenecks that diversified terminal competition would avoid.

¹⁶⁵ S&P Global Ratings, "Heathrow Funding Ltd.", 2 December 2025, [link](#).

¹⁶⁶ S&P Global Ratings, "Heathrow Funding Ltd.", 2 December 2025, [link](#).

¹⁶⁷ S&P Global Ratings, "Heathrow's Expansion Could Impair Its Credit Profile", 28 April 2025, [link](#).

¹⁶⁸ S&P Global Ratings, "Heathrow's Expansion Could Impair Its Credit Profile", 28 April 2025, [link](#).

¹⁶⁹ S&P Global Ratings, "Heathrow's Expansion Could Impair Its Credit Profile", 28 April 2025, [link](#).

competition arrangements can be designed by the CAA in a way that provides appropriate protection to HAL's recovery of its existing efficiently-incurred costs:¹⁷⁰

- Where regulation continues to set charges for specific AOS activities, the CAA could continue to ensure that price control arrangements provide an opportunity for the regulated entity to recover its efficiently incurred costs (including a reasonable return on capital) for those regulated activities.¹⁷¹ The CAA would remain able to ensure that the risks embodied in the price control and associated incentive mechanisms are allocated in an appropriate, efficient and proportionate manner between the regulated entity and consumers. Independent terminal operators should have strong incentives to grow passenger volumes – there would be no incremental volume risk.
- Where HAL either divests existing terminals or enters into long-term arrangements that allow independent third parties to operate them competitively, the CAA can structure the transaction terms so HAL continues to have the opportunity to recover its efficiently incurred terminal costs. The CAA could also ensure that the RAB used to set regulated charges would be consistent with the financial terms of those transactions.
- Experience at other major international airports¹⁷² where third-parties have been able to invest in independent terminals has shown that such projects can readily access the necessary finance (see Annex 2).¹⁷³ These examples demonstrate sustained appetite from private capital, infrastructure investors, and airlines to commit substantial financing over multi-decade horizons for independent terminal operations. Given the high existing charges at Heathrow and the inherent underlying strength of the market, investing in new terminals at Heathrow should be more attractive than elsewhere (all else being equal). Furthermore, competition between potential terminal developers should ensure that the cost of finance remains competitive.

The CAA, with support from Government, has the powers to ensure that terminal competition is implemented and in a timely manner

201. The promotion of competition in the provision of AOS was a key consideration when policymakers established CAA12, embedding it within the CAA's primary duty.
202. Heathrow Reimagined considers that the CAA, in combination with Government where needed, is able to ensure that terminal competition (both in respect of new and existing terminals) can be implemented in a timely manner – whether part of or separate from expansion. Should the CAA identify gaps in its existing statutory powers, Government can make the necessary legislative provisions (whether primary or secondary) in a timely manner to enable terminal competition.
203. Heathrow Reimagined sees no reason why the introduction of terminal competition in relation to new terminals should delay the existing expansion processes and timelines. The

¹⁷⁰ Such arrangements can be designed to avoid any potential concerns around stranded asset, just as the existing rules do today.

¹⁷¹ The CAA may continue to base price regulation on a RAB model for these residual AOS activities. This will continue to provide long-term cost recovery certainty to investors.

¹⁷² See Annex 2 for detailed source information.

¹⁷³ Examples, which are set out in Annex 2, include:

- JFK Airport: A \$19 billion transformation programme is being financed through multiple independent terminal operators, with 80% (\$15 billion) from private sources. New Terminal One (Ferrovial-led) involves \$9.5 billion under a concession to 2060; Terminal 6 (Vantage/Corsair) raised \$4.2 billion.
- LaGuardia Airport: \$8 billion transformation financed two-thirds through private financing and passenger fees. LaGuardia Gateway Partners operates Terminal B under lease to 2050; Delta finances Terminal C.

Government's current process has already considered scheme promoters beyond HAL, and we anticipate that the Government will need to undertake legislative activity, in any event, to progress expansion.

204. The CAA can, through this review, play a crucial role in promoting the development of terminal competition by providing clarity over its policy position in relation to terminal competition, and confirming that it has the necessary powers to require the integration of terminals developed and owned by third-parties within the remainder of the airport. This is despite it not having sole responsibility for decisions necessary to enable terminal competition based on new terminals being owned and operated by third-parties. Such clarity would provide greater regulatory certainty for those considering entering into a DCO process to develop a new rival terminal.
205. Introducing terminal competition for the existing terminal estate could be advanced in parallel with expansion and the development of new terminals. Most of Heathrow's existing terminals will require substantial capex over the coming years, creating natural points to introduce competition and ensure efficient investment.¹⁷⁴ Competition could be sequenced to prioritise those terminals likely to yield the greatest consumer benefits.¹⁷⁵ We see no reason why a well-managed process would introduce any incremental risks to expansion or the Government's timetable.

Effective terminal competition across both the existing and new terminals would mitigate the need for a non-discrimination regime

206. The CAA notes the potential need to develop non-discrimination arrangements to mitigate the risk that a vertically-integrated HAL seeks to undermine terminal rivals.¹⁷⁶ Where HAL retains both airfield and terminal operations in competition with terminal-only rivals, Heathrow Reimagined agrees that the CAA would need to put in place effective non-discrimination arrangements. Experience in telecoms (in particular) shows that such mechanisms can be implemented effectively. Heathrow Reimagined anticipates that the regime required at Heathrow could be materially less expansive than that required for BT, not least given the more limited scope for an airfield operator to discriminate against terminal operators.
207. However, such risks of anticompetitive discrimination can be addressed by removing HAL's incentive to engage in such activities. This can be achieved by ending HAL's vertical integration across terminals and non-terminal activities. If HAL no longer operated any terminals, it would no longer have an incentive to resist effective operational integration. Instead, it should act in its own commercial interest to facilitate efficient use of the airfield to maximise the economic value of its remaining assets.

Introducing terminal competition based on new terminals

208. As set out above, the benefits to consumers from terminal competition would be maximised by putting in place a model in which independent terminal operators, unencumbered by HAL's

¹⁷⁴ Most terminals may also require Development Consent Orders (including Terminal 2, which HAL could group together with expansion). Terminal competition would enable multiple parallel developments across the estate, allowing consumers to see benefits more quickly while de-risking the programme compared to reliance on a single, large programme run by HAL.

¹⁷⁵ e.g. because they are likely to have the greatest short-term capex requirements or currently provide particularly poor service quality; for example, Terminal 3 and 4.

¹⁷⁶ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 4.81, [link](#).

harmful incentives, are able to compete directly with the other terminals over all possible dimensions of competition (e.g. design, build, operate, finance and own).

209. The **CAA's Regulatory Models 4 to 7** could, in principle, all be used to introduce greater competitive discipline in the provision of new terminal services by targeting different combinations of competition for terminal design, build, finance and operation. All have the potential to deliver incremental consumer benefits relative to the status quo, although the magnitude of those benefits varies across options, as discussed further below.

210. However, Heathrow Reimagined considers that only **CAA Regulatory Model 7b** would result in the direct competition between independent terminals needed to realise the full potential of terminal competition for consumers. Taking the models in numerical order:

- **Models 4 (both 4a and 4b) and 6** would inject varying degrees of greater competition in procurement, delivery and financing of new terminals. However, applied alone to terminals, they would not change HAL's harmful incentives sufficiently nor deliver the full benefits of direct competition between independent terminals.
 - Under **Models 4a and 4b**, HAL would retain control over key aspects of the capex lifecycle under continued harmful capex incentives and, importantly, neither model would involve independent terminal operators competing over pricing and service quality to attract airlines.¹⁷⁷ That said, Model 4b (mandated competitive procurement) has significant value as part of a comprehensive package of reforms, particularly for semi-separable assets where full terminal-style competition is not feasible (as discussed below).
 - Under **Model 6**, as the CAA notes, this is similar to Model 4b and shares the same fundamental limitations, particularly that HAL would continue as the operator and long-term owner of the new terminal – it would not involve independent terminal operators competing over pricing and service quality to attract airlines.
- **Models 5a, 5b and 7a** are all limited by the third-party terminal operator acting as a sub-contractor to HAL. Therefore, while they could deliver some competition-for-the-market benefits, they would not result in independent terminal operators, unencumbered by HAL's harmful incentives, competing over pricing and service quality to attract airlines to their terminals. The full potential of terminal competition would not be realised, and the fundamental problems with the current model stemming and HAL's harmful incentives would not be properly addressed.
- **Model 7b** is the most effective option to address HAL's harmful incentives by enabling full and direct competition between terminals. It therefore unlocks the greatest potential benefits from terminal competition. We agree with the CAA that competition between a third-party and HAL would put HAL under competitive pressure, thereby increasing its incentive to constrain costs, maximise efficiency, increase levels of underlying resilience and improve service quality to retain or attract users.

Assuming that new terminal operators were not subject to a regulated RAB-based price control, we would expect them to have standard incentives to drive operating and capital efficiency to maximise their profits. This would create valuable benchmarks to assess

¹⁷⁷ As set out below, some of these downsides could be addressed by combining Model 4 with a fundamentally reformed capex governance regime.

HAL's performance against, strengthening the information available to regulate HAL more effectively. It would harness both competition-for-the-market¹⁷⁸ and competition-in-the-market as, in principle, the new terminal operator(s) should compete on an ongoing basis with existing terminal operations to attract airlines. This model, therefore, has the greatest potential to properly address the fundamental problems with the current model arising from HAL's harmful incentives.

The benefits of terminal competition would be enhanced by also introducing competition in relation to existing terminals

211. Enabling competition between existing terminals (alongside new terminals) would intensify competitive rivalry to the benefit of consumers. Greater competitive rivalry would contribute to a more efficient, user-focused airport, thereby increasing the likelihood of successful expansion. Extending competition to existing terminals would also more comprehensively address HAL's substantial market power and deliver greater benefits against the CAA's assessment criteria - particularly efficiency, affordability, and promoting competition. This maximises the CAA's ability to meet its statutory duties, including its primary duty to further the interests of users and its duty to promote competition in the provision of AOS where practicable.
212. **For the benefits of terminal competition to be realised, it must extend to the capex required to maintain, enhance, and potentially extend existing terminals, not only the day-to-day operation of those terminals.**¹⁷⁹ If future capex remains subject to HAL's harmful incentives, consumers' interests will be further harmed by unnecessary inefficiency, leading to even higher charges and further deterioration in value for money.
213. There are at least two main ways of introducing terminal competition in relation to existing terminals, both of which harness competition-for-the-market through structured tender processes and can fundamentally reset operator incentives:
 - **Structural separation of terminals: Requiring the transfer of ownership and operation of existing terminals to third-parties** (i.e. similar to **CAA Regulatory Model 8**). HAL would no longer own or operate the terminals. This would allow third-party operators to compete directly in the provision of services to users based on entirely separately owned and operated infrastructure. Operators would have an incentive to undertake operations and capex (to maintain, enhance or expand their terminal) efficiently. By separating terminal ownership from residual airport activities (e.g. airfield activities), the need for a non-discrimination regime would be mitigated.
 - **Contractual separation of terminals: Establishing a long-term contractual mechanism such as a long-term lease or licence 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.** This model aligns closely with **CAA Regulatory Model 7b**, in that it would involve third-party terminal operators competing directly with other terminals to provide services to airlines and their passengers. However, it would apply to

¹⁷⁸ As different potential developers of new terminals compete to win the right to operate and attract long-term airline partners to underwrite the business case.

¹⁷⁹ Further increases in terminal capacity could facilitate greater improvements in competitive intensity as terminal operators seek to maximise the utilisation of their own infrastructure.

existing, not new, terminals, and would be based on a contractual mechanism that would mean that HAL would retain freehold ownership of the existing terminals, while allowing third-parties to operate and invest in them during the contractual period unencumbered by HAL's harmful incentives.

214. Both models could be designed to harness both competition-in- and competition-for-the-market dynamics to the benefit of consumers. Heathrow Reimagined considers that either model could be designed in a manner that:

- Allows consumers to benefit from effective competition between terminal operators, including through providing **strong incentives to be efficient and responsive to the needs of users**. It would therefore address the failings of the current regime in relation to terminals and contribute to enhancing the **affordability**, and therefore **financeability**, of the airport.
- Would be consistent with the CAA pursuing its statutory duties, including **promoting competition** in the provision of AOS.
- Would be **practical to implement**, drawing on experience from other airports internationally where terminals and airfield operations are operated independently, and from the experience where competition has been successfully introduced in other sectors.
- Would appropriately respect the continued appropriate recovery of HAL's historically efficiently-incurred terminal costs and would **enable expansion and the modernisation of the existing airport to access finance from a wider range of investors**, including those not as encumbered with as high levels of debt as HAL.
- **Would not interfere with the Government's timetable for expansion.**
- Would create incremental terminal capacity that, in turn, facilitates the opportunity for airlines to switch.

215. We, therefore, consider that both models should be on the CAA's short-list for further detailed consideration.

Greater use of competitive processes beyond terminals

216. Outside of terminals, greater use could be made of competition alongside the reformed capital governance arrangements. Such mechanisms would harness market forces to better reveal the underlying efficient costs of capex projects, but also to contribute to more innovative and consumer-centric infrastructure. There are two main ways of doing this:

- **Design-build-operate (DBO) for major new separable infrastructure (similar to CAA Regulatory Model 5b)** – should operate within CIC oversight to ensure the right assets are being procured and under the right terms. Heathrow Reimagined considers that the CIC should also have the ability to require that ownership of the new infrastructure also remains with the third-party where that is deemed appropriate by the CIC (i.e. consistent with CAA Regulatory Model 7b). By detaching the ongoing ownership of the infrastructure from HAL's harmful incentives under the current RAB-based model, such an option could drive further benefits for consumers. Such a mechanism could be particularly valuable where there are specific concerns about the ability of the CIC to counter effectively HAL's harmful incentives to prioritise and specify individual capital projects, for example.

- **Mandated competitive procurement for specified projects (similar to CAA Regulatory Model 4b)** – would operate within CIC framework – the CIC would have powers to mandate competitive procurement (e.g. design and build) as a condition of approval. Heathrow Reimagined considers that the CIC should also have the power to include the costs of financing the development and construction of the infrastructure (i.e. before ownership is transferred to HAL) within the competitive procurement activity, where that is deemed appropriate by the CIC.

217. Heathrow Reimagined considers that using such mechanisms as part of a fundamentally reformed capex governance regime (see below) would:

- Allow consumers to benefit from effective competition between infrastructure providers, including through providing **strong incentives to be efficient and responsive to the needs of users**. Even HAL's advisers recognise that competitive tendering for discrete and separable parts of the expansion programme can offer benefits, including lower costs owing to competition.¹⁸⁰ Such mechanisms would, therefore, address the failings of the current regime in relation to terminals and contribute to enhancing the **affordability**, and therefore **financeability**, of the airport.
- Would be consistent with the CAA pursuing its statutory duties, including **promoting competition** in the provision of AOS.
- Would not raise **finance** concerns. HAL would continue to have an opportunity to recover its efficiently incurred costs. Furthermore, by enabling others to potentially finance aspects of future capex the model would open up sources of finance that are not encumbered by HAL's very high levels of debt and financial gearing.
- Would not interfere with the Government's **timetable for expansion**.

Delivering a step-change in the effectiveness of regulation

218. As set out above, where well-functioning competition can be introduced it directly addresses HAL's harmful incentives by fundamentally resetting them. However, well-functioning competition is unlikely to be achievable for all AOS activities. For activities where HAL or other operators retain monopoly provision, and for system-level coordination and oversight across the airport, fundamental reform to capital governance is essential. Furthermore, even where competition is introduced, enhanced capital governance mechanisms can play an important complementary role – for example, overseeing competitive tender processes, setting minimum standards, managing interfaces between competitive and monopoly activities, and ensuring long-term airport-wide planning coherence.

219. Regulatory reforms need to address all the harmful incentives under the current regime, including those related to capex, opex and service quality, and/or the airport operator's ability to act on those incentives. However, given the capital-intensive nature of Heathrow, ensuring that the future regime is effective at promoting efficient and effective capex must be a priority.

¹⁸⁰ Santander/Freshfields, *Funding an Expanded Heathrow*, 2025, [link](#). HAL commissioned Santander and Freshfields to assess financing models for expansion, published by the CAA in December 2025. The report focuses narrowly on financeability rather than the full evaluation framework. The report's analysis is high-level and assertion-based, with inconsistent treatment of alternative models. Given that the CAA's Working Paper does not appear to place material weight on its conclusions, we have not set out our views on the paper's merits and detailed rebuttal in this document. We do, however, note that even this analysis recognises potential benefits from competitive mechanisms for discrete and separable infrastructure. We would be happy to share further views with the CAA if helpful.

If the regulatory regime does not properly control capex, it cannot properly control charges and further the interests of consumers.

- 220. Enhanced capital governance is necessary alongside the introduction of greater competition as part of a reformed regulated model at Heathrow. While governance reforms will not remove and reset the underlying harmful capex incentives that stem from the current RAB-based model, they can materially enhance the ability of the CAA and stakeholders to effectively police against the airport operator(s) acting on those incentives for residual monopoly activities, as well as being able to provide system-level oversight across the airport. Such reforms are crucial to support efficient, affordable capex that delivers value for consumers.
- 221. Effective long-term structural reform of the capex governance regime at Heathrow needs to result in the CAA, airlines and other stakeholders having greater visibility of, and the ability to meaningfully influence, all aspects of the capex lifecycle at Heathrow. The intention of capex governance reform should be to much more effectively mimic the capex discipline, sophistication and rigour that firms in intensively competitive markets (e.g. the provision of air transport services) need to have to ensure that all capex decisions contribute to making their consumer proposition more attractive, either through enhancing efficiency, driving innovation or otherwise improving the competitiveness of the product or service they provide. Where operators continue to hold entrenched substantial market power, they do not face the capex discipline that comes from operating in a competitive market. Regulation must seek to introduce competitive dynamics or replicate them to the fullest extent possible.
- 222. Effective capital governance must be scoped to cover all aspects of the capex lifecycle, implemented with the right mechanisms and processes, and, crucially, operate within the right control structures. If any one element of this is missing or inadequate, capital oversight risks being ineffective. We explain each of these critical elements in more detail below.

Figure 12: Elements needed for a capital governance regime to be effective



Source: Heathrow Reimagined.

Effective capital governance must be scoped to cover all aspects of the capex lifecycle with the right mechanisms and processes

- 223. To be effective, capital governance and oversight must cover all aspects of the capex lifecycle:
 - **Capital planning** – given the long-duration nature of airport infrastructure, capital governance must enable transparent decision-making on how different investment options can best sustain asset integrity, meet user needs, ensure regulatory compliance, and drive growth with an affordable envelope.

This crucial stage sets the framing of all the subsequent decisions about how capex is deployed. Without effective oversight of the development of the long-term capex plans

and envelope, the governance process cannot properly control capex and therefore the future evolution of affordable charges.

Under the current regulatory model, stakeholders have very little influence on long-term strategic capital planning decisions and are not aware of any mechanisms being in place: (i) to test the appropriateness or long-term affordability of investment plans and (ii) for the CAA to review or control HAL's long-term capex plans. The price control process focuses narrowly on capex plans over the charge control period (i.e. c. 5 years), without considering the longer-term horizons that often characterise major capex projects and the long-term effects that such projects can have on future price controls.

Furthermore, despite existing consultation and engagement processes (e.g. constructive engagement), in practice, stakeholders have very little, if any, control or influence on the prioritisation of needs and projects within any envelope that HAL has itself determined. Airlines' only meaningful point of control is their go/no-go decision at G3 but, as set out below, HAL can manage the governance process to undermine airline choice at that stage. HAL designs its airport development masterplans, supporting arguments, and political narratives to secure high-cost investment programmes early, often before the formal regulatory process begins. This approach almost ensures ongoing spending increases, as seen so far.

Effectively addressing this deficiency – through the introduction of competition – must be a key part of reforming the capital governance regime, both for expansion and the ongoing operation of the airport.

- **Capital approval** – governance must ensure that individual projects/programmes are approved based on robust business cases detailing project purpose, scope, delivery schedule, benefits-realisation timeline, IRR, risks and mitigations, alongside credible 'do-nothing' and alternative options.

The approval process must be based on an effective information control process and processes to ensure that scrutiny is focused on the right projects with sufficient time for stakeholder views to be properly reflected in plans. It needs to make effective use of genuinely independent third-parties to determine the information needed from HAL and to interrogate and challenge HAL's proposals in a targeted and effective manner. It must also ensure that stakeholders are brought into the capital approval process sufficiently early, such that they interrogate and challenge plans sufficiently early in the process to avoid being confronted with no real choice but to approve plans that they are not comfortable with too late in the process. The CAA has no meaningful formal role in scrutiny before G3, meaning issues cannot be escalated until it is too late to influence outcomes without significant cost. This all needs to be backed up by effective escalation (including the credible threat of ex-post RAB disallowance where projects prove inefficient) and dispute resolution processes.

The existing capital approval process does not deliver on this – it is not effective. For example, it:

- is poorly targeted with scrutiny not focused where risk is concentrated;
- involves information processes that often leave stakeholders overwhelmed with large quantities of data that lacks key information crucial to their assessment (including robust business cases);

- has poor and opaque financial analyses;
- does not make effective use of genuinely independent third-party experts (third-parties, such as the IFS and SMEs, are not properly independent as they are jointly appointed and paid by HAL);
- has ineffective escalation mechanisms and no meaningful dispute resolution process; and
- does not allow stakeholders to effectively interrogate alternative or 'do-nothing' options.

While the governance process requires airline approval of capex projects at G3, this process is not effective, and can be gamed by HAL to engineer the outcomes it wishes to pursue. As set out above, airlines have been left with 'take it or leave it' decisions, which leave little real choice but to accept HAL's proposals. HAL can choose when to ask the airlines for approval, allowing it to time the process to put airlines in a position where they are put under pressure to make quick decisions, meaning that they have no real ability to properly interrogate or challenge HAL proposals.¹⁸¹

The independent report by Dr Mansell from Green Impact provides a detailed assessment of the current capital approval regime and its deficiencies.

- **Capital monitoring**, including having appropriate **accountability** mechanisms in place.

There needs to be an ongoing governance cycle that safeguards ongoing value once a project/programme is approved. Regular reporting on project performance and delivery, with cost overruns or timeline slippage being thoroughly scrutinised.

Post-completion, there should be periodic reviews (not just limited to the period immediately after completion) to check that the outcomes upon which the business case was approved are delivered and any divergence is understood and remediated, with RAB disallowance where failures result from poor management.

Robust accountability measures, including sanctions, are needed to ensure that the airport operator faces meaningful jeopardy for underperformance.¹⁸² The burden of proof must rest with the airport operator to demonstrate that cost overruns result from factors genuinely outside its control, not from poor planning or management. Processes need to be robust to the risk of gaming.¹⁸³

Under the current regime, the focus of capital monitoring and enforcement is on the capex incentives and Delivery Obligations regime that the CAA introduced in H7. While these mechanisms have been in place for a relatively limited period,¹⁸⁴ Heathrow Reimagined has serious concerns about the incentives HAL faces under these mechanisms and, ultimately, their ability to provide the appropriate level of accountability, particularly given HAL's ability to game the system (e.g. through the change control mechanisms).

¹⁸¹ See, for example, the experience in relation to the T2 baggage system or HAL's acquisition of the Compass Centre (as presented to the CAA in December 2025).

¹⁸² Either in meeting capex cost or timeline commitments or for subsequently failing to deliver the benefits the business case was based on

¹⁸³ The Competition Commission identified risks of 'regulatory gaming' in the BAA market investigation (see Annex 1), referring to "strategic behaviour by the airport operator to inflate the size of the RAB".

¹⁸⁴ As acknowledged in Section B and in our presentation to the CAA in December 2025.

Further, the current sanctions regime does not have sufficient ‘teeth’ to be effective and impose the appropriate discipline on HAL and its management. The penalties do not effectively replicate the sanctions that businesses and management would face in a competitive market.¹⁸⁵ The current regulatory model is highly ineffective at preventing poor capex decisions from being transferred to the RAB and, therefore, consumers. Furthermore, normally where management makes particularly poor capex decisions, it would face consequences for their decisions – either through their compensation or ultimately relinquishing their position. The current capex regime has no power to replicate such sanctions.¹⁸⁶

Having the right control structures is crucial to effective capital governance

224. It is not enough to only ensure that the scope and mechanisms for capital governance are set up for success. They must be accompanied by the right governance *structures*, which ensure that the CAA and stakeholders have the right level of transparency and *control* over all aspects of the capex oversight process needed to prevent HAL from acting on its incentives to undermine effectiveness.
225. To be able to effectively mimic the capex discipline that firms need in a competitive market, the CAA and stakeholders must have sufficient control over the management of the capex governance process across the entirety of the capex lifecycle. This needs to include, for example, controlling:
- how and when information is provided;
 - the level of scrutiny that individual projects/schemes are subject to;
 - the role of independent third-party experts (who should not be jointly appointed with HAL);
 - how and when approvals for individual projects are requested;
 - whether alternative schemes or solutions are considered alongside those favoured by HAL; and
 - signing off on whether individual business cases meet the required standards.
226. Under the current regime, HAL controls all aspects of the capex lifecycle and is responsible for managing the functioning of the capex governance process. The CAA has a very limited role, having effectively outsourced responsibility for engagement in HAL's governance process to airlines.¹⁸⁷ But the airlines do not have the necessary powers to be able to ensure that governance is effective.

¹⁸⁵ For example, as set out previously, if businesses in competitive markets were to make inefficient or ineffective capex decisions, they would not be able to pass the consequences of those poor decisions to their customers.

¹⁸⁶ The Working Paper (paragraph 4.34) sets out that the CAA will need to consider whether there would be any unintended consequences in terms of investor confidence and potential ‘chilling effects’ on investment from such sanctions. Heathrow Reimagined sees no basis for effective sanctions having a concerning effect on investor confidence or having ‘chilling effects’. The CAA would be the final decision-maker in relation to any sanctions and we would expect that it would set out and consult on clear guidance about when and how such sanctions would apply. Furthermore, we would expect that any such sanctions would not affect the opportunity of the airport operator to recover their efficiently incurred capital costs. Rather their application would be to address cases where capex projects have been inefficient or otherwise poorly managed. The regulatory regime should ensure that investment incentives are efficient – incentives should not be predicated on a regime that does not appropriately address inefficient or ineffective investment. Consistent with this, and as noted in the Working Paper, similar sanctions are available in other regulated sectors (e.g. water).

¹⁸⁷ Heathrow Reimagined is not aware of any other UK regulator delegating day-to-day responsibility for regulating capex decisions to customers. Customers may be consulted but do not have primary day-to-day responsibility.

227. Previous attempts to improve capex governance have failed because they have focused on process improvements while leaving HAL in control. The constructive engagement framework, the Independent Fund Surveyor, and the H7 Delivery Obligations all operate within a structure where HAL controls information flow, timing, and framing of decisions. Process reforms cannot succeed when the party being scrutinised controls the scrutiny process. The CIC model (set out below) addresses this fundamental flaw by shifting control to the CAA – the body with statutory duties to protect consumers and the powers to enforce compliance. This is not an incremental improvement, but, instead, a structural change in who has the power to set standards, demand information, and impose consequences.
228. This control, in combination with the severe systemic limitations on the ability of stakeholders and the CAA to effectively scrutinise and challenge HAL's decisions,¹⁸⁸ means that HAL has been able to act on its harmful capex incentives to the detriment of consumers and other users.
229. For example, HAL has been able to use its freedom to determine the timing of when it brings individual capex projects/schemes to the airlines for approval, alongside its ability to determine the options presented to airlines, to present airlines with go/no-go decisions at G3 – the main point of influence in the process for airlines – that effectively leave the airlines with no option but to approve projects for which they have significant concerns (e.g. T2 baggage and the Compass Centre acquisition, see Section B).
230. It cannot be right that HAL has the ability to manage the process such that airlines face no real choice but to accept HAL's preferred option due to the jeopardy engineered by HAL. The reformed regulatory regime needs to ensure the process is controlled to, and that HAL faces appropriate jeopardy and sanctions to create strong incentives to, avoid such situations.
231. Under the current regime, HAL's control of the capex governance process, alongside the lack of powers for the airlines, and the very limited role played by the CAA, means that rigidities have had to be built into the process to try to control HAL from acting on its incentive to undermine the process. For example, there are formal requirements on the provision of information and formalised processes for determining when individual projects should be subject to greater scrutiny. Not only do these fail in their goal, but they also constrain the process in a way that prevents more effective scrutiny.
232. Under a regime where the CAA and airlines have the necessary control, a much more agile governance process could be adopted. Rather than relying on rigid processes, decisions could be tailored and made on a case-by-case basis.¹⁸⁹ Such agility would allow scrutiny to focus where its impact could be greatest, and enable that scrutiny to be more effective and tailored to the needs of each project.

¹⁸⁸ As set out in a presentation to the CAA in December 2025.

¹⁸⁹ This could include the use of genuinely independent third-parties, information provision, the timing and staging of approvals, the use of targeted incentives, the scope and form of delivery obligations, the nature of the business plan required, the form and scope of ex post monitoring. For example, different standard approaches to governance could be determined to reflect the different levels of risk and benefits for different types of capex projects, with the body responsible for oversight determining on a case-by-case (or project type/classification) basis which approach should apply.

233. A mix of reforms is needed to address the issues identified above:



234. We explain each of these reforms in the sub-sections below.

Targeted adjustments to the existing capex incentive regime

235. The current capex incentive system and associated delivery obligations regime implemented in H7 are in practice neither effective nor capable of addressing the ineffectiveness of capital governance that has resulted in the poor consumer outcomes at Heathrow.¹⁹⁰ They do not fix the underlying harmful capex incentives, and, in some cases, risk incentivising further inefficient behaviour. Targeted amendments to the H7 regime (which we understand to be aligned with CAA Regulatory Model 2) would incrementally improve (but not fix) HAL's capex incentives and could be implemented rapidly under the CAA's existing powers. However, such adjustments can only ever make small incremental changes to the underlying harmful capex incentives; they are not capable of delivering the fundamental reform required.¹⁹¹

Incremental changes to the current capex governance mechanisms and processes

236. Similarly, the Mansell Report, which accompanies this response, identifies 20 recommendations as to how the current capital governance mechanisms and processes could be materially enhanced. These short-term incremental improvements (aligned with CAA Regulatory Model 1a) can be readily implemented using the CAA's existing powers and would deliver rapid improvements. As the CAA acknowledges,¹⁹² there are no material drawbacks to strengthening capex governance.

237. However, neither targeted incentive adjustments nor incremental process improvements will comprehensively address the problems with the current capex governance arrangements. Previous attempts to improve capex governance have failed because they have focused on process improvements while leaving HAL in control of information flow, timing, and framing of decisions. Process reforms cannot succeed when the party being scrutinised controls the scrutiny process. Fundamental structural reform is therefore required.

Fundamental reform of the capital governance scope, structures and control

238. As a result, new governance structures are required that ensure that:

- The governance regime is **scoped** to cover all stages of the capex life cycle, including the crucial capital planning stage; and

¹⁹⁰ We have set this out in a presentation shared with the CAA in December 2025.

¹⁹¹ Our December 2025 document sets out further detail on the changes we consider are required.

¹⁹² CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 4.102, [link](#).

- The governance structures give the CAA (in particular) and other relevant stakeholders the **necessary control** over the governance regime to ensure scrutiny is effective and to prevent HAL's harmful capex incentives from influencing good "system planning"¹⁹³ decision-making. HAL must not be able to control the process of scrutinising its own decisions. Rather, control of the scrutiny process must be aligned with the powers to undertake that scrutiny properly; the CAA must have responsibility and control to ensure that oversight is effective. The CAA has a statutory duty to further the interests of users and the powers to support it to pursue this duty. Providing effective capex oversight is critical to the pursuit of this duty. The CAA, therefore, must play a much enhanced role in the process.

239. There are two main ways that the required capital governance control structures could be implemented:

- Implementing the **Capital Investment Committee (CIC) model**,¹⁹⁴ which would govern capital planning, approval and monitoring for all material AOS investments at Heathrow, regardless of whether projects are delivered by HAL or third-party providers. This would involve the airport operator's system planning function remaining integrated within the wider regulated business, but the CIC would act as a separate and additional capex governance function convened (and chaired) by the CAA with other relevant stakeholder participation.

The regulated operator would remain responsible and accountable for all aspects of the capex lifecycle, but the CIC would provide the CAA and stakeholders with much more effective oversight and control than under the current regime. The CIC would oversee and control scrutiny for all aspects of capital planning (including Heathrow masterplanning), capital approval and capital monitoring/accountability. It would, therefore, directly address the current gaps and deficiencies. This would place responsibility for the oversight of HAL's capex decisions with the regulator (i.e. placing responsibility and control with the body that has the necessary powers to ensure that oversight is effective, and can escalate issues in real-time), not HAL.

The CIC's effectiveness rests on two pillars: enhanced ex-ante scrutiny through CAA control of the governance process, and credible ex-post enforcement through RAB disallowance and other sanctions. Current mechanisms fail because HAL faces limited jeopardy – even poor capex decisions typically transfer to the RAB. Under the CIC model, the airport operator would bear the full consequences of inefficient management choices, as firms in competitive markets do. This creates the discipline that process tweaks alone cannot deliver.

By placing much more control of the governance regime in the hands of the CAA and stakeholders, and across all stages of the capex lifecycle, the CIC model would enable a much more agile and targeted capital governance framework.¹⁹⁵

¹⁹³ That is, determining what infrastructure is needed, when, and at what cost.

¹⁹⁴ Heathrow Reimagined has previously discussed this with the CAA.

¹⁹⁵ Heathrow Reimagined recognises that there appears to be common-ground between it and HAL on the potential benefits from moving away from a "one-size fits all" approach (based on the third bullet of paragraph 4.12 of the Working Paper). For example, rather than relying on rigid processes for information provision or the use of third-party experts, under the CIC model, decisions could be made on a more case-by-case basis, avoiding some of the major failings of the current regime. For smaller, lower-risk capex projects, the CIC could establish new standardised approaches; but, for larger, higher-risk projects, the CIC would be able to establish bespoke, targeted arrangements.

Although the Working Paper makes limited references to some parts of the CIC model in the context CAA Regulatory Model 1a, and explicitly references the CIC under CAA Regulatory Model 1b, neither model fully maps across to the full CIC model as envisaged by Heathrow Reimagined. There are particularly significant gaps in relation to capital planning/affordability and accountability.¹⁹⁶ The CIC model is a way of capturing all the necessary elements under a single coherent model. **Heathrow Reimagined, therefore, considers that the CIC model should be taken forward by the CAA as an integrated model.**

- **Combining the CIC with separation of HAL's system planning function from its operational function.** The CIC model could be enhanced through the use of the type of separation model identified under the **CAA's Regulatory Model 1b**.

As described by the CAA, separation models would involve HAL's system planning function (which would be overseen by the CIC) being either functionally or structurally separated from HAL's construction, financing and operation of those assets. Separation alone would not guarantee that the system planning function's incentives and objectives would be well-aligned with those of consumers and other users. Rather, separation would involve additional structures and processes that would reinforce the effectiveness of other measures designed to promote better alignment (i.e. the CIC).¹⁹⁷

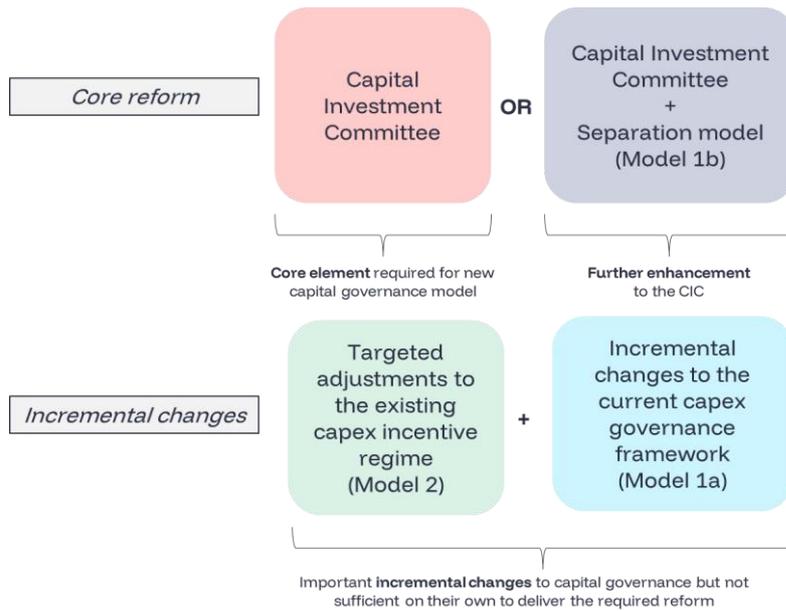
In practice, we consider that this would involve the combination of the CIC with the CAA's Regulatory Model 1b. Such oversight could also be strengthened through the separated function's corporate governance (e.g. articles of association).

240. As discussed further above, the CAA and stakeholders should also have the ability to mandate the use of competitive processes to design and build, finance and/or operate specific infrastructure. **Heathrow Reimagined understands that this could align with variants of those envisaged under the CAA's Regulatory Models 4b and/or 5b.** The CAA and stakeholders should also have full visibility of, for example, contracting terms, specifications, and commercial arrangements for outsourced activities to provide the necessary oversight to ensure that these processes are being efficiently managed and are based on an efficient allocation of risk.
241. Figure 13 below provides a summary of the reforms required to achieve a more effective regulatory model through a step-change in the effectiveness of capital governance.

¹⁹⁶ As set out above, for capital governance to be effective must be scoped to cover all aspects of the capex lifecycle, do so with the right mechanisms and processes, and crucially operate within the right control structures. If any one element of this is missing or inadequate, as is the case today, capital oversight risks being ineffective.

¹⁹⁷ For example, if the management of a functionally separated system planning function still reported to HAL's group management or Board, the required incentive alignment may still not be achieved. Therefore, the CAA and stakeholders would still need to play an appropriate role in the oversight, governance and accountability of the system planning function to ensure that the function's activities were aligned with the interests of consumers and other users.

Figure 13: Delivering a step-change in the effectiveness of capital governance



Source: Heathrow Reimagined.

242. As set out above, the CIC’s responsibilities would include oversight of the capital planning function. A critical element of capital planning is determining the appropriate overall long-term capex envelope that projects would be managed within. Establishing how different capex envelopes could affect the future trajectory of airport charges, and the implications of that for affordability and the attractiveness of the hub, must be a key part of determining the appropriate envelope under a reformed regulatory model.

Supporting the success of the Capital Investment Committee

243. The success of establishing any new CIC model would be critically dependent on complementary reforms. These are essential enablers for effective governance and regulation:

- **The introduction of competition** for assets and activities such as the development and operation of terminals. The CIC could continue to mandate or oversee competitive processes where appropriate (i.e. for design-build-operate projects) ensure system-level coordination, while day-to-day project delivery incentives are driven by competition.
- **Bolstering the CAA’s capacity and technical expertise** is crucial to strengthen the CAA’s ability to protect consumer interests. As the regulator with the relevant duties and powers, it is essential that the CAA is responsible for, and leads the day-to-day scrutiny of, HAL’s capex. It needs the resources and in-house knowledge to effectively scrutinise HAL’s proposals, oversee the CIC’s function, exercise informed judgement, set appropriate efficiency targets, and enforce compliance. Heathrow Reimagined recognises that there are gaps in the CAA’s current ability¹⁹⁸ to do that, and that the CAA is likely to require additional funding, including from the industry, to put the necessary resources in place.
- **Appropriate resourcing from users and the airport operator(s)**. Heathrow Reimagined and its members are committed to appropriate resourcing and expertise to engage

¹⁹⁸ i.e. having a sufficient volume of staff with the specific skills and experience required to carry out such tasks.

effectively with new processes and structures. However, the right powers and further CAA involvement are critical; further resourcing from users alone cannot deliver effective governance.¹⁹⁹

- **Measures to significantly improve transparency**, such as an ‘open book’ approach and right to audit to enable effective forward-looking scrutiny of costs, asset information and plans, are fundamental to allow for detailed review and meaningful, evidence-based challenge by the CAA and stakeholders. This would address the significant information asymmetries that currently favour HAL, with transparency key to holding the airport accountable for efficient delivery.
- **More effective use of benchmarking**, drawing on relevant national and international comparisons for both capital and operational costs, as well as charges benchmarking, to provide objective reference points for assessing the impact and efficiency of proposed expenditure and operational performance, informing regulatory judgements and incentive setting. Benchmarking has challenges, but with careful analysis and interpretation of results, it can play a useful role in the wider regulatory model.

244. Together, these complementary measures are necessary to empower the reformed governance structure to limit HAL’s ability to act on its harmful incentives to the maximum extent possible, and ensure outcomes that genuinely further consumer interests.

Our proposed approach to strengthening capex governance would further the interests of consumers

245. Strengthening capital governance through the CIC model (alongside the complementary measures set out above) would substantially improve strategic capital planning, oversight and accountability, delivering significant consumer benefits through more efficient and affordable capex. By improving the effectiveness of the capex governance regime, the CIC would promote more efficient investment, reduce the amount of capital needed to be financed, and reduce risk for all service providers while delivering consumer outcomes at good value for money. This supports the financing of expansion and modernisation of Heathrow.

246. Experience from the development of the Openreach model in telecoms²⁰⁰ has demonstrated that separation models can materially enhance the effectiveness of regulatory structures in cases of strong conflicts of interest that are difficult to police. This is the case with capex at Heathrow under the current RAB-based model. By creating a clearer distinction between the system planning and asset delivery/operation functions, Heathrow Reimagined agrees with the CAA that Regulatory Model 1b could make scrutiny of HAL’s system planning more straightforward. Separation can also introduce additional barriers to HAL acting on its incentives, though it is not an effective substitute for the CIC. The CIC could be implemented by the CAA, in combination with the Government. To the extent that there are gaps in the CAA’s existing powers, the Government could introduce new primary or secondary legislation to ensure the CIC can be introduced in a timely manner.

247. The introduction of either the CIC – or the CIC in conjunction with the CAA’s Regulatory Model 1b – would be consistent with enabling a notionally efficient airport operator and/or alternative providers to access sufficient finance at an efficient cost. Under both models, the

¹⁹⁹ As best exemplified by the case of the T2 baggage system example, set out in a presentation to the CAA in December 2025.

²⁰⁰ Originally based on functional separation, but subsequently strengthened to legal separation.

airport operator would continue to have the opportunity to recover its efficiently incurred costs and the long-term commitment to efficient capital cost recovery that arises under the RAB-model would continue. By improving the effectiveness of the capex governance regime, both models would promote more efficient and affordable capex, thereby reducing the amount of capital needed to be financed and reducing the risk for all service providers, while delivering consumer outcomes at good value for money.

248. The CIC model would increase the CAA's accountability and enforcement powers, including strengthening arrangements for the disallowance of inefficient capex to be added to the RAB, but we do not consider that this would have a material impact on regulatory risk.

- As these enhancements would remain consistent with the airport operator(s) having the opportunity to recover *efficiently incurred* costs (including a reasonable return on capital), we do not consider that this would materially impact regulatory risk.²⁰¹
- The changes lead to an efficient allocation of risks between airport operator(s) and consumers: to have an effective incentive to ensure capex is efficient, the airport operator(s) must face the full consequences of poor management choices leading to inefficiency, just as firms in competitive markets do. Regulation should seek to mimic the outcomes of a competitive market, as the CIC accountability provisions do.
- The intention of strengthening sanctions is that they act as a much stronger deterrent against inefficiency – if airport management responds to the incentives, the sanctions should not be called upon. By addressing the fundamental and demonstrable failings in the current regime, the CIC would contribute to greater confidence in the long-term sustainability of the regulatory model, reducing regulatory risk compared to prolonging the status quo.

Summary of our response to the Working Paper questions on reforms

249. The Working Paper set out the following two questions pertaining to options for reform. We set out brief summaries of our answers, based on our views in set out in full above.

250. *Q1: Do you agree with our description of the regulatory models we have identified, and do you have initial views on the advantages and disadvantages of these models?*

Heathrow Reimagined agrees that the Working Paper provides a helpful description of the main regulatory models and variants under consideration. Our initial views are:

- We support shortlisting Models 7b and 8 (terminal competition), Model 4b (mandated competitive procurement), Model 5b (design-build-operate), and Model 1 (fundamentally enhanced capital governance, including through functional/legal separation), for the reasons set out in this section.

²⁰¹ It is widely accepted that the regulatory regime should neither reward nor incentivise inefficiency – this is the same principle that the current regime is based on, but the CIC would make the regime more effective at delivering on it. The intention of strengthening sanctions is that they act as a much stronger deterrent against inefficiency. Therefore, if the airport operator(s)' management responds to the incentives, the sanctions should not be called on – it is in the airport management's hands to manage any risk.

- We consider Models 1a, 2, 4a, 5a, 6 and 7a to be insufficient on their own, as they are incremental variants which do not address the structural incentive problems identified in Section B and our previous submissions.
- We do not support Model 3 (longer-term regulatory framework), Model 9a (LRIC-based charging), or Model 9b (lighter touch regulation) being taken forward to the shortlist; our reasons are set out in Annex 3.

251. *Q2: Are there additional variants of the current regulatory model or additional alternative regulatory models that we should consider, and what would be the advantages and disadvantages of these approaches?*

Heathrow Reimagined proposes additional variants and packages which build on, but go beyond, the Working Paper long-list:

- Contractual separation for existing terminals, combined with competitive tenders for long-term terminal leases (a variant of Model 7b), to bring terminal competition to the whole estate rather than only to new terminals (set out in Section D).
- A fundamentally strengthened CIC model with scrutiny over all major monopoly capex and system-level affordability oversight (an enhanced variant of Model 1), as described in Section D.
- Broader use of competitive procurement and DBO for semi-separable assets (building on Models 4b and 5b), including baggage systems, cargo facilities and inter-terminal connections, as set out in Section D.

252. The shortlisting of these options would enable CAA to bring forward a comprehensive package of reforms as outlined in this response to address the two structural flaws of the current regulatory model, which would enable the CAA to meet its statutory duties.

Annex 1. BAA: Competition Commission's 2009 decision

1. The Competition Commission (CC)'s 2009 Final Report²⁰² in its market investigation into BAA identified material concerns regarding outcomes associated with the exercise of market power and the interaction between those outcomes and RAB-based economic regulation. The CC ultimately, amongst other things, required divestments, with the intention of addressing harms arising from BAA's dominant market position, and made recommendations regarding the regulatory regime.
2. A mechanism considered by the CC was "Regulatory Gaming", described as "strategic behaviour by the airport operator to inflate the size of the RAB" (6.18, p.134). The CC's analysis focused on the incentives created where the regulated return is constrained below the unregulated level, but an operator can increase total returns by increasing the scale of regulated assets.
3. In particular, the CC noted that an operator with significant market power, subject to RAB-based regulation, "will look to increase the level of overall returns by expanding its operating assets beyond the unregulated level, provided the rate of return allowed on the RAB exceeds its cost of capital" (6.17, p.133). This observation is relevant as it identifies a structural incentive for an operator with significant market power within the model, rather than behaviour contingent on a specific operator.
4. The CC also observed that the RAB framework "provides an incentive for BAA at each regulatory review to make the projected capital expenditure and operating expenditure as large as possible, and to understate the scope for efficiency savings, traffic growth and growth of other revenues, and subsequently to outperform its projections" (6.17-6.28). The mechanism described is the asymmetry between (i) the ex ante setting of allowances and (ii) the ex post opportunity to exceed those projections.
5. The CC's discussion indicates that the resulting risks include (a) over-provision or over-scaling of capital programmes relative to current or forecast demand, and (b) weaknesses in capital allocation and programme delivery. The CC's concern was that these risks can arise both from deliberate strategy (where incentives are exploited) and from persistent shortcomings in governance and capability (where incentives reduce discipline over capital planning).
6. Against that background, the CC emphasised the ongoing requirement for close regulatory scrutiny at Heathrow, including after structural remedies reduced exposure across the wider UK airport system. The CC was critical of the CAA's earlier "light-touch" posture and linked this to the need for a more robust approach to the oversight of forecasts, efficiency assumptions and the justification for capital programmes.
7. Today, the Compass Centre case study provides a contemporary example that is relevant when assessing the continuing adequacy of regulatory controls under a RAB framework. HAL gave airlines only two weeks to review a major investment that was not included in H7 plans. Airlines believed the proposed purchase price was substantially above the market value, but were effectively forced to approve it. The alternative was operational chaos from forced relocation of critical operating functions. This example exposes the same strategic "gaming"

²⁰² Competition Commission, *BAA airports market investigation*, 2009, [link](#)

risks the Competition Commission identified in 2009, and the lack of protection for airlines and passengers under the current system.

8. The CC's market investigation recorded concerns regarding planning and execution in major Q5 projects, including Terminal 2 (6.36, p.143). While the facts differ, the Compass Centre sequence raises comparable issues for regulatory consideration, namely: (i) the quality and completeness of information provision and (ii) the lack of genuine opportunity for airlines (or the CAA) to assess the impact of proposals.
9. In parallel, HAL admitted during airline engagement on Compass Centre that: "Our strategy is to overbook by ~20% 'in capex plans' in order to maximise benefits delivery within the quinquennium." That statement is relevant because it evidences an explicit approach to capital planning within the regulatory period.
10. "Overbooking" can, in principle, be consistent with consumer objectives if it reflects prudent pipeline management, delivery risk mitigation and prioritisation of high-value interventions within a fixed period. However, where "overbooking" interacts with a property decision that increases replacement requirements and urgency, it may also increase the risk that capex plans are biased upward ex ante, and/or allowances and RAB growth are driven by remediation of avoidable constraints rather than incremental consumer benefit.
11. The 2009 break-up of BAA introduced changes in ownership and governance across parts of the sector; but Heathrow retained greater continuity in management and organisational culture. In this context, and consistent with the CC's earlier analysis of RAB incentives, the Compass Centre case may be indicative of continuing exposure to the incentive effects identified by the CC (6.17-6.28).
12. These considerations are directly relevant to the CAA's consultation on future regulatory models, particularly in circumstances where HAL proposes a substantial expansion of the RAB. The central issue is whether the proposed model contains sufficiently strong mechanisms to test (i) the necessity and timing of capital expenditure, (ii) the robustness of business cases and option appraisals, and (iii) the extent to which planned RAB growth reflects efficient, demand-justified investment rather than the structural incentives the CC previously identified.

Annex 2. Insights from other airports

International airport operators with experience operating terminals

1. There are numerous international airport operators with the necessary expertise and experience to compete to operate terminals at Heathrow. Several major global operators already manage terminals at international airports under contractual arrangements, demonstrating both the feasibility of the model and the depth of the terminal operations market.²⁰³
2. **Schiphol USA** operates Terminal 4 at JFK International Airport. Royal Schiphol Group, through its U.S. affiliate Schiphol USA Inc., has been the operator of Terminal 4 at JFK since its inception in 1997.²⁰⁴ JFK International Air Terminal LLC (JFKIAT), the managing entity, was the first existing airport terminal in the United States to be operated by a private management company and the first to be managed by a foreign airport operator.²⁰⁵ Terminal 4 serves more than 21 million passengers annually (2019 figures) across 48 gates in two concourses, functioning as Delta Air Lines' hub at JFK and serving 33 international and domestic airlines.²⁰⁶ In 2020, JFKIAT, the Port Authority of New York and New Jersey (PANYNJ), and Delta Air Lines reached an agreement to expand and redevelop Terminal 4, adding 16 new gates by extending Concourse A and undertaking a state-of-the-art renovation.²⁰⁷
3. **daa International** operates terminals in Saudi Arabia.²⁰⁸ daa International, a subsidiary of Irish airport operator daa (which operates Dublin and Cork airports), has secured and delivered multiple terminal management contracts in the Middle East. Since 2016, daa International has operated Terminal 5 at King Khalid International Airport (KKIA) in Riyadh, Saudi Arabia – a 106,500 square metre domestic terminal with a capacity of up to 12 million passengers per year.²⁰⁹ The contract comprises all terminal management services, including responsibility for managing all third-party commercial tenants, airport retail, and car rental within the terminal complex.²¹⁰ In 2021, daa International was selected to manage and operate the new Red Sea Airport in Saudi Arabia, providing airfield and terminal operations, aviation services, facilities management, and oversight of commercial activities, as well as corporate and financial services. These awards demonstrate the appetite among experienced international airport operators to compete for terminal management contracts at major international airports.²¹¹

²⁰³ The CAA's Working Paper references concerns about limited supplier interest in the Haweswater Aqueduct Resilience Programme in the water sector (see CAP 3195, paragraph 4.51). However, the circumstances are materially different for airports. Unlike water services (often provided by local public bodies), there are numerous large international airport operators and investors with capabilities and appetite for projects at major international airports like Heathrow. The CAA itself acknowledges numerous precedents where airport operators have entered agreements with third parties for delivery and/or operation of airport infrastructure. Furthermore, processes can be designed to elicit maximum competition – for example, despite Camelot's extensive incumbency advantages, the Gambling Commission's process to award the fourth National Lottery licence still attracted significant international interest through extensive market testing and engagement.

²⁰⁴ AMS Schiphol, Portfolio Americas, [link](#).

²⁰⁵ AMS Schiphol, Portfolio Americas, [link](#).

²⁰⁶ AMS Schiphol, 2020, *Redevelopment of Terminal 4 - a Schiphol Group affiliate - at JFK International Airport in New York announced*, [link](#).

²⁰⁷ AMS Schiphol, 2020, *Redevelopment of Terminal 4 - a Schiphol Group affiliate - at JFK International Airport in New York announced*, [link](#).

²⁰⁸ It also holds stakes in Dusseldorf Airport (20%) alongside Larnaca and Paphos Airports (11%).

²⁰⁹ Irish Business Network Saudi Arabia, daa International, [link](#); daa, 2021, *daa International To Manage New Red Sea Airport*, [link](#).

²¹⁰ Irish Business Network Saudi Arabia, daa International, [link](#).

²¹¹ daa, 2021, *daa International To Manage New Red Sea Airport*, [link](#).

4. **VINCI Airports**, the majority owner of Gatwick, Edinburgh, and Belfast airports in the UK, operates more than 70 airports in 14 countries.²¹² Its portfolio includes operating Terminals E and F at Atlanta Hartsfield-Jackson International Airport (the world's busiest airport by passenger numbers), demonstrating its capability to manage large-scale terminal operations at major hub airports.
5. **Changi Airports International (CAI)**, a subsidiary of Changi Airport Group, has extensive international experience operating and managing airports under long-term concession and management agreements.
 - In 2008, CAI was engaged by the General Authority of Civil Aviation (GACA) of Saudi Arabia under a nine-year operations and management agreement to transform, and commercialise King Fahd International Airport (DMM) in Dammam. During this partnership, CAI transformed DMM from a loss-making airport to EBITDA-positive, with more than double its passenger traffic (to c.10 million passengers per annum), tripled non-aeronautical revenue, and doubled the commercial area within the terminal. In 2017, the airport was successfully incorporated as Dammam Airports Company.²¹³
 - In 2013, a CAI-led consortium won the rights to a 25-year concession for the expansion, maintenance, and development of Tom Jobim International Airport (GIG) in Rio de Janeiro, Brazil – the country's main international gateway and host airport for the 2016 Summer Olympics. Under the concession, CAI delivered major infrastructure expansion, including a new 100,000 square metre concourse with 26 contact gates, doubled the commercial area within the terminal, and more than doubled non-aeronautical revenue per passenger within four years.²¹⁴

New terminal infrastructure investment at US airports

6. The investment in new terminal infrastructure at U.S. airports in recent years provides further evidence of private terminal developer and operator involvement. Critically, these investments have been provided by private infrastructure companies and airport operators, who will continue to own the assets, not just operate them – demonstrating that private capital is willing to invest in long-life terminal assets under appropriate contractual frameworks or ownership models.
7. As outlined in our February 2025 submission,²¹⁵ **New York JFK** is undergoing a transformative \$19 billion redevelopment programme to modernise one of the world's busiest airports, with completion planned for 2030.
 - The New Terminal One consortium, led by Ferrovial Airports,²¹⁶ is designing, building, and operating the new Terminal One with a total investment of \$9.5 billion. The asset concession runs until 2060, demonstrating private investors' willingness to commit capital over multi-decade horizons. The new terminal will span 2.6 million square feet with 23

²¹² VINCI Airports, [link](#).

²¹³ Changi Airports International, Dammam Airport, [link](#).

²¹⁴ Changi Airports International, Tom Jobim International Airport, [link](#).

²¹⁵ Heathrow Reimagined, *Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*, February 2025, Annex L, [link](#).

²¹⁶ [Ferrovial agrees to acquire a stake in JFK Airport New Terminal One consortium](#)

gates and, upon completion, will be the airport's largest terminal. Construction is proceeding in phases, with the first phase scheduled for completion in 2026.²¹⁷

- JFK Millennium Partners, a private consortium between Vantage Group, American Triple I, RXR Realty, and JetBlue²¹⁸ is financing, building, and managing the new Terminal 6 at JFK. Vantage's scope also includes management and operations of the existing JFK Terminal 7. The consortium raised a total of \$4.2 billion to fund the Terminal 6 project, which includes a new 1.2 million square foot terminal with 10 gates, a centralised security area, a 2,000-space parking facility, and a 122-metre pedestrian bridge connecting to Terminal One. The project demonstrates committed airline agreements (including JetBlue, Lufthansa Group, and Aer Lingus) combined with long-term lease arrangements, providing a stable framework for private investment.²¹⁹ Vantage Airport Group is a leading investor, developer, and manager of airports and transportation infrastructure globally, with a current network of 13 active airport and rail station operations in the U.S., Canada, the Caribbean, and Europe.²²⁰

8. LaGuardia Airport has also undergone a significant recent transformation.

- Delta's Terminal C at LaGuardia Airport. Delta Air Lines and the Port Authority of New York and New Jersey are jointly investing \$4 billion to consolidate Terminals C and D into a state-of-the-art terminal facility at LaGuardia, spanning 1.3 million square feet and featuring 37 gates across four concourses. The project was delivered ahead of the original schedule, with full completion achieved by the end of 2024 – almost two years earlier than originally planned. Delta has invested nearly \$7 billion in New York City airports since 2010, demonstrating the scale of airline-led investment in terminal infrastructure.²²¹
- LaGuardia Gateway Partners (LGP), a consortium of Vantage Airport Group, Skanska, and Meridiam, designed, built, financed, and now operates Terminal B at LaGuardia under a long-term lease. The \$4 billion project delivered a 1.35 million square foot terminal with 35 gates, built to handle more than double the capacity of its predecessor. The transformative programme featured innovative dual pedestrian skybridges allowing aircraft to taxi underneath. The terminal was delivered ahead of schedule with substantial completion in 2022.²²²

9. Dallas Fort Worth International Airport Terminal F demonstrates ongoing airline commitment to terminal investment under long-term lease arrangements. In May 2025, DFW Airport and American Airlines announced an agreement to accelerate and expand Terminal F, increasing the estimated investment to approximately \$4 billion. This is part of the \$12 billion 'DFW Forward' capital plan.²²³ The expanded terminal F will feature 31 gates (double the originally

²¹⁷ Port Authority Builds, *Transforming JFK Into A World-Class Global Gateway*, [link](#); Investcorp, *Investcorp Invests in Sponsor of JFK Airport Terminal 6 Redevelopment Project*, 2024, [link](#); New York State, *Governor Hochul Announces Plan to Build World-Class \$9.5 Billion International Terminal at JFK Airport*, 2021, [link](#); JFKT4, *JFK Airport's Terminal 4 Set for \$3.8B Transformation*, 2020, [link](#); Airport Advisory Panel, *A Vision Plan for JFK International Airport*, 2017, [link](#); PR Newswire, *Plans for Next Phase of Terminal Expansion at JFK Airport*, 2013, [link](#). Airport Technology, *JFK International Airport Redevelopment*, 2018, [link](#).

²¹⁸ [John F Kennedy International Airport Terminal 6 | Vantage Group](#)

²¹⁹ Investcorp, *Investcorp Invests in Sponsor of JFK Airport Terminal 6 Redevelopment Project*, 2024, [link](#); Airport Technology, *JFK International Airport Redevelopment*, 2018, [link](#).

²²⁰ STB Law, 2022, *Vantage and Corsair Close JFK's New International Terminal 6 Development Project at \$4.2 Billion*, [link](#).

²²¹ Delta News Hub, 2022, *Media Kit and Fact Sheet: Delta's LaGuardia Investment*, [link](#).

²²² A Whole New LGA, *The Project*, [link](#); Reuters, *New York LaGuardia airport reveals \$8 bln makeover*, 1 June 2022, [link](#); International Airport Review, *LaGuardia to open new concourse as part of \$8 billion transformation*, 31 October 2019, [link](#).

²²³ American Airlines, *American Airlines and DFW Airport reveal plans for state-of-the-art new terminal for customers*, 1 May 2025, [link](#); DFW's programme ([DFW Forward](#)) was initially estimated to cost \$9 billion when announced in 2024. Additions to its scope has led to the programme's cost increasing to \$12 billion as of 2025.

planned 15 gates), facilities to grow international operations, expanded customer amenities, a centralised Skylink station, and a new parking garage. Terminal F will be operated entirely by American Airlines under a Use and Lease Agreement extended to 2043. The first phase is scheduled to be operational in 2027, with subsequent phases coming online thereafter. The terminal will include a walking connection to Terminal D, creating enhanced connectivity across DFW's terminals. American Airlines' commitment to occupy all 31 gates of the new terminal demonstrates the scale of airline-led terminal investment at major U.S. hub airports, and a willingness to enter long-term operational commitments.²²⁴

10. **Houston George Bush International Airport** Terminal B is another example of airline-led investment in terminal transformation under public-private partnership arrangements. In November 2023, United Airlines and the Houston Airport System announced a \$2.5 billion programme to transform Terminal B, with \$1.9 billion from United and \$624 million from the City of Houston, fully recoverable through airport charges.²²⁵ The programme will deliver 40 gates – including 30 domestic and 10 international gates – serving up to 36 million annual passengers upon completion in 2026. Terminal B will feature expanded immigration and customs facilities, modernised baggage systems, enhanced retail and dining, and improved passenger circulation.²²⁶ United is leading the project's design, construction management, and operational planning under its long-term use and lease agreement with Houston Airport System.²²⁷
11. These examples highlight that private developers, infrastructure investors, and airlines are willing to commit substantial capital to finance, build, own, and operate terminal infrastructure under long-term contractual arrangements.

Airports where the airfield and terminals are separately operated

12. Multiple major international airports successfully operate with separate airfield and terminal management across different geographic markets and regulatory contexts, demonstrating that coordination between terminal and airfield operators is operationally manageable and not dependent on a single model or jurisdiction.
13. **New York JFK** operates a unique terminal-by-terminal management model, as outlined in our February 2025 submission.²²⁸ At JFK, all terminals are managed by airlines or airline consortia serving them, except for Terminal 4, which is operated by the Schiphol Group. The Port Authority of New York and New Jersey (PANYNJ) maintains overall airfield oversight and owns the terminal buildings (leasing them to terminal operators), while individual terminals are managed by:
 - Terminal 1: New Terminal One consortium (Ferrovial-led)
 - Terminal 4: Schiphol USA (JFKIAT)
 - Terminal 5: JetBlue Airways

²²⁴ DFW Airport, 2025, *DFW Airport and American Airlines Announce Acceleration and Expansion of Plans for Terminal F*, [link](#).

²²⁵ PR Newswire, *United, Houston Airport System Invest more than \$2B in Terminal B Transformation*, 2023, [link](#); Airport Technology, *United and Houston invest more than \$2.5bn in George Bush Airport expansion*, 2023, [link](#).

²²⁶ Houston Airports, *IAH Terminal B Transformation: United Airlines lays foundation for a modern future*, 2024, [link](#).

²²⁷ Passenger Terminal Today, *George Bush Intercontinental invests US\$2bn in Terminal B transformation*, 2023, [link](#).

²²⁸ Heathrow Reimagined, *Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*, February 2025, Annex G Box 2, [link](#).

- Terminal 6: JFK Millennium Partners (Vantage/Corsair)
 - Terminal 8: American Airlines
14. Despite what may appear to be a fragmented terminal management structure, JFK coordinates airfield operations, inter-terminal connections, baggage transfers, and other shared services. The Port Authority maintains responsibility for airfield infrastructure (runways, taxiways, air traffic management) while terminal operators manage terminal-specific operations. Once the current major redevelopment is completed, all terminals will be from this century.
 15. **Munich Airport** Terminal 2 is operated by Terminal 2 GmbH & Co. oHG, a joint venture between Munich Airport (Flughafen München GmbH) and Deutsche Lufthansa AG. The Aviation division of Munich Airport operates Terminal 1, while Terminal 2 is operated by the joint venture partnership. Terminal 2's expansion was completed in 2016 at a cost of € 900 million, providing additional capacity of 11 million passengers per year.²²⁹ Terminal 2 handles approximately 30 million passengers annually and is ranked among the best terminals in Europe by Skytrax. The joint venture structure demonstrates that it is feasible for an airport operator to maintain airfield oversight while a separate entity (even one with airline involvement) operates terminal facilities. The airport manages operations across the two separately operated terminals while Munich Airport maintains overall airfield management.
 16. **Atlanta Hartsfield-Jackson International Airport** – the world's busiest airport by total passenger numbers – operates under a 20-year lease agreement with Delta Air Lines (running from 2016 to 2036).²³⁰ Under this agreement, Delta effectively operates much of the airport's terminal infrastructure, while the City of Atlanta (through the airport authority) maintains airfield oversight and overall airport management. The agreement also enabled a \$6 billion capital improvement plan for the airport, with Delta committing to invest approximately \$5 billion in terminal modernisation and expansion projects. Under the arrangement, Delta operates extensive terminal facilities, including check-in areas, gates, baggage handling systems, and terminal-specific infrastructure, while coordinating seamlessly with Atlanta Airport's airfield operations team for runway, taxiway, and air traffic management. The agreement demonstrates that even at the world's busiest airport, clear division of responsibilities between terminal operators and airfield management is operationally feasible and can facilitate substantial private investment in terminal infrastructure.
 17. **Boston Logan International Airport** Terminal A operates under an airline special facility lease model between the Massachusetts Port Authority (Massport) and Delta Air Lines. Terminal A comprises 21 gates across a main terminal and satellite terminal connected by an underground pedestrian tunnel, almost solely used by Delta Air Lines.²³¹ Massport financed the \$500 million terminal construction through bonds.²³² Delta is responsible for terminal operations and has invested significantly in the facility, declaring Logan as one of its hubs and expanding its operations substantially in recent years.²³³ Massport maintains airfield oversight

²²⁹ Airport Technology, *Munich International Airport Expansion*, 2016, [link](#).

²³⁰ Heathrow Reimagined, *Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*, February 2025, Annex G Box 5, [link](#); City of Atlanta, *Mayor Kasim Reed Signs New Lease Agreement with Delta Air Lines*, 2016, [link](#).

²³¹ iFly.com, *Boston Logan Airport Terminal A Map & Guide*, 2024, [link](#); Upgraded Points, *Boston Logan International Airport [BOS]: Ultimate Terminal Guide*, 2025, [link](#).

²³² Aviation Week, 2006, *Massport, Delta Deal Opens Up Space In Logan's Terminal A*, [link](#); Boston Business Journal, 2017, *Delta sees big growth in Boston as airline looks to reclaim Logan terminal*, [link](#).

²³³ Boston Business Journal, 2017, *Delta sees big growth in Boston as airline looks to reclaim Logan terminal*, [link](#).

and overall airport management. The arrangement demonstrates that airline-operated terminals can function effectively within major hub airports while coordinating seamlessly with airport authority airfield operations.

18. **LaGuardia Airport** provides a further U.S. example of separate terminal and airfield operations under a public-private partnership model, as outlined in our February 2025 submission.²³⁴ As set out above, LaGuardia recently completed an \$8 billion transformation project using a public-private partnership model. Approximately two-thirds of the funding came from private financing and current passenger fees.²³⁵ LaGuardia Gateway Partners operates Terminal B under a long-term lease with the Port Authority maintaining airfield operations and oversight.²³⁶ Private partners are responsible for managing and operating their respective terminals under a design/build commission structure that includes operational responsibilities, enabling the airport to use private sector expertise in both construction and terminal operations.²³⁷ Delta operates Terminal C under similar arrangements. The airport coordinates operations across multiple terminal operators while managing over 53 million passengers annually,²³⁸ demonstrating that private and airline terminal operators can coordinate effectively with public airfield authorities even in complex, high-volume operational environments.
19. These examples confirm that coordination between terminal and airfield operators is operationally manageable – airports are already multi-operator environments with numerous hand-offs between different service providers (ground handlers, catering, cargo, retail, etc.). The separation of terminal and airfield responsibilities is well-established internationally and does not present a material operational barrier.

²³⁴ Heathrow Reimagined, *Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*, February 2025, Annex G Box 3, [link](#).

²³⁵ A Whole New LGA, *The Project*, [link](#); QNS, *LaGuardia crowned best airport in United States by Forbes Travel Guide following \$8 billion transformation*, 2024, [link](#).

²³⁶ Port Authority of New York and New Jersey, *Airport Rules and Regulations*, 2022, [link](#); IJGlobal, *LaGuardia Airport PPP, US*, 2016, [link](#).

²³⁷ Constructioneer, *LaGuardia Terminal B Redevelopment Named One of the Nation's Best Design-Build Projects*, [link](#).

²³⁸ Port Authority New York New Jersey, *Port Authority Records Busiest Year Ever*, 2024, [link](#)

Annex 3. Comments on the other Regulatory Models set out in the Working Paper

1. Below, we set out our views on the other CAA Regulatory Models in the Working Paper long-list, namely²³⁹ Model 3 (Longer-term regulatory framework); Model 9b (LRIC); and Model 9b (Lighter touch regulation).

Model 3: Longer-term regulatory framework

2. As set out above, one of the key problems with the current regulatory framework is the approach to long-term capital planning. While the price control must be regularly reviewed (every five years) to reflect changes in key price control parameters, the approach to strategic capital planning, including determining an affordable long-term capex envelope, needs to be informed by a longer-term, multi-control period strategic perspective.
3. Narrowly viewing capex only through a five-yearly lens every time the price control is reset is wholly inadequate. It does not provide the longer-term transparency and clarity that both the airport operator(s) and airport users need. There appears to be considerable overlap between Heathrow Reimagined and HAL on this particular issue – we have a shared problem that can be fixed as part of this review, but it must be fixed as part of a package of reforms that comprehensively resolves the fundamental problems with the current regime.
4. While long-term capital planning requires a strategic perspective beyond single price control periods, this does not require – and we strongly oppose – multi-period commitment²⁴⁰ to specific price control parameters (such as the regulated cost of capital or charge profiling) as described in Model 3. The appearance of overlap between Heathrow Reimagined and HAL on 'longer-term planning' is misleading. HAL seeks longer regulatory commitments to protect it from risk and enable it to act on harmful incentives with less scrutiny. We seek longer-term planning transparency and airline influence through CIC oversight within a framework of terminal competition and enhanced governance - fundamentally different objectives.
5. Model 3 would not address HAL's harmful incentives or improve regulatory effectiveness. It risks making these problems worse. By locking returns or setting charges over multiple control periods, even for expansion assets only, the CAA would undermine regulatory certainty and its own independence. The CAA would be limited to reviewing whether HAL is following the pre-set price path or achieving the locked-in return, rather than exercising substantive regulatory judgement. While the CAA suggests mid-period reviews could address this, the review areas would need to extend to key building blocks such as traffic, opex and cost of capital to avoid permanently skewing risk in favour of HAL and harming consumers. Having to review such fundamental building blocks is a price control in itself – the CAA's intended aim of long-term visibility would not be achieved, and this would not constitute proportionate regulation.

²³⁹ As set out in the sub-sections below, while Heathrow Reimagined does not consider that any of these three options should be taken forward as part of the CAA's long-list, there are certain aspects of the longer-term regulatory framework and lighter touch regulation that could, in the right circumstances, be relevant as part of a broader comprehensive package of reform based on greater use of effective competition and a step-change in capex governance.

²⁴⁰ Either through extending the duration of the charge control or putting in place some form of policy commitment over a longer period.

6. Further, Model 3 will not contribute to improving affordability. Nor will the benefits of competition be realised if charges or returns are locked in over the long term. The purpose of competition is to drive down cost and increase quality – this will not happen if the monopoly has effectively guaranteed income or returns. Model 3 risks making these problems worse.
7. While Heathrow Reimagined recognises that expansion and modernisation will involve large investments in long gestation and long-lived assets, regulatory mechanisms (whether RAB-based or alternative models) can provide investors with long-term reassurance that they will be given the opportunity to recover their efficiently incurred costs (including a reasonable return on capital) over time. However, less frequent redetermination of the price control,^{241,242} or a policy commitment²⁴³ to maintain specific parameters (e.g. the regulated cost of capital) over longer periods would increase forecast error risk for both investors and consumers, with errors persisting longer.
8. Further, the likelihood of forecasts turning out to be inaccurate is not symmetric – HAL is more likely to ‘win’ than consumers. The combination of HAL’s substantial information asymmetries, which would be amplified under a long-term price control duration, and the amplification of the CAA’s financing duties (resulting in it either implicitly or explicitly giving HAL the benefit of the doubt), means that the likelihood of HAL benefitting from a longer price control, through inappropriately high charges and profits, far outweighs the counter risk. The forecasting errors in H7 that HAL has benefitted from illustrate this concern.
9. Heathrow Reimagined also has considerable concerns that, notwithstanding its very considerable systemic advantages, a longer price control (or commitment to specific parameters) would, in practice, be a one-way bet for HAL. In cases where it benefits from the longer duration control, it keeps the gains.²⁴⁴ But, in cases where it would otherwise lose out, it would invoke financeability concerns to put pressure on the CAA to revisit the decision, which would remove the benefits for consumers. The result is HAL benefits and consumers lose out in either case. This is not consistent with the ‘fair bet’ principle.
10. Heathrow Reimagined is also very concerned that HAL would seek to argue that the heightened risk of forecast error would need to be reflected in a higher longer-term regulated cost of capital – should the CAA accept such an argument, that would further harm consumers.
11. The CAA therefore should reject calls for a multi-period commitment to specific elements of the price control (e.g. in relation to the regulated cost of capital) either through extending the duration of the price control or making some other form of policy commitment.

²⁴¹ As suggested in the first bullet of paragraph 4.45 of the Working Paper.

²⁴² The Working Paper suggests that a formal lengthening of the price control could also be accompanied by a mid-period review. While that may help manage forecast risk to some degree it would also undermine the increase in certainty that the longer-duration control is intended to provide.

²⁴³ Heathrow Reimagined agrees with the CAA that it could not, and should not, fetter its discretion regarding future price controls – doing so would not be in the interests of consumers.

²⁴⁴ This pattern is not hypothetical – it reflects how the CAA has systematically erred in favour of HAL in price controls to date. Despite its assertions to the contrary, HAL has generated excess returns (and therefore super profits) over its allowed regulatory return of at least £1.6 billion between 2014-2023, despite the Covid-19 pandemic representing a third of this period. Indicatively, HAL’s profitability during that period outperformed its regulatory settlements by 104 basis points, equivalent to an overcharge of £1.6 billion, or £2.50 per passenger. Total outperformance of the regulatory settlement rises to £1.9 billion when adding the CAA’s £300m RAB adjustment in the H7 decision. Moreover, considering the generosity of the settlements (such as the asymmetric risk allowance and TRS mechanism benefitting HAL) and the delays in implementing the H7 price control, HAL has potentially received excess returns of up to £5 per passenger – a transfer from passengers to Heathrow shareholders. This was covered in: British Airways response to CAP2618 Setting future price controls – review of approach, 2024, [link](#).

12. Heathrow Reimagined would also be extremely concerned about any steps taken by the CAA, which would involve it committing (e.g. through a policy statement or similar) to maintaining the current flawed capital governance regime, particularly over an extended period. It is not in consumers' interests for the CAA to fetter its discretion to periodically strengthen the capital governance regime where there is evidence that such changes are justified due to consumer harm. Persisting with the currently flawed capex governance regime, for example, would be highly harmful to consumers.

Model 9b: Long-run incremental cost (LRIC)

13. Heathrow Reimagined does not consider that moving from the current RAB-based model to a LRIC-based model will adequately address the problems with the existing regime.
14. Heathrow Reimagined recognises that a LRIC-based approach to setting regulated charges has been used in other regulatory contexts (e.g. setting various access charges in telecoms). Such an approach can, for example, have advantages in providing more efficient 'build-buy signals' where market participants have the choice between consuming regulated services or self-providing them. The efficiency of such signals is less relevant to Heathrow – airlines cannot decide to build a runway or terminal to avoid HAL's very high charges and poor service quality. There can also be benefits in terms of smoothing the profile of charges over time, depending on the precise approach used to derive LRIC values.
15. However, as both the Competition Commission and CAA have previously identified, there are significant challenges associated with implementing a LRIC approach at Heathrow. Indeed, the Competition Commission identified the difficulties of estimating the efficient level of future capex, which would be required to model LRIC-based charges. If the CAA and stakeholders were able to accurately assess future efficient capex, it would be possible to address key failings with the application of the RAB-based model at Heathrow. Therefore, a LRIC-based approach to setting charges would not address important challenges with the current regime.
16. Beyond forecasting future efficient capex, a LRIC-based approach requires numerous other important assumptions and parameters, which are difficult to establish, including long-term volume forecasts. We are not aware of any example of such a model being deployed at another major international airport, so the CAA would need to start from scratch in terms of establishing these assumptions and parameters. The requirement for such assumptions and judgements creates significant opportunities for HAL to use its information asymmetries to shape the price-setting process to the detriment of consumers.
17. Indeed, in rejecting the use of a LRIC-based model for Heathrow, the Competition Commission noted that: *"In the context of Heathrow, linking prices to long-run incremental costs could significantly increase airport charges."*²⁴⁵ Heathrow Reimagined does not consider it appropriate to significantly further increase charges, which are already the highest among major international airports, particularly given the limited build-buy signal benefit at Heathrow.

Model 9b: Lighter touch regulation

18. Heathrow Reimagined recognises that if major structural reforms were implemented which, over time, resulted in the development of sustainable competition for certain aspects of the provision of AOS at Heathrow (e.g. in relation to certain terminals), then the CAA may wish to

²⁴⁵ Competition Commission, *BAA airports market investigation*, 2009, paragraph 10.335, [link](#).

consider a lighter-touch regulatory regime or, in the right circumstances, the removal of regulation altogether for those AOS aspects.

19. However, competitive conditions at Heathrow today clearly do not support any move to a lighter-touch regulatory regime – quite the opposite. As in our February 2025 submission, HAL continues to have entrenched substantial market power in relation to all elements of the provision of AOS. The CAA found that HAL held a 100% market share in the provision of AOS in the last Heathrow Market Power Determination. HAL’s attempts to substantially raise charges that are already substantially above its peers in H7, an experience being repeated in H8, further demonstrate its ability, absent effective regulation, to raise charges very significantly above the competitive level. There is no “market discipline”²⁴⁶ that would act as a constraint on HAL to enable a lighter-touch regulatory regime – airlines demonstrably lack countervailing buyer power.²⁴⁷
20. In such circumstances, Heathrow Reimagined strongly disagrees with any move to lighter-touch regulation at Heathrow as a result of this review. Any such move would only worsen the already poor consumer outcomes.

²⁴⁶ CAA, *CAP 3195: Working paper on regulatory models*, 2025, paragraph 4.96, [link](#).

²⁴⁷ Heathrow Reimagined, *Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*, February 2025, paragraphs 93 and 175-176, [link](#).

Annex 4. Outcome Based Regulation metrics

The CAA introduced Outcome Based Regulation (OBR) for the H7 price control period to improve service quality incentives at Heathrow. The framework now comprises six consumer outcomes underpinned by 40 individual measures with associated targets and financial/reputational incentives (this was originally 36 when introduced at H7).

The OBR framework is structured around six consumer outcomes derived from passenger research:

- I am safe and secure
- The airport meets my needs
- I enjoy my time at the airport
- My journey is easy
- I have more choice
- I get value for money

The table below shows the measures used to track performance against these outcomes at Heathrow:

Measure	Info
Overall Satisfaction	Passenger satisfaction (out of 5)
Passenger Assistance Service - Overall Satisfaction	Passenger satisfaction (out of 5)
Security Staff - Helpfulness and Attitude	Passenger satisfaction (out of 5)
Airport Staff - Helpfulness and Attitude	Passenger satisfaction (out of 5)
Ease of Access to Airport	Passenger satisfaction (out of 5)
% of UK Population Within 3 Hours (and One Interchange)	% of UK population who live within 3 hours (and one interchange) of Heathrow by public transport
Customer Effort	% of passengers agreeing that their journey through Heathrow was easy
Cleanliness	Passenger satisfaction (out of 5)
Wayfinding	Passenger satisfaction (out of 5)
Wi-Fi	Passenger satisfaction (out of 5)
Enjoy My Time at the Airport	% of passengers agreeing that they enjoy their time at the airport
Airport that Meets My Needs	% of passengers agreeing that the airport met their needs
Feel Safe and Secure	% of passengers agreeing that they felt safe and secure at the airport
Immigration EEA	% of passengers queueing < 25 minutes

Immigration Non EEA	% of passengers queueing < 45 minutes
Security - CSA (QT < 5 minutes)	Queue Times < 5 minutes
Security - CSA (QT < 10 minutes)	Queue Times < 10 minutes
Security - Staff Search	Queue Times < 10 minutes
Security - Transfer	Queue Times < 10 minutes
Security - Control Post	Queue Times < 15 minutes
Lifts, Escalators, Travellators	Availability for use
FEGP	Availability of Fixed Electrical Ground Power
Jetties	Availability of Air-bridges
PCA	Availability of Pre-Conditioned Air
SEG	Availability of Stand Entry Guidance
Check-In Infrastructure	Availability for use
Hygiene Testing - Amber Tests Resolved in 12 hours	% of amber tests resolved in 12 hours
Hygiene Testing - Red Tests Resolved in 2 hours	% of red tests resolved in 2 hours
TTS - One Car	Track Transit System - % time one car available
TTS - Two Car	Track Transit System - % time two cars available
Arrivals Reclaim	Availability of arrivals baggage carousels
Baggage System Delivery	% of bags delivered to make up area > 30 mins from intended flight departure
Baggage Misconnect Rate	Number of bags per 1,000 passengers that miss intended departing flight
Runway Operational Resilience	Availability of Runway - Maximum cumulative movements deferred each day
Stands	Availability of stands
Pier Service	% of passengers accessing a pier served stand
Airport Arrivals Management	Average time for aircraft to reach stand
Airport Departures Management	Average time between start request time and take off time
Departure Punctuality	% of flights off chocks within 15 minutes
Passenger Injuries	Number of passengers/million passengers that are injured while travelling through the airport

Source: Heathrow, Measures, Targets and Incentives, November 2025, [link](#).