

HEATHROW'S RESPONSE TO THE CAA'S CONSULTATION ON "H8 PASSENGER FORECAST – SHOCK FACTOR ISSUES"

10th SEPTEMBER 2026

1. Introduction

- 1.1. HAL continues to consider that the shock factor is an appropriate mechanism for producing a risk-weighted passenger forecast for the purposes of price control setting. By incorporating the historical impact of adverse demand shocks, the methodology provides a balanced and evidence-based adjustment to the forecast, ensuring that uncertainty and downside risk are appropriately reflected within the regulatory framework and key building block.
- 1.2. It is also important that the CAA maintains regulatory best practice by acting in a fair, transparent and predictable manner. Any departure from previous CAA positions should therefore be supported by robust evidence and a clear justification demonstrating why a substantive change in approach is warranted.

2. Should the months March/April 2025 be identified as a shock for the purposes of the shock factor estimate calculation?

- 2.1. As set out in the CAA's H8 Initial Proposal (paragraph 2.70), HAL agrees that the shock factor calculation should be updated to incorporate 2025 data prior to the Final Determination. This would ensure the calculation reflects the latest full year of available information, maintaining both the robustness of the methodology and alignment with established best practice.
- 2.2. HAL considers that the power outage resulting from the North Hyde substation fire should be included within the shock factor calculation. The substation is neither owned nor operated by Heathrow and is located outside the airport perimeter. Furthermore, the impacts of the fire were not confined to Heathrow Airport, with essential services including road and rail networks, Hillingdon Hospital, and thousands of homes and businesses also affected.
- 2.3. There is clear evidence that approximately 260,000 passengers travelling to or through Heathrow were lost as a result of re-routing or cancelling trips. The event therefore resulted in an unforeseeable and non-recoverable reduction in passenger volumes, consistent with the definition of a shock event. The fact that the disruption was localised and limited in duration should not determine whether it is included in the calculation. Rather, the assessment should be based on the demonstrable impact the event had on passenger demand.
- 2.4. Shock events should be assessed independently of overall annual passenger growth. The presence of year-on-year growth does not imply that a shock event

has not occurred, nor does it negate the impact of a demonstrable loss in passenger volumes attributable to that event.

- 2.5. Given that March 2026 represents the first full month of the 2026 Middle East conflict and therefore constitutes a shock event, HAL considers it appropriate to assess the impact of the 2025 power outage using proposed Method 2. There is no evidence to indicate that a material proportion of affected passengers were displaced beyond April 2025. Accordingly, HAL does not consider the estimate of expected passengers in March 2025 to be overstated.
- 2.6. The shock factor estimated under Method 2 of -0.3% is considered an appropriate representation of the impact of the power outage. Applying this adjustment results in an updated overall shock factor of -0.82%.

3. Length of shock event data series used for H8 shock factor estimate – which of the following options would you support and why:

(a) No change to starting point of series, first year 1991

(b) Update series, first year 1992

(c) Update series, first year 2002

- 3.1. The CAA has previously reviewed both the inclusion and size of shock factors for use within the regulatory framework. Its conclusions are set out in CAP1151¹ (Q6) and CAP2980² (H7). In CAP1151, the CAA concluded that 1991 is the appropriate starting point for calculating the shock factor, as this is the first year covered by the relevant dataset and selecting any alternative start date would be arbitrary. The CAA further noted that excluding the impact of the 1991 Gulf War (Desert Storm) solely because of the magnitude of its effect would similarly be arbitrary.
- 3.2. In CAP2980, the CAA reaffirmed its support for the use of a shock factor and concluded that the methodology, including 1991 in the dataset, is reasonable.
- 3.3. HAL continues to support this position. The key consideration is whether excluding 1991 would result in a more representative estimate of future shock risk. HAL does not consider there to be sufficient evidence that this is the case. While it may be argued that Heathrow's ability to recover from adverse events has improved over time, each shock event is unique and occurs within a distinct set of market, economic and operational circumstances. There is no evidence that the demand response to a similar event would be materially different today than it was historically, that more recent events provide a sufficiently complete substitute for earlier shocks, or that comparable shocks are now materially less likely to occur.
- 3.4. Furthermore, the period from 1991 to 2025 spans approximately 35 years, providing a reasonable timeframe over which to observe and quantify the range of shock events that characterise underlying passenger demand risk. The current

¹ [CAP1151](#), paragraphs B18, B22 and B25

² [CAP2980](#), paragraphs 3.3, 3.6 and 3.10 to 3.16

conflict in the Middle East reinforces the relevance of retaining 1991 within the dataset, as excluding it would remove an event that is broadly representative of a one-in-thirty-year shock i.e. low frequency but potentially of high-impact to demand.

- 3.5. As a result, HAL considers it appropriate to retain all available historical data within the calculation. This ensures that the resulting shock factor remains evidence-based, objective, and reflective of the full range of observed outcomes.
- 3.6. It is also important that the CAA continues to act in accordance with the principles of good regulation, including consistency, transparency and predictability. Any departure from previous CAA positions would therefore require a clear evidential basis demonstrating that an alternative starting point provides a more representative assessment of future demand shock risk. In HAL's view, no such evidence has been presented.
- 3.7. HAL therefore considers that a shock factor of -0.82% represents the most robust, objective and representative estimate of future demand shock risk and should be adopted for the Final Proposals.

4. Should the impact of the Middle East conflict be included within the H8 shock factor calculation?

- 4.1. HAL's position is that the Middle East conflict should not be included within the H8 shock factor calculation at this stage of the regulatory process, as the scale and duration of the shock remain uncertain. This position may change if the Final Determination is delayed and a complete 2026 dataset becomes available for inclusion within the analysis.
- 4.2. The established shock factor methodology is based on full-year datasets and, as such, it would be inconsistent with the methodology to incorporate the Middle East conflict at this point in time. Furthermore, the event remains ongoing. Slot alleviation measures are expected to remain in place for the remainder of 2026 and first quarter of 2027, while FCDO travel advice continues to evolve in response to developments in the region. It is therefore premature to determine either the full extent of the impact or the appropriate magnitude of any associated shock factor.
- 4.3. In addition, there remains the potential for further shock events to occur during the remainder of 2026. Incorporating the effects of the Middle East conflict before a complete annual dataset is available would therefore risk introducing inconsistency and subjectivity into the calculation.
- 4.4. It is, however, reasonable to expect that the economic impacts arising from the conflict will be reflected within the CAA's H8 base passenger forecasts for the Final Proposals, particularly for 2027, where the effects are expected to be most significant across the period.
- 4.5. HAL therefore considers that the shock factor calculation should continue to be based on the established methodology using complete historical datasets. Any

consideration of the Middle East conflict as a shock should be deferred until sufficient evidence is available to assess the scale, duration and permanence of its impact in a consistent and robust manner. However, assumptions regarding the impact of the Middle East conflict on future years should be incorporated within the H8 base forecast.