

Heathrow response to CAA's proposals on the regulatory treatment of early costs of capacity at Heathrow airport (CAP3201)

CAA-H7-871

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Executive Summary

1. We welcome the opportunity to respond to the CAA's consultation (CAP3201) on the regulatory treatment of early costs for Heathrow's capacity expansion. This is a critical step to meet future demand and deliver long-term benefits for consumers and the economy.
2. In January 2025 the Chancellor made a call for proposals for Heathrow capacity expansion by summer 2025, with the goal of securing Development Consent Order (DCO) approval by 2029 and a new runway operational by 2035 and the requirement for the project to be entirely privately financed.
3. The Government then confirmed its support in November 2025¹ on Heathrow's third runway scheme, which is a pivotal milestone that will be used to inform the review of the ANPS. The Government made their decision on the basis that Heathrow's scheme was *"the most credible and deliverable option, principally due to the relative maturity of its proposal, the comparative level of confidence in the feasibility and resilience of its surface access plans and the stronger comfort it provides in relation to the efficient, resilient and sustainable operations of the airport over the long-term"*². This announcement supported Heathrow's plan to be the only credible and mature plan to take forward.
4. The growth opportunity from Heathrow is immense with demonstrable consumer benefits. Based on the 2024 review done by Frontier Economics, a third runway would deliver around 0.43% incremental GDP by 2050, with a cumulative monetary value of annual GDP uplifts over the period 2024-2050 of £66bn in net present value terms.
5. Timely delivery of expansion is key. The Frontier Economics (2025) confirmed that each year of delay costs consumers £3bn p.a. – reflecting the additional costs passengers pay current airlines at Heathrow in scarcity rents. The same methodology for calculating fare savings was endorsed by the Airports Commission (2015), who also concluded: "A new Northwest Runway at Heathrow would deliver reduced fares, fewer delays, greater resilience and more daily destinations, relative to no expansion".
6. However, for Heathrow to deliver to that schedule it needs to mobilise investment now. To proceed requires clarity over the costs incurred before the planning and regulatory framework are in place.
7. The delivery of Expansion more broadly is still subject to a number of uncertainties including: (a) the planning framework, as the ANPS is under review and (b) the regulatory framework, as the entire model is under review and there is, as yet, no understanding of the broader balance of risk and reward. This means that the arrangements for early costs must also be agile to respond to these changing circumstances while supporting investment in the interests of users.
8. To provide this clarity is in the consumer interest and is aligned to Government's schedule ambition. Therefore, we support the core principles underpinning the CAA's clear and flexible approach for early costs:

¹ [Heathrow expansion: selection of a scheme for ANPS review purposes - GOV.UK](https://www.gov.uk/government/speeches/heathrow-expansion-selection-of-a-scheme-for-anps-review-purposes)

² <https://www.gov.uk/government/speeches/heathrow-expansion-selection-of-a-scheme-for-anps-review-purposes>

- Full recovery of efficiently incurred costs for 2025 and 2026;
 - A clear policy of cost recovery in the event of genuine business reasons for Heathrow to withdraw from expansion;
 - A clear mechanism for adding costs to the RAB with ex-post review and “true-up”; and
 - Provisions for flexibility and transparency in reporting.
9. Heathrow considers that it is not legally permissible for the CAA to use Heathrow’s licence to recover costs for other promoter(s). Such action falls outside the scope of the powers granted to the CAA by the Civil Aviation Act 2012 (CAA12), lacks any proper UK regulatory precedent, nor is it in the consumer’s interest. We set this position out in detail in our response to CAP3173 and letter dated 17 October 2025. The CAA has not yet provided an assessment on the statutory powers which enable it to mandate this and we consider such a move would introduce legal risk.
 10. We support the CAA’s confirmation of allowing recovery of Heathrow’s costs if Heathrow were to withdraw from expansion for genuine business reasons.
 11. This confirmation is an important element of the CAA’s proposals for our investors. It allows investors to proceed with investment without knowing the planning and regulatory framework and must be assured that on finding those out, amongst other things, and concluding that expansion is therefore unworkable, that they can withdraw for genuine business reasons and recover their efficiently incurred costs.
 12. Given its importance, we consider that it is important to include this policy position within a licence condition directly. Strengthening the legal certainty around this policy will reinforce regulatory confidence and support Heathrow in progressing expansion planning at pace, ultimately in the interests of consumers. We propose licence condition wording in this response.
 13. The CAA consultation proposes to set the cap for 2025 and 2026 at £320m based on Heathrow’s submission in July 2025. We provided an updated forecast³ to the CAA in December 2025 with expenditure of up to £393m reflecting our latest programme requirements to deliver the DCO in 2029. £43m⁴ of this increase reflects a reallocation of costs and £30m an allowance to commence negotiations and purchase of commercial properties where it is in the consumer interest.
 14. In this response we also ask the CAA to increase the cap to include purchase of the Colnbrook Logistics Centre which has been agreed with airlines. We plan to purchase in 2026 for ■■■. This is a commercial property situated in the expansion site and sits on the critical path to delivering expansion⁵. Purchasing in 2026 leads to considerable savings compared to purchasing under compulsory acquisition later where land prices, subject to a renewed lease with Heathrow at ■■■ pa could be as much as ■■■ (2032 prices).
 15. Given this, we consider it is appropriate to set the initial cap to [>£440m] to reflect this latest view that reduces schedule risk of meeting the 2029 DCO target whilst providing appropriate protection for consumers.
 16. To deliver expansion, Heathrow will need to purchase over ■■■ domestic properties and ■■■ commercial properties in the next three years. In some cases, there will be commercial

³ [expansion-early-costs-change-sc redacted.pdf](#)

⁴ Includes £1m programme cost efficiency saving

⁵ We include evidence in this submission setting out why it is in consumers interests to purchase this now

advantage in purchasing these properties in 2026. It is important that there is sufficient flexibility in the cap to accommodate additional property purchase, and that the process to support this is proportionate so that it does not potentially include hundreds of specific requests needing individual approval.

17. The CAA has outlined that it will develop policy on early costs for 2027 onwards and consult with stakeholders with the intention of making a decision on this before the start of 2027. We will work with the CAA to establish the appropriate arrangements for 2027 onwards and are ready to work with the CAA and airlines to ensure the 2025 and 2026 proposals are implemented in a way that is proportionate and targeted.

Introduction

18. The Government's announcement in November 2025⁶ supporting Heathrow's third runway scheme is a pivotal milestone for expansion.
19. The Government's objective to obtain DCO approval in 2029 will deliver significant benefits to consumers, but the timeline is challenging. Heathrow considers that it can meet this challenge through its current plan. However, to enable this, CAA policy needs to support timely investment as well as ensuring that consumers are appropriately protected.
20. A key element of this support is to give investors clear rules around recovery of early costs, particularly if Heathrow might later need to withdraw from the project for genuine business reasons. We are pleased that the CAA recognise this in their draft policy.
21. Expansion early costs will be significant with works commencing in 2025 and 2026. A key part of this is to mobilise the workforce required to support the DCO preparation. This work includes preparation of the statutory consultation (DCO Phase 1), preparing the DCO submission (DCO Phase 2) and responding to the DCO application process (DCO Phase 3). Alongside these activities the programme requires enabling and property costs. Enabling and property costs are required to agree contracts for purchase and provisioning of commercial property, launch of residential property bond scheme, home relocation service and associated work alongside the professional and consultancy support to facilitate this work.
22. This response addresses the key areas under consultation:
 - Duration of the regulatory arrangements.
 - Regulatory arrangements to protect consumers and mechanism for recovery of Heathrow's early costs.
 - Cessation rights and potential reopener.
 - Efficiency obligations.
 - Recovery of other promoters' early costs.
 - Reporting requirements and independent assurance.
 - Proposed licence modifications.

⁶ [Heathrow expansion: selection of a scheme for ANPS review purposes - GOV.UK](#)

Duration of the regulatory arrangements

Treatment and coverage

23. We welcome the CAA's confirmation of the principle that regulated entities should be allowed to recover their efficiently incurred costs. Heathrow supports this principle, which underpins the established precedent in aviation price control frameworks, and we welcome the CAA's proposal to allow recovery of efficient early costs for all of 2025 and 2026.
24. In CAP3173 the CAA stated it was not minded to include the costs of early enabling works, including land and property costs, until it had carried out further work. Since then, we have submitted evidence⁷ to demonstrate that the coverage of early costs must include enabling and property costs to align with delivery of expansion for the benefit of consumers. The recovery of land and property costs is an essential part of enabling runway opening within a decade (which requires property acquisition to be completed by 2029) and a 2029 DCO. We welcome the CAA's revision of the scope of early costs to include enabling and property costs.

The level of the cap

25. The CAA has proposed a cap based on our July submission of £320m. Since then, we have submitted further evidence⁸ setting out our latest view that the costs will be £363m plus up to £30m on commercial property. The change from £320m to £363m is a £1m reduction in total early costs compared to the July 2025 submission, but recognises that £44m of 2026 costs previously allocated to the Modernising Heathrow programme will now properly be included within the expansion cost allowance, reflecting both programmes in a single DCO integrated plan. The CAA policy requires that these costs are included within the expansion amount, and therefore the cap should be set to at least £363m.
26. We also anticipate that some expenditure to commence negotiations and purchase of commercial properties in 2026 will be beneficial to consumers. It would be more cost effective to purchase ahead of DCO rather than purchasing later under compulsory acquisition. In our 9 December 2025 letter we proposed an initial allowance of £30m to cover contract, liaison and early negotiation. Without this, purchase of commercial property would be squeezed into a short period of time, and we would lose the ability to drive more commercial outcomes for property owners looking to move sooner. Including this allowance increases the required cap to £393m.
27. We also ask the CAA to increase the cap to take account of the proposed purchase of the Colnbrook Logistics Centre (CLC). This is a ~19 acre site that is located under the third runway footprint and is on the critical path for expansion. Heathrow has occupied this site under a tenancy since the construction of Terminal 5 and uses it as a logistics centre for capital works. The business case and this acquisition price have been agreed with airlines at the December 2025 Capital Portfolio Board (CPB). Following airline agreement, we will be making the first instalment of the payment in Q1 2026 and the final amount in Q4 2026. [REDACTED] sets out the justification presented and minutes from the CPB.
28. For expansion to take place it is necessary for CLC to be acquired at some point as part of the acquisition plan for commercial properties. There is a strategic opportunity to acquire it now for [REDACTED]. Purchasing now is likely to be more cost efficient than the compulsory acquisition price because it will avoid having to sign a new long lease and the increased

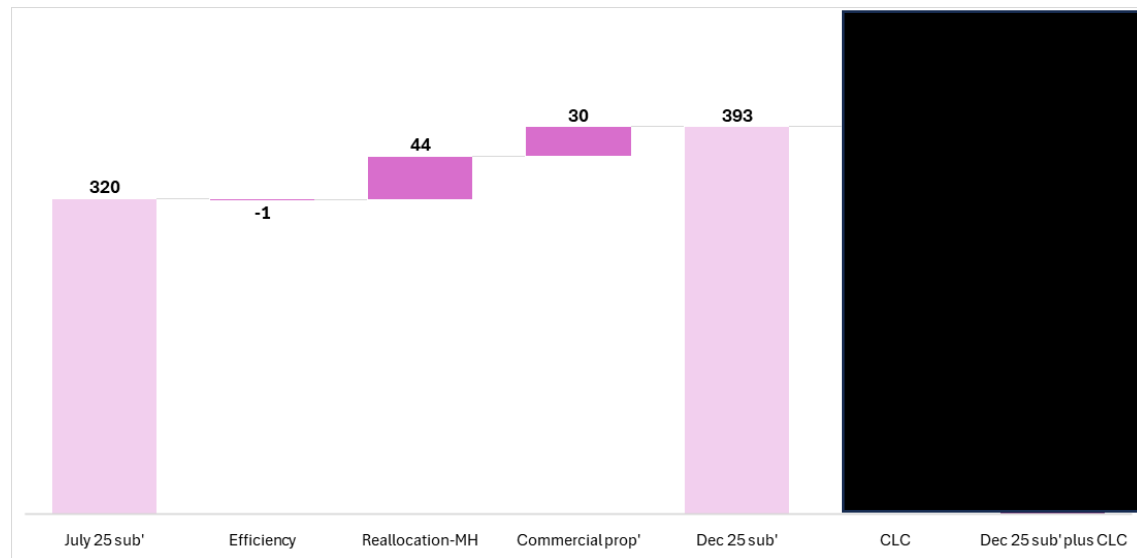
⁷ [20251029-response-to-cao-on-property- redacted.pdf](#) and <https://www.caa.co.uk/media/wmxfuzv5/cao-h8-057-letter-from-heathrow-to-cao-17-october-2025-early-costs-and-regulation-of-expansion redacted.pdf>

⁸ [expansion-early-costs-change-sc redacted.pdf](#)

value of land if purchased later. It is therefore in the consumer interest to acquire it now. Note that if, for whatever reason, expansion did not take place, acquiring CLC would still be an efficient purchase in a 2R future, even if not strictly required as it would give Heathrow access to a logistics centre and provide certainty over the long term at lower cost. It is therefore reasonable, and in the consumer interest, to acquire it at its most efficient price now, which is why the airline community have approved this purchase. Because the purchase is necessary for expansion, it is reasonable it is included in the early cost cap and not the H7 capex cap.

29. In total therefore, we believe a cap of [$>$ £440m] is appropriate. Figure 1 sets out the drivers to reach to the revised estimate.

Figure 1: cost drivers of revised estimate



30. We understand the CAA's approach allows changes to the cap to be made with further submissions and we welcome this. Unavoidably there is some uncertainty around the timing of both domestic and commercial property purchases and flexibility to allow higher levels of spend may be required where it is in consumers' interest. It would be useful to discuss and develop a clear process to manage this that balances flexibility and speed with appropriate consumer protection.

31. In particular, it should be noted that there are over [Redacted] commercial properties and [Redacted] domestic properties that need to be purchased in the next few years (not including major displaced users). The process developed needs to be proportionate so that Heathrow can retain the potential for commercial advantage in some cases by being able to move quickly, without having to obtain approval on a property by property basis.

32. We welcome the CAA's recognition that capacity expansion will continue to evolve alongside the review of the ANPS. As new information is made available through this process, Heathrow will need to rebase its estimates for 2026 to 2029 to appropriately mobilise the programme, responding to the review of ANPS and new information. We will reflect this as part of our business plan submission this year.

Incentives

33. The CAA consulted on illustrative incentives on recovery of efficient costs in the circumstances of Heathrow's application being either unsuccessful or successful.
34. In our response we noted that we are not in principle against a small, balanced incentive but it needs to be calibrated and implemented when there is greater cost certainty. If not, it would lead to unintended consequences and not result in a fair balance of risk. We therefore support the CAA's proposal not to include incentives for the expenditure in 2025 and 2026.

Regulatory arrangements to protect consumers and mechanism for recovery of Heathrow's early costs

35. We support the CAA's decision to allow the recovery of efficiently incurred costs through:
- a. Addition to the RAB;
 - b. Return (i.e. application of the WACC) to be recoverable in 2027 and 2028 aeronautical charges; and
 - c. Costs subject to an "ex-post" review and "true-up".
36. We note specific points in relation to the ex-post review and the use of the WACC.

Ex-post review

37. The CAA has noted several tests that will be applied to the ex-post review to assess whether costs have been incurred efficiently. These tests appear to be in addition to demonstrable inefficient and/or wasteful expenditure (DIWE) used for previous reviews. We note the CAA outlined in the H7 initial proposals that it considers "... *DIWE framework was designed primarily for capex projects where the construction phase was substantially complete, rather than for project planning and development costs such as early expansion costs.*"⁹ Therefore we ask the CAA to explain why it is reasonable to extend the criteria in the context of the DCO where this cost is not a completed construction project but planning and development costs.
38. Noting this the CAA must ensure that an appropriate bar is used to assess efficiency of costs. This bar must be proportionate and be set out clearly at the outset to avoid any misinterpretation. We support the CAA's continued approach that hindsight should not be a factor, and we would recommend any party that is conducting the ex-post review is an expert in DCO applications to ensure the review is undertaken with the full knowledge of what is required for a large and complex DCO.

WACC

39. The CAA has proposed to apply Heathrow's H7 WACC. However, the recovery of expansion costs incurred during the H7 time period should be implemented in a way that is consistent with the methodology from the H7 determination. Specifically, the early cost mechanism should mimic the cost recovery that would have occurred if it had been anticipated during the H7 price control review (the counterfactual).
40. This is particularly relevant in respect of the cost of debt. In H7, the CAA calculated a year specific real cost of embedded and new debt taking into account the different inflation in each year. Tables 9.4 and 9.5 of the Final Decision set out the cost of new debt in each year. The WACC applied should reflect the cost of new debt in 2025 and 2026 appropriately. Based on these tables, this results in a real cost of new debt of 5.67% in

⁹ [Economic regulation of Heathrow Airport Limited: H7 Initial Proposals Appendices](#), page 53

2025 and 4.60% in 2026. Overall, this results in a pre-tax WACC of 7.19% in 2025 and 6.55% in 2026.

41. If the early cost recovery had been anticipated during the H7 price control review, the forecast H7 capital envelope would have been adjusted in 2025 and 2026. This would in turn affect the forecast of the proportion of new debt profile, with the proportion of new debt adjusted upward in 2025 and 2026. This would have changed the H7 WACC, which is why applying the average H7 WACC as the CAA has proposed is not appropriate. Heathrow should be able to recover efficient costs in a way that is NPV-neutral with respect to the counterfactual described above.
42. The efficient costs incurred in 2025 will be recovered from 2027, and 2026 efficient costs from 2028. The returns on early cost RAB additions in 2027 and 2028 should include the returns for the lag years, and these returns should be calculated with this bespoke WACC.

Other

43. The additions to RAB from early costs will need to commence depreciation in H8. Therefore, the H8 settlement should include additional depreciation to reflect the addition of early costs. We propose that the life assumed for depreciation is consistent with that used for other new capital additions in H8. We will work with the CAA to define this and ask for this to be clarified in the CAA's decision.

Cessation rights and potential reopener

44. As part of its *ex post* review of early costs, the CAA's proposal is that Heathrow's efficient costs will continue to be recovered in the event that Heathrow withdraws for "genuine business reasons". We agree that this is appropriate to ensure that Heathrow is not penalised for withdrawal in such circumstances. Particularly given that there is still considerable uncertainty around the delivery of expansion and the design of the regulatory framework, it is entirely appropriate for the CAA to apply a principle which ensures Heathrow is not penalised in the event it decides to withdraw for genuine business reasons.
45. This clause is necessary for Heathrow to mobilise. Without it, investors could not reasonably finance the early costs of Expansion without knowing whether the regulatory and planning frameworks (and other policy choices that Heathrow has outlined as essential in its July 2025 submission to Government) underpin a deliverable, operable and investable scheme. Consumers will benefit from this as Heathrow will be able to progress with expansion planning at pace.
46. In order to ensure that there is proper legal certainty we propose that the relevant provision is included in an amendment to Heathrow's licence. Our suggested drafting is included at the end of this submission and we would welcome the opportunity to discuss this further with the CAA.
47. We also note that the CAA proposes to include a reopener provision to apply where a substantial change in circumstances allowing recovery of 2025 and 2026 costs is no longer in the interests of consumers. Whilst noting that no drafting has been provided at this stage, we are broadly supportive of the concept put forward by the CAA.
48. We agree that this reopener must allow for costs already incurred, up to an agreed decision point. For example, if the ANPS adopted in December 2026 is deemed unworkable, Heathrow should be able to recover its efficient cost up until that point, plus any efficient

demobilisation costs. Such a point would need to be agreed between Heathrow and the CAA as it is possible it will be contingent on decisions / information from third parties – for example Government or the CAA.

Efficiency obligation

49. We are working to meet the expectations set out in the current ANPS to submit a successful DCO. Heathrow will ensure that the CAA is kept informed of any changing circumstances and the necessary changes in plans and costs, ensuring adequate steps can be taken to work towards Government’s ambition of timely delivery.

Recovery of other promoters’ early costs

50. Whilst the CAA may consider other promoters may have had credible and mature plans up to the Government’s announcement, namely Heathrow West Limited (HWL). Heathrow’s view is clear, HWL proposal for Heathrow expansion is not credible, not mature, and would deliver a worse experience at a higher cost to passengers. It fails on fundamental design, financial, and operational grounds, and cannot meet the Government’s objectives for timely, sustainable, and affordable expansion.

51. However, we note that the CAA has maintained its view that it is permissible for the CAA to use Heathrow’s licence to recover costs incurred by third party promoter(s). The CAA has not provided any substantive assessment on the statutory powers which enable it to mandate this beyond a reference to having “significant discretion”. This explanation is insufficient: where the CAA relies on statutory authority to impose a novel regulatory proposal, it is all the more important that it sets out the specific statutory basis for doing so.

52. For the reasons set out in our previous submissions¹⁰ and in our letter to the CAA of 17 October 2025,¹¹ which we maintain in full, we do not agree that the CAA has the requisite powers to recover these costs via a price control condition in Heathrow’s licence. A key point to draw out is that this would be implemented via a price control condition, which the CAA recognises in CAP3201 when stating that this proposal would be made via “an additional price control term in Licence Condition C1” (i.e. C1: Price Control). However, the CAA must impose price control conditions where necessary or expedient having regard only to the risk that Heathrow may engage in abuse of substantial market power (SMP).¹² Covering the costs of alternative promoter(s) are entirely unconnected from any risks of abuse of SMP, and in fact would act to increase charges for users of airport transport services. This fact is recognised by numerous airlines that have commented on this issue, with BA noting that the proposal would result in a “*double cost burden*” on consumers, forcing them to “*pay for multiple sets of proposal costs*”,¹³ which would run counter to the

¹⁰ Heathrow, [Heathrow Capacity Expansion – consultation on regulatory policy on early costs \(CAP 3149\) Response from Heathrow Airport Limited](#), 10 September 2025, pages 6-8. See also, Heathrow, [Economic regulation of Heathrow Airport Limited: Consultation on the Way Forward \(CAP2139\) Heathrow’s response](#), 18 June 2021, pages 94-96.

¹¹ Heathrow, [Letter from Heathrow to Selina Chadha \(CAA\)](#), 17 October 2025, pages 10-12.

¹² Section 19(2) of the Civil Aviation Act 2012.

¹³ British Airways, “[British Airways \(“BA”\) Response to CAP3149 Economic regulation of Heathrow Airport \(“Heathrow”\): Heathrow Capacity Expansion – consultation on regulatory policy on early costs](#)”, 10 September 2025. See pages 14-15, 21. See also IAG, “[Subject: IAG’s Endorsement of British Airways’ Response to CAP3149 – Heathrow Capacity Expansion](#)”, September 2025; IATA and

CAA's statutory duty to further the interests of consumers. We note that the CAA's consultation document sets out no discussion or reasoning on this issue at all, notwithstanding Heathrow's previous submissions which have raised this point prominently. Accordingly, for the reasons previously explained in full by Heathrow, this proposal falls outside the scope of the powers granted to the CAA by the Civil Aviation Act 2012 and introduces significant legal and timetable risks.

53. If the CAA continues to assert that it has the requisite powers, we request that it sets out, in detail, the statutory basis of this claimed discretion and explain how it permits the CAA to force Heathrow to recover third party costs through its licence. Without this analysis, Heathrow is unable to engage properly or provide any meaningful comment on the CAA's proposal as part of this consultation. Since no reasoning has been set out in the CAA's consultation on this issue Heathrow must reserve the right to make further submissions in the event that the CAA does provide further reasoning in future. Failure to provide a clear statutory justification at this stage also risks creating unnecessary grounds for future dispute between the parties. We would also welcome the opportunity to discuss this further with the relevant working team to understand the CAA's perspective.

Reporting requirements and independent assurance

54. We recognise the need for transparency and reporting on early costs both to the CAA and our airlines. We support extending transparency and reporting to early costs. However, this needs to be balanced to the needs and requirements of the programme at the DCO development stage.

55. The CAA has set out reporting requirements for Heathrow to meet:

- a. At quarterly intervals, and within one month of the quarter end, an update to the CAA and airlines on actual costs incurred to date against the cap;
- b. On an annual basis, and within three months of the end of the year, reporting on early costs in Heathrow's Regulatory Accounts supported by a statement from Heathrow's auditors confirming the costs meet the definition of early costs;
- c. Detailed business plan covering the period starting 2027 to when Heathrow expects the DCO to be granted. Business plan to be submitted during 2026 and date to be agreed with CAA; and
- d. Appointment of independent technical expert(s), namely a property expert.

56. The draft guidance sets out that Heathrow should report against the baseline set out in the July submission. However, we note that elsewhere in the consultation the document refers to the cost estimates contained in the December update. We consider that it is more appropriate to base the reporting on the December submission plus purchase of CLC, as this better reflects the balance of expenditure between 2025 and 2026.

57. We will work with the CAA on these requirements and agree the format, structure and precise timings of the reporting. This includes working with the CAA to define the required statement from our auditors and ensuring that our auditors can provide the statement the CAA is seeking.

58. However, we note the following:

- Heathrow’s licence sets out that the Regulatory Accounts are to be made available “as soon as reasonably practicable, and in any event not later than six months after the end of the Regulatory Year to which they relate”¹⁴. The proposed wording in the licence for early costs should mirror the Regulatory Accounting requirements.
- Heathrow will work with CAA and airlines to appoint an independent expert(s), namely a property expert. The expert(s) will need to have strong experience in large, complex and dynamic planning application processes to ensure they can provide value to programme and consumers. We would expect recoverability of this cost given this is incremental to the H7 cost allowance and to the cap. We will include this cost as part of our business plan submission.

Proposed licence modifications

Condition C1.5

59. The proposed condition C1.5 sets out the calculation of the return on the allowance to be included in the price control condition when setting aeronautical charges for 2027 and 2028. We note there is a discrepancy in the application of the use of indices and that the allowances should reflect our proposed cap [$> \text{£}440\text{m}$].

60. For example, the proposed new term “RPEEC” will take effect by uplifting the 2025 allowance when setting aeronautical charges for 2027 from 2024 prices to 2025 prices. This does not take account of the time value of money, and the correct application would be to uplift from 2024 to 2027 prices. The table below illustrates what Heathrow believes the correct approach should be:

For Provisional Early Expansion Cost in Regulatory Year	Calculation of RPEEC _t for Regulatory Year:	
	2027	2028
2025	$0.5 \times \text{PEEC}_{2025} \times (P_{2025 \text{ 2027}} / P_{2024})$	$\text{PEEC}_{2025} \times (P_{2026 \text{ 2028}} / P_{2024})$
2026	Zero	$0.5 \times \text{PEEC}_{2026} \times (P_{2026 \text{ 2028}} / P_{2024})$
	Sum rows x RWACC	Sum rows x RWACC

Condition C1.25

61. Condition C1.25 sets out the definition of “early costs” and “expansion”. The proposed definition of early costs is broadly consistent to the definition the CAA set out in CAP1513¹⁵: “in general, incurred by HAL after the Government policy announcement on its preferred location for new capacity (25 October 2016); and associated solely with seeking planning permission for the delivery of new runway capacity at Heathrow.”.

62. The CAA has proposed three aspects to support its definition of early costs. We agree with the proposed wording for each. But point out on the following, “planning for enabling works to support the timely delivery of expansion in the event that development consent is granted to the Licensee for expansion” to the end of 2026. Beyond 2026, this would need to be expanded to include actual works in subsequent years e.g. major relocations (waterside, immigration removal centre) done under town and country planning. We will provide the scale of these works in our business plan submission detailing all spend envisaged prior to the DCO consent.

¹⁴ [20260101-heathrow-airport-limited-licence.pdf](#), page 35.

¹⁵ [The recovery of costs associated with obtaining planning permission for a new northwest runway at Heathrow Airport: Policy statement](#), page 18

63. Beside the proposed wording of the definition of early costs, we remind the CAA that it issued “*Guidance on preparation of the annual budget and statement for those costs associated with obtaining planning permission for a new northwest runway, CAP 1651*”. This provided helpful guidance on cost categories which the CAA regarded as directly associated with seeking planning permission that would have fallen within Category B.
64. Heathrow proposes that the previous guidance on cost categories should be used in the first instance and form the basis of the CAA’s approach (noting that this is not an exhaustive list). This provides greater certainty for all parties given the previous work to establish the guidance. The list includes but not limited to:
- *Planning advice and consultants for master planning*
 - *Environmental and sustainability advisory and consultancy*
 - *Legal and professional advice*
 - *Architectural, structural and engineering design*
 - *Surveys on land, surface access and the environment*
 - *Public consultations for the DCO processes*
 - *Preparation of material for the government’s NPS*
 - *Costs incurred by the IFS in relation to planning matters*
 - *Business case and **financial**/ economic modelling*
 - *Land and property referencing*
 - *Third party and stakeholder engagement*
 - *Work to support and submit planning for the associated Airspace Change Programme (ACP)*
 - *Leadership and management¹⁶.*
65. The treatment of early costs are those costs incurred by Heathrow in relation to developing expansion. Consistent with the CAA’s previous policy and guidance there is no distinction between capital expenditure and operating expenditure. For the purposes of the treatment of early costs all costs that meet the definition, irrespective of whether they are capital expenditure or operating expenditure will be added to the RAB in line with the CAA’s policy.
66. For example, operating expenditure items that were approved by the CAA to be added to the RAB included CAA fees related to expansion, Heathrow work on expansion related matters and costs related to security for safeguarding against protesters. These cost items are not distinct from preparing a DCO and therefore should be included within the definition of early costs in line with the CAA’s previous approach. We will plan on the basis to include these and other relevant cost items as “early costs”.
67. Supplementary to the guidance outlined, our enabling and property acquisition costs will reflect the activities that we have set out in our letter dated 31 July 2025¹⁷ and 17 October 2025¹⁸. We will work with the CAA to establish appropriate cost categories for early costs.

¹⁶ [16467](#), page 9

¹⁷ [caa-h7-857-heathrow-application-to-increase-h7-capex-cap.pdf](#)

¹⁸ [caa-h8-057-letter-from-heathrow-to-caa-17-october-2025-early-costs-and-regulation-of-expansion_redacted.pdf](#)

Condition [G] Expansion

68. We have noted in this response our agreement with the CAA's view that it is essential that Heathrow is not penalised for withdrawal from capacity expansion where such a decision is taken for "genuine business reasons" and that this policy is included in the licence. Reflecting the position set out in CAP3201, we propose the following wording for the licence:

The Licensee shall recover all efficiently incurred costs in the circumstances where it has genuine business reasons for withdrawing from Expansion. Efficiently incurred costs will include any demobilisation costs to close the Expansion programme.