

# **CAP3251 – CAA Shortlist of Regulatory Models**

## **Response by Heathrow Airport Ltd**

**15<sup>th</sup> June 2026**

## CONTENTS:

|                                                                                                                                |           |
|--------------------------------------------------------------------------------------------------------------------------------|-----------|
| <b>Executive Summary .....</b>                                                                                                 | <b>4</b>  |
| <i>An enhanced Single RAB model is the only route to better consumer outcomes.....</i>                                         | <i>4</i>  |
| <i>Model 7b is not in consumers' interests and should not be taken forward .....</i>                                           | <i>5</i>  |
| <i>Evidence supports targeted reform, not structural fragmentation .....</i>                                                   | <i>5</i>  |
| <i>The CAA should move towards implementation .....</i>                                                                        | <i>6</i>  |
| <b>1. Introduction .....</b>                                                                                                   | <b>7</b>  |
| <b>2. Foundations – Enhanced RAB, Single Owner-Operator .....</b>                                                              | <b>8</b>  |
| <i>Foundational Models - Introduction and Summary.....</i>                                                                     | <i>8</i>  |
| <i>Model 1a – Changes to Capex Governance Processes .....</i>                                                                  | <i>9</i>  |
| <i>Proposed Capital Oversight Group (COG) - supported by Joint Independent Assurance (JIA).....</i>                            | <i>12</i> |
| Role, Purpose and Positioning .....                                                                                            | 13        |
| Chairing, Composition and Stakeholder Participation .....                                                                      | 14        |
| Core Functions and Proactive Powers of the COG .....                                                                           | 14        |
| Proportionate, Risk-Based Oversight .....                                                                                      | 15        |
| Joint Independent Assurance (JIA) and Its Relationship with the COG .....                                                      | 16        |
| Long-Term Capital Planning and COG interface.....                                                                              | 18        |
| <i>Model 2 – Targeted Adjustments to the Existing Incentive Regime .....</i>                                                   | <i>19</i> |
| Why H7-style blunt ex ante incentives do not fit Expansion .....                                                               | 20        |
| Why all Expansion spend must still face meaningful discipline .....                                                            | 21        |
| Why cost categories differ and need differentiated treatment .....                                                             | 21        |
| Why JIA makes this workable .....                                                                                              | 22        |
| External Advice .....                                                                                                          | 22        |
| What Heathrow is asking the CAA to take forward .....                                                                          | 23        |
| <i>Model 4a – Enhanced Scrutiny of Heathrow's Approach to Procurement.....</i>                                                 | <i>24</i> |
| <i>Model 3 – Long-term Regulatory Framework for Expansion .....</i>                                                            | <i>27</i> |
| Model 3.1b – Long-term cost of capital for Expansion, with continued BAU redeterminations .....                                | 28        |
| Model 3.3 – Cap and collar .....                                                                                               | 29        |
| <b>3. Enabling Competition; Avoiding Risk And Fragmentation .....</b>                                                          | <b>31</b> |
| <i>Models 4b and 5b: Competitive tendering – Design &amp; Build (D&amp;B) and Design, Build, Operate (DBO) approaches.....</i> | <i>33</i> |
| Where Models 4b and 5b can add value to efficient delivery of Expansion .....                                                  | 34        |
| Why asset selection matters for competitive tendering models .....                                                             | 36        |
| Next Steps.....                                                                                                                | 42        |
| <i>Model 7b: Direct Competition for Airport Operation Services.....</i>                                                        | <i>43</i> |
| Review of CAP3251 .....                                                                                                        | 43        |

|                                                                                                                            |           |
|----------------------------------------------------------------------------------------------------------------------------|-----------|
| Implementation and delivering effective competition – Model 7b .....                                                       | 47        |
| Next Steps .....                                                                                                           | 49        |
| <b>4. The Way Forward – An Enhanced Framework For Expansion .....</b>                                                      | <b>50</b> |
| <i>The scale and complexity of Expansion require changes to the existing regulatory framework .....</i>                    | <i>51</i> |
| <i>The proposed enhancements better discharge the CAA duties and have precedent in other regulated sectors .....</i>       | <i>53</i> |
| <i>The enhancements answer concerns raised by some airlines with regards to the single RAB model .....</i>                 | <i>54</i> |
| <i>The CAA should now move to implementation of the enhancements to unlock timely delivery of Expansion benefits .....</i> | <i>54</i> |
| <b>5. Refining The Case For Change .....</b>                                                                               | <b>56</b> |
| Evaluation Framework .....                                                                                                 | 56        |
| Case for Change .....                                                                                                      | 57        |
| Service Quality .....                                                                                                      | 57        |
| Measurement of Service Quality Data .....                                                                                  | 58        |
| Traffic recovery and capacity utilisation .....                                                                            | 59        |
| Airport Charges .....                                                                                                      | 60        |
| Capital Efficiency .....                                                                                                   | 66        |

## EXECUTIVE SUMMARY:

### **An enhanced Single RAB model is the only route to better consumer outcomes:**

The CAA should now confirm an enhanced Single RAB model, delivered by an integrated owner-operator, as the target framework for Heathrow Expansion. This is the route most likely to deliver Expansion on time, at efficient cost and with efficient private financing, while protecting consumers through higher-quality governance, independent assurance, better-calibrated incentives and longer-term regulatory commitments.

Heathrow recognises that some airline customers have concerns that the RAB model may create inappropriate incentives, particularly in relation to cost efficiency. Heathrow do not share that diagnosis and does not support the structural remedies some airlines favour. However, Heathrow do support targeted enhancements that improve transparency, cost discipline and customer confidence while preserving the integration, accountability and financing certainty needed to deliver a project of this scale.

The future framework should therefore bring the shortlisted models together as an integrated package, not as a set of standalone interventions:

- **Long-Term Regulatory Commitments (Model 3)** - Heathrow supports a longer-term cost of capital framework for Expansion, including a 15-to-20-year commitment to the real cost of equity and a market-based debt allowance. This would better align regulation with investor expectations and the financing profile of a long-duration programme, reducing unnecessary financing risk and supporting lower charges over time.
- **Calibrated Incentives (Model 2)** - Heathrow supports a bespoke, programme-level incentives framework, with incentive strength calibrated to risk, controllability and project maturity. This would preserve meaningful cost discipline while avoiding inefficient risk transfer that could weaken financeability, increase charges or delay delivery.
- **Higher Quality Capital Governance (Model 1a)** - Heathrow supports the CAA's proposal for a senior capital committee, provided it is focused on strategic scrutiny rather than delivery control. A Capital Oversight Group, supported by Joint Independent Assurance, would give the CAA, airlines, consumer representatives and Government earlier, better and independently assured information on scope, cost, phasing and risk, while preserving Heathrow's accountability for delivery.
- **Procurement (Models 4a, 4b and 5b)** – Heathrow recognises the scale of Expansion means it is appropriate to further assess whether Models 4b and 5b could play a role within an enhanced Single RAB framework. However, any such role should be exceptional, evidence-led and confined to peripheral assets where there is no impact on safety, security, operations, financeability or critical-path delivery. Heathrow does not support mandating these models across broad asset classes or applying them to core safety, security or operational assets. Heathrow agrees with the CAA's clarification that the next step is for Heathrow to assess where these models are best used and consult the COG while doing so. This safeguard is essential if competitive delivery models are to be

explored without weakening the single point of accountability required for safe and efficient delivery at an operating hub airport.

**Model 7b is not in consumers’ interests and should not be taken forward:**

Model 7b should now be discounted. Heathrow agrees with the CAA’s conclusion that Model 7b is materially less attractive than Models 4b and 5b when assessed against consumer outcomes, deliverability, financeability and implementation risk. However, CAP3251 does not yet give sufficient weight to the scale of those concerns or their implications for consumers.

- **Financeability would be materially worse.** Fragmenting the airport would weaken whole-system financeability. Analysis indicates that standalone terminal financing would increase airport charges by at least £2.73 per passenger, rising to £5.56 per passenger to maintain Heathrow’s credit rating. Any third-party terminal operator would need to deliver very substantial capex savings — likely above 30% — before consumers could be better off. That is not a realistic proposition for a core, highly integrated terminal asset.
- **Consumer and service outcomes would be worse.** Comparator evidence from JFK and LAX indicates that fragmented terminal operation leads to lower passenger satisfaction and less consistent service quality. At an expanded Heathrow, this would be compounded by fragmented accountabilities and limited scope for passengers or airlines to switch between operators.
- **Implementation would create delay and uncertainty.** Model 7b would require a new framework for competing airport operators, wholesale access, interface regulation, market power assessment, charging arrangements and operational coordination. These steps would introduce very substantial delay and cost, putting at risk the principal consumer benefit from Expansion: timely delivery of new capacity, greater airline competition and lower fares.

The CAA does not need to await the conclusion of the planning process before reaching a regulatory judgement on Model 7b. Where the evidence already shows that Model 7b would increase cost, delay and risk, the CAA should say so clearly in its July statement and reflect that position in its role as statutory consultee.

**Evidence supports targeted reform, not structural fragmentation:**

Heathrow agrees that the scale and complexity of Expansion require the regulatory framework to evolve. The relevant test is whether any change supports timely, efficient and financeable delivery of new capacity in consumers’ interests. On that test, the evidence supports targeted reform of the Single RAB model, not structural fragmentation.

However, much of the case presented in CAP3251 is more qualified and less conclusive than suggested and does not provide a sufficient basis for more intrusive regulatory reform:

- **Service quality:** The CAA’s revised analysis is more balanced, but still understates Heathrow’s recent performance and the limits of international comparisons. In 2025, 96% of passengers rated their journey good or excellent, 98% cleared security in under 5 minutes and QSM improved from 4.24 in

2019 to 4.36 in 2025. Heathrow was also above 2019 passenger levels in both 2024 and 2025, operating much closer to capacity than many comparators.

- **Charges:** Heathrow's charge is approximately 15% lower than the comparator average — and almost 30% lower than European hub airports — once key structural drivers are properly recognised. While the CAA's revised benchmarking is an improvement, it still does not provide a fully like-for-like comparison. Important drivers remain under-recognised, including airline operating model effects [REDACTED] construction costs [REDACTED] operating restrictions [REDACTED] [REDACTED] the removal of VAT-free shopping [REDACTED] and past choices on regulatory depreciation that have led to a higher RAB [REDACTED]
- **Capital efficiency:** The evidence does not support a finding of systematic inefficiency. The CAA itself recognises that Terminal 5 and Terminal 2 avoided the substantial overruns and delays seen on many major projects. That matters in the context of Flyvbjerg's evidence from over 16,000 projects, which shows only 8.5% meet cost and time targets and just 0.5% meet cost, time and benefit objectives together.

This performance is also evident in the value Heathrow creates for airlines. Airline revenues at Heathrow are around £27bn per year, approximately £12bn higher than the average across comparator hubs. That reflects the strength of Heathrow's service proposition, passenger demand and relative efficiency.

#### The CAA should move towards implementation:

The CAA has set a constructive direction of travel. The priority now is to convert that direction into a clear target model and implementation plan. Timely regulatory clarity is critical because it unlocks investment, enables procurement and mobilisation, and supports delivery of the new capacity from which consumers derive the greatest benefit.

In its July statement the CAA should:

- Confirm the enhanced Single RAB model, based on an integrated owner-operator and supported by higher quality governance and better calibrated incentives.
- Take forward Model 3.1b through a 15-to-20-year commitment to the real cost of equity for Expansion, with a market-based debt allowance.
- Confirm that competition should be pursued through procurement oversight and targeted third-party delivery where this demonstrably improves consumer value.
- Discount Model 7b from further consideration.
- Establish a timetable to determine risk allocation, target credit rating and the Expansion risk premium as soon as possible.

## 1. INTRODUCTION:

- 1.1. CAP3251 marks an important step in moving from debate about regulatory models to the practical design of a framework capable of supporting Heathrow Expansion. Heathrow supports that direction. The central question now is how the CAA can secure timely, efficient and financeable delivery of new capacity.
- 1.2. This response is therefore focused on how the shortlisted models can be converted into a coherent implementation framework that supports consumer outcomes through timely delivery, efficient cost, proportionate scrutiny and efficient private financing.
- 1.3. This response is structured as follows:
  - First, Heathrow considers the foundation models in CAP3251 — Models 1a, 2, 3 and 4a — and explain how they can be brought together into an enhanced, Single RAB framework. This section draws on relevant megaproject precedent and updated advice from Heathrow’s external advisers Santander and Freshfields (Supporting Document 2).<sup>1</sup>
  - Second, Heathrow considers the CAA’s objective of enabling competition, including the role Models 4b and 5b can play where third-party delivery improves consumer outcomes, and why Model 7b should be discounted. This section draws on BRG Consulting’s analysis of effective competition (Supporting Document 1)<sup>2</sup>, Freshfield-Santander financial analysis (Supporting Document 2) and lessons from comparable regulated sectors, both provided to the CAA alongside this response.
  - Third, Heathrow brings these elements together into a proposed way forward, identifying which models should be developed and the design principles needed to support a practical, financeable and pro-consumer framework.
  - Finally, Heathrow respond to the CAA’s updated case for change, explaining why the evidence supports enhancement of the Single RAB model rather than structural fragmentation.
- 1.4. Heathrow remains committed to working constructively with the CAA, airlines, consumer representatives and Government to refine and implement that framework. The priority now is to convert the shortlist into a clear target model and implementation plan capable of supporting investment, delivery and long-term consumer benefit.

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<sup>1</sup> Heathrow Expansion: Financeability Analysis of CAA regulatory model shortlist, June 2026

<sup>2</sup> Assessment of Competition Models for Heathrow Expansion - Lessons from telecommunications and implications for the CAA’s proposed regulatory approaches, June 2026.

## 2. FOUNDATIONS – ENHANCED RAB, SINGLE OWNER-OPERATOR:

Heathrow supports the CAA's decision to shortlist the “foundational” regulatory models focused on **strengthened governance, improved incentives, greater transparency and longer-term regulatory commitments**. At their core, these models provide a **credible and pragmatic pathway for the efficient delivery** of Expansion.

However, there remain important questions about how these models would operate in practice. Developing an effective framework for governance, incentives and procurement is necessarily **iterative and collaborative; it cannot be achieved through a rigid or overly accelerated process**. The success of any future regime will depend on whether it is **proportionate, delivery-oriented and capable of commanding confidence** across the full range of stakeholders.

In this context, **Heathrow's commitment to a High-quality Governance and Incentives** provide a template to achieve the objectives of the CAA's proposed oversight arrangements.

Heathrow also agrees that a longer-term regulatory framework has the potential to better align regulatory commitments with investment horizons. Done properly, this could **reduce unnecessary upward pressure on the cost of capital, strengthen confidence in long-term delivery and help ensure airport charges are no higher than necessary for consumers**. However, any such framework must **include the appropriate guardrails and protections outlined elsewhere** in this response in order to preserve regulatory credibility and maintain the balance of risk and incentive at the heart of the “fair bet” model.

Heathrow has developed a number of further high-level proposals in relation to these models and **remains committed to working constructively with airlines, the CAA and other stakeholders to refine and develop** them ahead of the CAA's future recommendations.

### Foundational Models - Introduction and Summary:

- 2.1. Heathrow welcomes the CAA's support for the key foundational models in CAP3251. As set out in our response to CAP3195, and our subsequent proposals for High Quality bespoke Governance<sup>3</sup>, Heathrow support a step change in the framework for Expansion. A project of this scale, duration and complexity requires higher-quality scrutiny, independent assurance, better-calibrated incentives and greater long-term regulatory certainty than the current framework was designed to provide.
- 2.2. The foundational models shortlisted by the CAA can be brought together into a coherent enhanced Single RAB framework:

<sup>3</sup> Available at <https://www.caa.co.uk/media/ywlp0s2/heathrow-response-to-cap3195-working-paper-on-regulatory-models-final-2-redacted.pdf> and [High quality governance and incentives](#).

- **Model 1a and Model 4a** should provide the governance and assurance architecture: a senior Capital Oversight Group, supported by Joint Independent Assurance, to give the CAA, airlines, Government and consumer representatives earlier, better and independently assured visibility of the most material capital, procurement, cost, risk and delivery issues.
- **Model 2** should provide the incentive architecture: a staged, programme-level framework that applies meaningful cost discipline while calibrating incentive strength to controllability, maturity and risk.
- **Model 3** should provide the long-term financeability architecture: a longer-term commitment to the real cost of equity for Expansion, alongside market-based treatment of debt, to align regulatory commitments with the investment horizon and reduce unnecessary upward pressure on charges.
- Together, these models should **operate as an integrated package**, with governance, incentives, procurement scrutiny and financeability aligned around the same principle: transparency and discipline without blurring Heathrow's accountability for delivery.

2.3. The remainder of this chapter explains how that package should be developed. It first addresses Model 1a and the proposed Capital Oversight Group and Joint Independent Assurance framework; then considers Model 2 and the design of a tailored incentives regime; then addresses Model 4a and the role of procurement scrutiny; and finally considers Model 3 and the long-term regulatory commitments needed to support efficient financing of Expansion.

#### Model 1a – Changes to Capex Governance Processes:

- 2.4. Heathrow welcomes that CAP3251 builds on the principles set out in Heathrow's March paper on high-quality governance for Expansion<sup>4</sup>. In particular, CAP3251 recognises that the existing approach to governance is not designed for the scale and complexity of Expansion and therefore a bespoke programme-level governance framework is required, supported by *"integrated independent assurance, in protecting delivery pace, affordability, financeability and consumer outcomes"*<sup>5</sup>.
- 2.5. Heathrow recognises and supports the legitimate desire of both airlines and the CAA for earlier, clearer and more meaningful visibility of, and input into, masterplan, optioneering, phasing and procurement decisions. This reflects a shared objective that major capital programmes should be well understood, risks surfaced early and decisions taken with a clear line of sight to consumer outcomes. Heathrow supports the CAA's emphasis on transparency and early engagement, and agrees that, when well designed, these can improve confidence, support higher-quality decision-making and deliver better outcomes for passengers, airlines and investors.
- 2.6. The CAA's proposal to establish a senior capital committee - which Heathrow propose to be the Capital Oversight Group (COG) described below - is therefore an important and welcome response to this ambition. Heathrow supports the CAA's intent that such a committee should enhance

<sup>4</sup> [High quality governance and incentives](#)

<sup>5</sup> CAP3251, paragraph 1.32

transparency, provide informed strategic challenge and improve confidence in the most material capital decisions, particularly where consumer risk is highest. Heathrow also agree that wide and credible representation – including the CAA, Government and consumers alongside airline perspectives – is essential to ensuring scrutiny is balanced, proportionate and clearly focused on long-term consumer interest.

- 2.7. Heathrow agree with the CAA that experience from major infrastructure programmes demonstrates that governance design is critical to whether enhanced engagement delivers benefits or unintended consequences. Projects such as HS2 and Berlin Brandenburg Airport illustrate how poorly designed arrangements can create additional approval layers, unclear decision rights and diluted accountability, driving delay, cost escalation and ultimately harm to consumers.<sup>6</sup>
- 2.8. Heathrow shares the CAA's desire to avoid replicating these outcomes. By contrast, the Thames Tideway Tunnel provides a positive and relevant model: its Liaison Committee (and before, its Senior Reference Group), supported by an Independent Technical Assessor, shows how disciplined, expert-led scrutiny and early challenge can materially improve transparency and decision-making without undermining delivery momentum or introducing unnecessary cost.
- 2.9. At the same time, the governance framework must ensure there are appropriate checks and balances on airline influence. Challenges could arise where incumbent airlines' commercial incentives may not be fully aligned with the interests of future airlines and consumers. As Heathrow set out in its response to CAP3195, incumbent airlines benefit from today's capacity constraint and therefore may have a rational commercial incentive to moderate, delay or oppose the release of new capacity where doing so protects yields, margins or market position. Airline input is valuable and should be properly reflected through consultation, challenge and independent assurance, but formal decision rights or veto powers over strategic capacity, phasing or scope decisions would carry appreciable risk of creating a conflict of interest and could undermine the timely delivery of the consumer benefits that Expansion is intended to unlock.
- 2.10. These lessons are reinforced by experience of business-as-usual capital governance with airlines. While BAU arrangements have enabled extensive engagement, experience shows that simply "more engagement" can become ineffective where it is not supported by the right skills and resources or where commercial priorities take precedence over delivering benefits and consumer value<sup>7</sup>. In such circumstances, rather than improving the quality of decisions, governance can contribute to delay, inefficiency and additional cost which are ultimately borne by consumers. Debate around the T2 baggage programme, raised publicly by Heathrow Reimagined, provides another clear illustration of how misalignment on timing, information and capability can shape perceptions of constrained choice, even where engagement has been extensive (see Figure 1 below).

<sup>6</sup> As explained in [Q1-megaproject-outcome-drivers-benchmarking-fact-base.pdf](#)

<sup>7</sup> As described in item 5.10 of our response to CAP3195: [Heathrow response to CAP3195 - Working Paper on Regulatory Models FINAL.pdf](#)

### Case Study - T2 baggage system: lessons for effective early alignment

The T2 baggage programme illustrates why engagement on major capital projects needs to be early, technically informed and supported by clear decision points. Heathrow undertook more than 120 engagement sessions over an 18-month period during the RIBA Stage 4 design phase, followed by a further nine focused sessions to prepare airlines for the G3 review.

Despite this extensive engagement, some material requirements and data requests — including requirements relating to container capacity — emerged late in the process, after they were most useful to design development. This created a risk of rework, delay and additional cost.

Timetables were further affected by a disconnect between airline representatives involved in the capital governance process and the requirements of their operational colleagues. In practice, this meant that some operational requirements and data inputs — including batching, detailed segregation data and loss of messaging — were not fully clarified at the point when they were most useful to design development. Heathrow therefore had to document and test these requirements later in the process, increasing the risk of rework, delay and consequential cost impacts.

The lesson is not that airline engagement should be reduced. On the contrary, it is essential that customer requirements are understood and tested. The key point is that engagement must be structured around clear gateways, sufficient technical capability and timely internal alignment by all parties, so that decisions can be made on a reliable evidence base and settled issues are not reopened late in the approval process.

This points to an important role for the Capital Oversight Group and Joint Independent Assurance. The COG should provide earlier strategic visibility and challenge on material requirements, risks and trade-offs, without becoming a project management forum. The JIA should provide independent assurance on whether engagement has been meaningful, whether requirements have been submitted at the right time, and whether proposed changes remain proportionate and in consumers' interests given their cost, schedule and delivery implications.

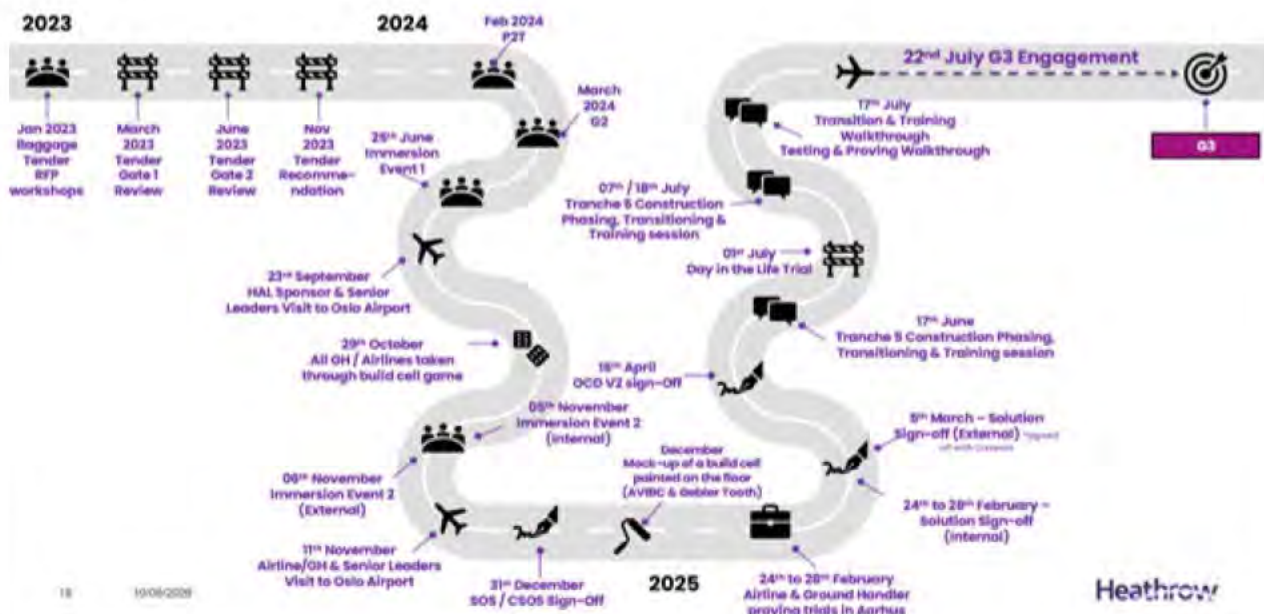


Figure 1: Governance in T2 baggage project

- 2.11. These lessons reinforce that engagement must be carefully designed and purposeful, adding value without creating scope creep through multiple, dispersed layers of stakeholder involvement that ultimately increase costs for consumers. Heathrow agree with the CAA's intent that the senior capital committee should be designed explicitly to deliver transparency and informed input at a strategic level. To be effective, it must remain focused on senior-level review and advice on the most material capital decisions and cannot evolve into an administrative forum or take on project management or delivery roles. Clear definition of remit and escalation pathways is therefore essential to prevent scope creep and ensure accountability for delivery remains clear.
- 2.12. The governance arrangements for the COG must also mirror the incentive framework. If Expansion incentives are set at programme level, governance must align accountability with control: Heathrow must retain the decision rights needed to respond to those incentives across scope, sequencing, procurement and delivery trade-offs. The COG can provide structured visibility, scrutiny and challenge of the long-term capital plan, but it should not become a forum through which other parties acquire decision rights over choices at programme- or project-level that determine Heathrow's exposure under the incentive regime. Otherwise, Heathrow would be accountable for cost, schedule and consumer outcomes without having the control required to manage them, weakening the effectiveness of incentives, increasing financeability risk and ultimately raising costs for consumers.
- 2.13. Overall, Heathrow supports the CAA's direction of travel towards higher-quality capital governance and its emphasis on proportionality, clarity of accountability and avoidance of unnecessary complexity. Indeed, it is clear from Steer's technical report that the success of Model 1a – particularly on the support for capacity Expansion – is based on the fact that it *"improve(s) clarity of operational accountability and reduce the risk of conflict between construction and live operations..."* and is predicated on *"Responsibility for system planning, delivery and operation...remaining with Heathrow"*. Heathrow see this senior capital committee as a central element of this framework and an opportunity to embed lessons from both successful and unsuccessful megaprojects.

#### **Proposed Capital Oversight Group (COG) - supported by Joint Independent Assurance (JIA):**

- 2.14. Heathrow supports the creation of a new senior capital oversight committee for Expansion, which Heathrow proposes to establish as the Capital Oversight Group (COG), supported by Joint Independent Assurance (JIA). This model draws directly on the proven arrangements used on the Thames Tideway Tunnel, namely the Liaison Committee and Independent Technical Assessor, and is intended to provide structured oversight, transparent assurance and disciplined escalation.<sup>8</sup> Crucially, it is designed to provide higher-quality scrutiny and greater confidence in the most material capital decisions without diluting Heathrow's delivery accountability or introducing governance-driven delay.

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<sup>8</sup> See, for example, [Thames Tideway: Liaison agreement](#).

2.15. In setting out this proposal, Heathrow seeks to contribute constructively to the practical implementation of the committee envisaged in CAP3251. The remainder of this section explains how the proposed COG and JIA framework would operate in practice. It covers the COG's role and positioning, chairing and membership, core functions, risk-based approach to oversight, the relationship between COG and JIA, and the interface with long-term capital planning. The proposals are offered in the spirit of collaboration and joint working, are evolving, and are intended to support further engagement with the CAA, airlines and other stakeholders to refine a proportionate, effective and deliverable governance model for Expansion.

#### Role, Purpose and Positioning

- 2.16. The COG would provide a strong and credible centrepiece of the governance framework for Expansion, acting as a senior, programme-level forum that brings together key stakeholders to support effective delivery. Positioned at the top of Expansion's capital governance framework, the COG would enhance transparency, alignment and confidence in outcomes, while preserving clear accountability for delivery.
- 2.17. The COG would *not* act as a programme management body or assume delivery responsibilities. Rather, with technical support from JIA, it would provide strategic oversight across the programme, with any Expansion-specific Heathrow–airline forums and COG sub-committees operating beneath it to support detailed engagement, investigation and information gathering as required.
- 2.18. By bringing together a wide set of senior stakeholders - including Heathrow, airlines, Government, the regulator and consumer groups - the COG would represent a powerful and collaborative mechanism for shaping how Expansion is delivered, driving quality, alignment and confidence in outcomes. Supported by JIA, the COG would undertake regular, structured scrutiny of the most material strategic, cost, risk and delivery issues, providing clear, evidence-based steer and recommendations to the Expansion Programme Committee.
- 2.19. Through this role, the COG would play a key part in ensuring that Expansion remains aligned with efficient and timely delivery, and, crucially, maintains a strong focus on long-term consumer benefits. While Heathrow would retain end-to-end accountability for scope, cost, schedule and procurement, the COG would provide higher-quality, informed and timely challenge, transparency and escalation across the programme.
- 2.20. It is important that the overall capital governance architecture, including the COG, is carefully evolved and clearly delineated, so that roles are complementary, escalation routes are well understood, and duplication or overlap is avoided. This clarity will ensure the COG can operate effectively and add value, without introducing unnecessary complexity or governance-driven delay.

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### Chairing, Composition and Stakeholder Participation:

- 2.21. Heathrow agrees with CAP3251 that the COG should be chaired by an independent person appointed by the CAA, following consultation with Heathrow and airlines. Furthermore, it is our view that the COG's membership should be wide to ensure breadth of expertise, comprising senior representatives from Heathrow, airlines, the CAA and Government, including the Department for Transport and HM Treasury. This wider participation mirrors the Thames Tideway model and reflects the nationally significant nature of Expansion.
- 2.22. HM Treasury participation is particularly important given the scale, financeability and national infrastructure implications of Expansion. Across the Government Major Projects Portfolio, major projects are subject to central scrutiny, transparency and assurance, with the annual portfolio reporting to Cabinet Office and HM Treasury and tracking delivery confidence, cost and schedule across the Government's most strategically significant programmes. Including HM Treasury on the COG would therefore align Expansion governance with established megaproject practice, ensure early visibility of financeability, risk allocation and value-for-money issues, and support coherent engagement across the CAA, Department for Transport and wider Government without transferring delivery accountability away from Heathrow.
- 2.23. Heathrow also agrees with the CAA's principle of incorporating direct consumer input into the committee, to ensure that longer-term passenger interests are considered alongside airline operational requirements. In addition, Heathrow considers it important that the perspectives of future users and non-incumbent airlines are appropriately reflected and encourages the CAA to consider how this could be achieved as part of its further work and recommendations.
- 2.24. Heathrow also welcome exploring how additional third parties which will have a key role in the delivery of Expansion, such as infrastructure asset owners (National Highways) or requirement setters (Environment Agency) can have a channel to meaningfully engage with the COG. Our initial view is that this could be done via thematic sub-committees.

### Core Functions and Proactive Powers of the COG:

- 2.25. The effectiveness of the COG will depend not only on its formal design, but also on the quality of participation by its members. This will require all parties to devote sufficient time, have necessary capability and senior attention, engage constructively and in good faith, and ensure that their representatives are appropriately senior and empowered to contribute to discussions, test issues openly and support resolution where needed. Without that shared commitment, there is a material risk that the COG becomes a procedural forum rather than a mechanism that adds real value through timely, informed and solution-oriented oversight.
- 2.26. The COG's core functions would include:
- A forum for discussion, consultation and challenge of Heathrow's long-term capital plans, enabling informed and forward-looking engagement (further information on creating a framework for long-term capital plans is discussed below).

- Monitoring Heathrow's Expansion delivery strategy, including procurement strategy and the approach to the use of design and build or design, build and operate models (CAA's models 4b and 5b) where relevant.
- Reviewing programme-level progress, cost forecasts, key risks and interdependencies across Expansion, supported by information provided by the Joint Independent Assurer.
- Instructing the Joint Independent Assurer to develop specific analysis, undertake targeted reviews and issue independent views on matters within the COG's remit and as necessary to support informed discussion of material capital, cost, risk and delivery issues, subject to agreed protocols and proportionality.
- Acting as the primary forum for receiving, considering and discussing JIA outputs, ensuring that assurance is shared transparently and simultaneously rather than through bilateral channels.
- Making recommendations to Heathrow's Executive Committee and Expansion Programme, within the COG's remit.
- Supporting early escalation and dispute avoidance, with JIA providing the principal evidence base for addressing technical, cost or delivery disagreements.

#### Proportionate, Risk-Based Oversight:

2.27. Heathrow proposes that COG oversight should be dynamic, risk-based and proportionate, using maturity-based oversight tiers calibrated to the characteristics of different Expansion programmes.

- In the early stages (strategic definition and optioneering), oversight would focus on high-level challenge and testing of key assumptions, reflecting statutory constraints, delivery control and system interdependencies.
- In the mid stages (reference design and procurement strategy), oversight would concentrate on the principal cost, schedule and risk drivers as commitments increase, supported by information and assurance undertaken by the JIA.
- In the later delivery stages, oversight would be exception-based, focused on material variances, critical-path impacts and system-level integration risks. Again, the role of the JIA would be to provide the information.

2.28. This approach would be calibrated across different Expansion programmes, recognising variations in scale, nature and interface complexity. Where appropriate, the COG could be supported by sub-committees with tailored representation and expertise. For example, discussion of enabling works or road diversions would need to reflect input from bodies such as National Highways and relevant utility providers.

2.29. To ensure that enhanced oversight supports rather than hinders delivery, the COG framework should also include clear service level agreements to ensure timelines for reviews, escalation and recommendations are proportionate to the materiality and urgency of the issue. This would help ensure that COG input is timely, predictable and aligned with programme needs, avoiding governance-driven delay to critical delivery decisions.

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### Joint Independent Assurance (JIA) and Its Relationship with the COG:

- 2.30. Alongside the Capital Oversight Group (COG), Heathrow proposes the establishment of Joint Independent Assurance (JIA), modelled on the Thames Tideway Independent Technical Assessor (ITA) and building directly on Heathrow's March 2026 submission on high-quality governance.<sup>9</sup>
- 2.31. The Tideway precedent is instructive: the ITA is appointed on behalf of all parties and operates as an independent technical authority, providing expert review and advice on cost, schedule and delivery performance without exercising decision-making powers. Heathrow's proposed JIA adopts this same principle of independent, expert assurance that enables higher-quality oversight while preserving clear accountability for delivery. Its design is grounded in megaproject best practice and a set of clear informing principles set out in the March submission.
- 2.32. In particular, JIA would be independent but jointly appointed, with Heathrow commissioning the function in consultation with airlines and subject to CAA approval, and reporting transparently to Heathrow, airlines, the CAA and Government. This multi-party reporting structure is central to credibility, ensuring assurance is not aligned to any single stakeholder and that all parties share a common evidence base.
- 2.33. The model is deliberately designed to provide integrated and ongoing assurance to all stakeholders across the full programme lifecycle, rather than relying on discrete gateway reviews, enabling earlier identification of risks and reducing the likelihood of late-stage surprises or rework. Assurance would be calibrated on a risk-based and proportionate basis, with intensity focused on areas of greatest uncertainty or potential consumer impact, and supported by full access to information across relevant parties. The approach is intentionally expert-led, with stakeholder engagement targeted where it adds greatest value, representing a step-change in assurance appropriate to the scale and complexity of Heathrow Expansion.
- 2.34. Within this framework, the primary role of the JIA is to support the effective functioning of the COG by acting as the single, authoritative source of independent technical and cost assurance. Its core purpose is to address the central assurance question of whether the cost, schedule, technical and risk positions being reported are credible, well-founded and appropriately managed.
- 2.35. To do so, the JIA would review, evaluate, verify and advise across key dimensions of the programme, including cost forecasts, delivery strategy, procurement approaches, risk management and readiness for key phases, providing system-wide, multidisciplinary assurance that integrates these perspectives rather than considering them in isolation. It would deliver ongoing independent challenge and early warning, improving transparency, enabling informed discussion and supporting timely escalation of issues, while also serving as a common evidential basis to support dispute avoidance and resolution.

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<sup>9</sup> [High quality governance and incentives](#)

- 2.36. In this regard, the JIA would provide the primary independent assurance function at project-level governance. Airlines are future users of the infrastructure, and will have close involvement on its design and optioneering, particularly for core aviation investments like terminals, aprons and taxiways. Indeed, the JIA would be expected to assure that consultation with airlines was meaningful, and views had been appropriately considered in Heathrow's decisions.
- 2.37. The benefit of this approach is that assurance will be undertaken by an independent, expert party with the bandwidth and capability to absorb the scale, diversity and complexity of Expansion projects, particularly for consenting, property and novel infrastructure investments that are not core to airline expertise.
- 2.38. This is consistent with CAP3251: *"For example, that airlines should be more closely involved in decision making for core aviation investments, but may have less direct scrutiny of property costs. We would expect this to be balanced with more independent scrutiny of these areas by independent experts and/or technical advisers, who can advise the committee and CAA".*<sup>10</sup>
- 2.39. Consistent with the Tideway ITA precedent, the JIA would not hold formal decision-making powers: it would not approve budgets, direct delivery or arbitrate disputes, but instead provide authoritative, evidence-based input to inform decisions taken elsewhere in the governance framework.
- 2.40. The interaction between the COG and JIA is therefore deliberately structured to mirror the Tideway Liaison Committee–ITA model, with the COG acting as the primary governance forum through which JIA outputs are received, tested and discussed. In this arrangement, JIA provides objective technical judgements, while the COG considers those outputs as a central input to its discussions and any recommendations, embedding transparency, enabling early escalation and supporting efficient, delivery-focused governance without introducing delay through duplication or fragmentation of assurance.
- 2.41. In parallel, the JIA should have a critical role in supporting the implementation and management of capital incentives in Expansion. This would include the assurance of cost baselines and forecasting methodologies underpinning ex-ante incentive regimes, verifying ongoing cost efficiency and delivery performance, and informing transitions between different incentive approaches as programme certainty evolves.
- 2.42. By offering continuous, independent insight into programme risk, progress and credibility, the JIA would give stakeholders confidence that regulatory decisions are grounded in robust, expert analysis and that consumer interests - particularly in relation to efficiency, financeability and timely delivery - are being protected.
- 2.43. JIA's multi-party reporting model would also improve transparency and trust across stakeholders by ensuring that Heathrow, airlines, Government and the CAA are operating from a shared and

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<sup>10</sup> CAP3251, paragraph 4.38.

independently validated evidence base, reducing information asymmetry and supporting constructive engagement.

- 2.44. Crucially, by providing early and authoritative challenge without formal decision-making, the JIA enables a balanced regulatory approach that combines strong assurance on cost and delivery with the preservation of clear accountability and timely decision-making, which is essential to supporting both the financeability and the successful execution of a project of this scale and national significance.

Long-Term Capital Planning and COG interface:

- 2.45. Heathrow is committed to engaging constructively with airlines, the CAA and other stakeholders on an appropriate framework for long-term capital planning. In light of airlines' desire for greater involvement in long-term planning, the proposals in CAP3251 and relevant precedent from other UK regulated sectors (see Annex I below), Heathrow considers there is value in earlier visibility and structured discussion of future investment needs and sequencing. It is key, however, that this preserves clear accountability and does not create scope for settled strategic decisions to be continually reopened.
- 2.46. This distinction is particularly important where long-term planning decisions affect the timing and release of new capacity. Incumbent airlines can provide valuable evidence on operational requirements, demand and sequencing, but they may also have commercial incentives to prefer slower or more moderated capacity release. Long-term capital planning should therefore provide structured visibility, consultation and challenge, without conferring decision rights that could allow stakeholders with potentially divergent incentives to reopen the masterplan or delay capacity that is in future consumers' interests.
- 2.47. While Heathrow's views remain indicative and subject to further development through engagement, an emerging framework could include:
- The key forum for Heathrow to consult airlines, consumers, CAA and Government on the long-term masterplan.
  - A rolling long term capital plan, for example over a 15 year horizon, that sets out the phasing of the masterplan, bringing together strategic drivers, consumer needs and interdependencies across BAU and Expansion.
  - An indicative view of potential future investment priorities and dependencies, to support system level planning and discussion, rather than a fixed list of projects for approval.
  - More structured scenario based discussion (for example on demand, resilience, technology and sequencing), enabling engagement on the long term shape of the airport system without prejudging specific schemes.
  - High level identification of areas that may warrant further consideration of alternative delivery models, consistent with Heathrow's wider delivery and procurement strategy.

- 2.48. Heathrow considers that the COG could provide an appropriate forum for discussion and challenge of any such long-term capital plan developed by Heathrow, improving transparency and shared understanding of the route to the planned end state.
- 2.49. That engagement should support constructive input on sequencing, options, interdependencies and the role of interim measures in progressing towards that end state. In this context, Heathrow's masterplan provides the strategic destination for the airport system. The long-term capital plan sets out how that end state may be delivered over time, including choices around prioritisation, timing and transitional solutions.
- 2.50. Engagement through the COG should therefore enable informed discussion of how best to deliver the masterplan, rather than reopening or revisiting the masterplan itself. While stakeholder views will be important in shaping delivery pathways, accountability for maintaining a clear and stable strategic baseline must remain with Heathrow and the established regulatory framework. This is essential to avoid continual resetting of priorities and to support timely, robust long-term investment decisions.
- 2.51. For clarity, discussion of any long-term capital plan should complement, not replace, formal regulatory processes and decision-making, including in relation to the determination of capital envelopes.

**Model 2 – Targeted Adjustments to the Existing Incentive Regime:**

- 2.52. Heathrow supports Model 2, provided it is developed as a bespoke, programme-level incentives framework for Expansion rather than as a single H7-style ex ante regime. The framework should apply meaningful efficiency discipline to all Expansion spend, but calibrate the form and strength of incentives to cost maturity, controllability and risk. Incentive strength should increase over time as design certainty improves, with the JIA providing independent assurance of baselines, maturity assessments and transitions between incentive treatments.
- 2.53. For consumers, this approach is superior because it targets the real sources of value from Expansion: efficient cost and timely delivery. A staged and calibrated incentives framework would place stronger efficiency pressure on costs as they become more mature and controllable, while avoiding the inefficient transfer of external or extreme risks that investors would price into higher financing costs and ultimately higher airport charges. It also preserves the flexibility needed to optimise scope, sequencing and procurement as the programme develops, reducing the risk that rigid early baselines drive rework, delay or poor whole-programme choices.
- 2.54. Heathrow supports the CAA's conclusion that the existing H7 ex ante incentives framework is not well suited to the scale, complexity and uncertainty of Expansion. Heathrow agree that the regime should develop as design maturity improves. In Heathrow's view, that points to a staged, risk-based framework in which incentive strength increases as costs become more controllable, supported by assurance from JIA and calibrated to preserve financeability and consumer value.

- 2.55. The objective is straightforward: Expansion should be subject to meaningful cost discipline, but in a way that supports efficient delivery, protects consumers and remains financeable. In Heathrow's view, that requires a differentiated framework rather than a single blunt ex ante regime. While the appropriate bespoke incentives for Expansion are to be determined based on specific analyses and review, Ofgem's ASTI, described in Annex II, provides a strong precedent of how the regulator crafted a tailored approach to incentives: combining delivery incentives with progressive incentive bands (similar to Heathrow's Traffic Risk Sharing), grace periods, penalty caps and reopeners. The result is a more balanced framework that preserves discipline and consumer protection while better supporting the timely delivery of major infrastructure.
- 2.56. Supporting Document 2 shows that the effectiveness of any incentive model is conditional on detailed design choices/ features. Model 2 can only improve financeability if it incorporates:
- Credible protections against extreme downside risks
  - Sufficient certainty of cost recovery
  - An appropriate balance between efficiency incentives and risk allocation.

Why H7-style blunt ex ante incentives do not fit Expansion:

- 2.57. Heathrow agrees with the CAA's observation in CAP3251 that an overall programme-wide ex-ante regime based on delivery obligations would not be appropriate. The issue is not whether Heathrow should face cost discipline, but how that discipline should be applied credibly where controllability, certainty and maturity vary across the lifecycle.
- 2.58. Expansion differs fundamentally from Heathrow's business-as-usual capital programme. It is a long-duration, interdependent megaproject with material uncertainty at early stages over scope, design, planning requirements and external dependencies. In those circumstances, a single high-powered ex ante regime of the kind used in H7 would be poorly matched to the programme's risk profile.
- 2.59. Critically, by seeking to lock down cost and scope certainty at a very early stage of programme development, such a regime would constrain the flexibility needed to optimise sequencing, packaging and design as the programme matures. That runs counter to wider megaproject lessons, which emphasise the value of preserving optionality in early phases so that delivery strategies can adapt to emerging information, reduce critical-path risk and improve whole-programme outcomes. In Expansion, an overly rigid uniform regime could therefore frustrate efficient optimisation in ways that threaten delivery and are ultimately against the interests of consumers.
- 2.60. The financeability analysis presented in Supporting Document 2 supports that conclusion. A more flexible and proportionate regime can improve the debt and equity proposition for Expansion, but only where it includes clearly defined reopeners, credible protection against extreme downside exposure and mechanisms that improve certainty of cost recovery. Rating-agency feedback indicates that these features and the nature of their implementation matter directly to credit quality and the cost of debt.

- 2.61. A blunt regime applied too early, or uniformly across cost categories, could therefore weaken financeability and increase consumer charges rather than improve outcomes. The significant risk comes from approach that misallocates risk to Heathrow in ways that investors cannot efficiently absorb, particularly where risks are external or non-diversifiable.
- 2.62. Where expenditure above thresholds is disallowed from the RAB, immediate cashflow pressure can arise and credit metrics can deteriorate if recovery is uncertain.

Why all Expansion spend must still face meaningful discipline:

- 2.63. Heathrow's assumption is that all Expansion spend should face meaningful efficiency discipline and robust governance. A staged and differentiated framework is not a relaxation of incentives; it is a more credible and efficient way of applying them as risks evolve.
- 2.64. Different tools will be appropriate in different circumstances: ex ante baselines and sharing mechanisms where costs are better defined; greater reliance on ex post review, reopeners, contingencies or milestone-based incentives where uncertainty remains higher. The objective throughout should be to preserve pressure for efficient costs and timely delivery without imposing inefficient risk transfer.
- 2.65. That matters for consumers because poorly calibrated incentives can increase financing costs, delay delivery or both. To ensure long-term consumer benefit from Expansion, the right incentive framework is one that balances cost discipline, preserves efficient and financial delivery of Expansion in a timely way.

Why cost categories differ and need differentiated treatment:

- 2.66. Heathrow's view is that the regime should differentiate between cost categories according to controllability, maturity and exposure to external risk. Some activities will become relatively well-defined and directly controllable; others will remain materially affected by planning decisions, inflation, supply-chain conditions and wider macroeconomic factors that Heathrow cannot efficiently bear in full.
- 2.67. That distinction matters economically. Risks Heathrow can materially influence are more suitable for stronger ex ante incentives as certainty increases. By contrast, loading external or non-diversifiable risks onto Heathrow through a uniform framework would raise financing costs without improving delivery efficiency.
- 2.68. Supporting Document 2 confirms these risks, with rating agency feedback highlighting that protection against construction risk is a central determinant of credit quality, and indicative modelling suggesting that cost-sharing can reduce the impact of moderate overruns on charges, but that under more extreme outcomes the effect becomes material. Indicative impacts could sit between £0.68–£3.41 per passenger, and erosion of Funds from Operation / Net Debt by around 0.42%–1.17% (depending on the severity of the overrun).

2.69. For the avoidance of doubt, the implication is not that incentives should be weakened, but that risk transfer should be calibrated. A credible regime should distinguish between moderate, controllable risks and remote or extreme downside scenarios that the private market cannot efficiently absorb without increasing the cost of capital.

Why JIA makes this workable:

2.70. Heathrow sees Joint Independent Assurance (JIA) as the key enabler of this framework. A differentiated regime will only command confidence if there is a trusted mechanism to validate cost baselines, delivery assumptions, maturity assessments and transitions between treatments.

2.71. As set out in Heathrow's Model 1a proposals, JIA would provide objective, expert and ongoing assurance across Expansion. In the incentive context, that includes reviewing cost forecasts, testing assumptions, assessing whether elements are sufficiently mature for stronger ex ante treatment, and providing assurance against agreed baselines.

2.72. This is critical given that financeability depends heavily on detailed issues such as decision-making processes, timing of recovery and how efficient costs are determined. It also helps address information asymmetry while maintaining Heathrow's accountability for delivery

External Advice:

2.73. Heathrow has commissioned Frontier Economics to analyse potential incentive regimes for Expansion, building on Heathrow's March submission and the CAA's direction of travel in CAP3251. While that work is still being finalised - and Heathrow will present a final output to CAA and other stakeholders - emerging conclusions support the broad approach outlined above and directly align with the direction set by CAP3251:

1. Expansion should be treated as a large, high-risk megaproject rather than as an extension of Heathrow's BAU capital programme. That matters because the prevalence of cost overruns, delivery uncertainty and external dependencies in comparable projects means the regulatory framework should be designed around the realities of a long-duration, highly interdependent programme.
2. Expansion costs are heterogeneous and should not be treated uniformly. Different elements of the programme vary materially in terms of controllability, maturity, repeatability and exposure to external risk, so the same incentive treatment will not be efficient across all activities.
3. Risk allocation has direct consequences for financeability and consumer outcomes. Frontier's analysis supports the view that placing excessive non-diversifiable risk on investors is likely to raise financing costs and, in turn, airport charges, without improving delivery efficiency.
4. No single regulatory instrument will be sufficient. A credible framework is likely to require a combination of ex ante tools, ex post review and targeted bolt-on mechanisms such as reopeners, contingencies and delivery incentives, applied according to the characteristics of different phases and activities.
5. Incentive strength should increase as project maturity improves. Early-stage activities, where uncertainty is high and Heathrow's control is more limited, are better suited to lower-powered

incentives and greater protection, while later-stage activities, where scope and costs are more robustly defined, can support stronger ex ante challenge and sharing mechanisms (see Figure 2).

### Example of approach

Illustrative example

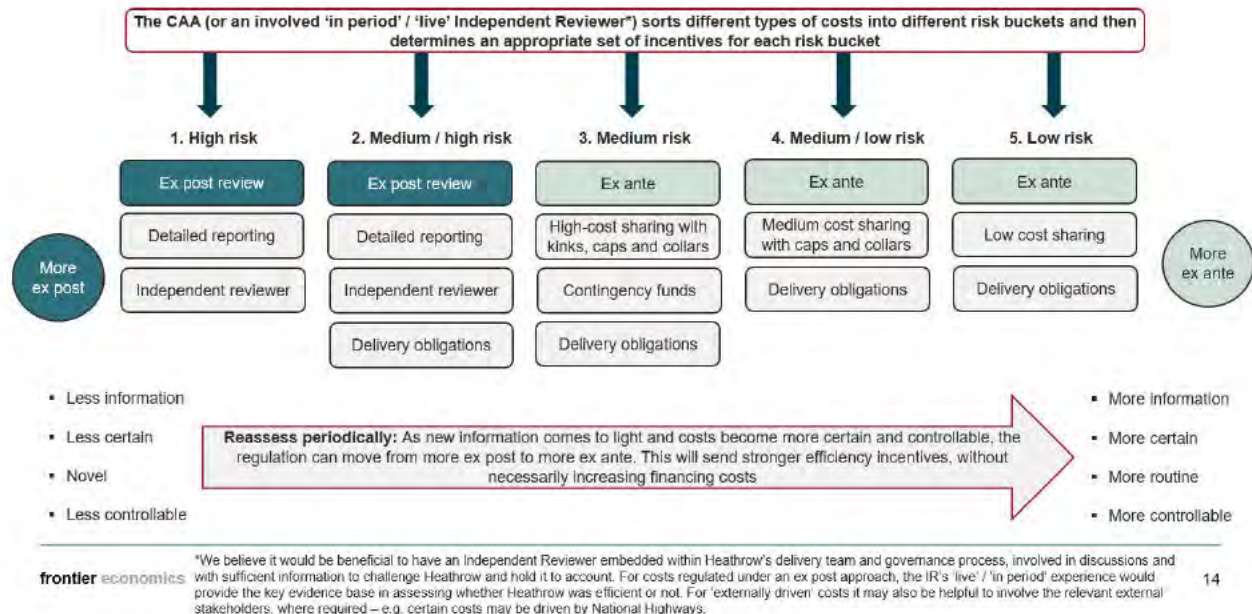


Figure 2: Example of staged approach for incentive regime (illustrative only)

2.74. The analysis in Supporting Document 2 is also consistent with themes in this analysis: a targeted regime can improve both debt and equity financeability, but only if this is conditional on detailed design that provides credible downside and extreme risk protection (i.e. a credible cap on Heathrow's maximum exposure to extreme cost overruns), greater certainty of recovery and an appropriate balance between efficiency challenge and construction risk.

2.75. UK precedent points the same way. As set out in the ASTI case (Annex II), Ofgem adapted its framework for time-critical, interdependent infrastructure while retaining consumer protection and cost discipline. That shows regulators can legitimately adopt bespoke and staged mechanisms where standard tools are not well suited to the programme.

#### What Heathrow is asking the CAA to take forward:

2.76. Against that background, Heathrow considers that the CAA should take forward the following principles for Model 2.

- Confirm that Expansion should be subject to a bespoke, programme-level incentives regime, not a single H7-style ex ante framework or overall programme-wide cap.
- Apply meaningful efficiency pressure to all Expansion spend, while varying the form and strength of incentives by maturity, controllability and risk.

- Develop a staged framework in which early-stage activity receives greater regulatory protection, while mature and controllable packages face progressively stronger ex ante challenge and sharing mechanisms.
- Include clearly defined reopeners, cost recovery mechanisms and protections against extreme downside risks that private capital cannot efficiently absorb.
- Ensure the incentive framework is aligned with governance: Heathrow cannot be financially accountable for programme outcomes if other parties hold decision rights over scope, phasing or delivery choices.
- Use JIA to validate cost baselines, maturity assessments, efficiency evidence and transitions between incentive treatments.
- Continue detailed design work with Heathrow and stakeholders so that the final framework supports efficient delivery, financeability and consumer value.

2.77. In Heathrow's view, this is the most credible route to a strong incentives regime for Expansion. It responds to concerns about cost discipline and transparency without the inefficiencies that would arise from applying blunt ex ante mechanisms to a project of this scale and uncertainty. Detailed design will still matter, particularly around downside protection, cost recovery and discretion, but the overall direction is clear.

#### **Model 4a – Enhanced Scrutiny of Heathrow's Approach to Procurement:**

2.78. Heathrow supports the objective behind Model 4a. For a programme of the scale, complexity and national significance of Expansion, the CAA, airlines and consumers should have confidence that Heathrow's procurement strategy is robust, market-tested and capable of delivering efficient outcomes. The key design question is how that scrutiny is applied.

2.79. In Heathrow's view, Model 4a should be developed as a targeted assurance and challenge mechanism, not as a route for the CAA to direct individual procurement choices. Heathrow should remain accountable for procurement strategy, delivery integration, cost, schedule, safety, service and financeability, with the CAA, the proposed COG and JIA providing proportionate scrutiny of the evidence base. This distinction matters for consumers: scrutiny can improve confidence in cost efficiency, market testing and risk allocation, but direction can slow procurement, blur accountability and increase risk premia.

2.80. Heathrow therefore welcomes the CAA's statement in CAP3251 that it would not initially mandate procurement choices for particular assets. Procurement strategy for Expansion should instead be developed through Heathrow's business plan, supported by transparent evidence, market engagement and structured challenge through the COG and JIA.

2.81. Heathrow has already begun developing the procurement strategy and supporting processes that CAP3251 envisages. This includes work on procurement packaging, commercial exposure and mitigation, supplier engagement, market management, and technology-enabled supplier accreditation through Ecosystem Live. The objective is to widen market access, improve supplier assurance and reduce tender timelines where this can be achieved without compromising quality,

compliance or resilience. Heathrow is willing to share this work with the CAA and, once established, the COG and JIA, as part of a structured assurance process.

- 2.82. Annex III sets out Heathrow's current procurement toolkit, including traditional design-bid-build, early contractor involvement, design and build, alliance or integrated delivery, construction management and management contracting. Each model has a legitimate role, but each has different implications for cost, risk, timetable, accountability and client control. The appropriate route depends on the characteristics of the asset and the stage of programme maturity, including requirement clarity, design certainty, separability, operational interface, market appetite, critical-path impact and the extent to which risk can be efficiently transferred.
- 2.83. That is why Model 4a should operate as a scrutiny and assurance mechanism rather than a prescriptive procurement power. The CAA, COG and JIA should be able to test whether Heathrow's procurement strategy is well evidenced, whether alternatives have been considered, whether market engagement has been sufficient, and whether proposed risk allocation is efficient. That scrutiny should not become a requirement to apply a particular model where doing so would increase interface risk, delay mobilisation, weaken accountability or reduce whole-system value for consumers. Table 1 summarises Heathrow's procurement toolkit, which illustrates the point above:

*Table 1: illustrative view of Heathrow's procurement toolkit*

| Procurement route                                | Where it may add value                                                                                                                             | Why suitability should be assessed case by case                            |
|--------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| Traditional / design-bid-build                   | Where Heathrow needs strong control over requirements and design before construction is tendered.                                                  | Can be slower and may limit contractor buildability input.                 |
| Early contractor involvement                     | Complex packages where early supply-chain input can improve buildability, risk visibility, sequencing and cost confidence.                         | May reduce later price competition and requires mature client governance.  |
| Design and build                                 | Packages that can be specified sufficiently clearly to allow single-point responsibility and efficient transfer of design and construction risk.   | Can reduce Heathrow's influence after award and make later changes costly. |
| Alliance / integrated delivery                   | Complex, uncertain or highly interdependent packages where collaboration and shared incentives are more effective than conventional risk transfer. | Requires bespoke incentives, behavioural maturity and strong governance.   |
| Construction management / management contracting | Fast-track or evolving designs requiring package flexibility and high client control.                                                              | Leaves Heathrow with significant interface, cost and schedule risk.        |

- 2.84. The existence of this range of models supports the case for Model 4a. A stronger assurance framework can test whether Heathrow has chosen the right model for the right package, rather than assuming that regulatory direction will improve outcomes by mandating a model in advance.
- 2.85. Under Model 4a, the CAA, COG and JIA could scrutinise Heathrow's procurement strategy against clear criteria, including whether:
- the proposed route is aligned to design maturity and requirement clarity;
  - Heathrow has tested market appetite and supplier capability;
  - procurement packaging supports efficient competition and delivery;
  - proposed risk allocation is efficient and financeable;
  - interfaces with live airport operations and other Expansion workstreams are manageable;
  - the approach protects critical-path milestones and avoids procurement-driven delay;
  - safety, security, resilience and passenger outcomes are preserved; and
  - the selected route delivers whole-system consumer value, not simply the lowest tender price.
- 2.86. This provides a practical way to implement Model 4a. It gives the CAA and stakeholders a structured basis to challenge Heathrow's procurement strategy while avoiding the inefficiencies that could arise if the regulator substitutes its own procurement judgement for that of the accountable programme sponsor.
- 2.87. That approach is also consistent with the financeability evidence. Supporting Document 2 identifies Model 4a as broadly neutral for financeability where CAA oversight is proportionate, targeted to major Expansion project scopes, and does not materially constrain or override Heathrow's control of procurement decisions. The key risk is misalignment between accountability and control: if oversight moves into direction, accountability becomes blurred, decision-making may slow, and debt and equity investors may view the framework as higher risk. Centrus reaches a similar conclusion, noting that Model 4a would not, by itself, attract new equity or debt investment or provide a clear path to reducing risk, particularly if increased scrutiny slows decisions. In addition, If the CAA reversed its CAP3251 position and adopted a mandate-led approach (rather than oversight-led), the allocation of risk across suppliers/contractors—and the CAA's role in assuming that risk—would need to be reconsidered
- 2.88. Heathrow therefore supports enhanced scrutiny of procurement strategy, but not regulatory direction as the default. CAA oversight should preserve Heathrow's responsibility for procurement and delivery decisions, be targeted to the most material Expansion project scopes, operate to clear review timelines, and avoid additional approval layers that could delay procurement or mobilisation.
- 2.89. Heathrow recognises why the CAA may wish to retain a backstop if the procurement strategy brought forward is not sufficiently robust, comprehensive or persuasive. However, any such backstop would need to be clearly defined, legally grounded and subject to safeguards. In particular, the CAA should explain the statutory basis for any licence obligation requiring specific

procurement steps, the threshold for intervention, how accountability for consequences would be allocated, and how delay, cost recovery and financeability risks would be managed.

- 2.90. Absent those safeguards, backstop licence obligations could create material uncertainty by requiring Heathrow to adopt a procurement route while leaving Heathrow responsible for the consequences if that route increases cost, delays delivery or weakens operational resilience. Given the CAA's own recognition that the incremental cost-efficiency benefits of Model 4a are uncertain, any backstop should be tightly justified and proportionate.
- 2.91. The CAA should therefore take Model 4a forward on three principles: Heathrow should bring forward a procurement strategy and supporting evidence through the business plan; the CAA, COG and JIA should scrutinise that strategy against agreed criteria; and any backstop licence obligation should be developed only if legally grounded, subject to a high intervention threshold, and supported by safeguards on accountability, financeability and timely delivery.
- 2.92. In summary, Model 4a should be implemented as a framework for rigorous scrutiny, not prescriptive control. That approach would improve transparency, cost confidence and stakeholder assurance while preserving the clear accountability and timely decision-making needed to deliver Expansion in consumers' interests.

### **Model 3 – Long-term Regulatory Framework for Expansion:**

- 2.93. Heathrow supports further development of Model 3.1b as the preferred long-term financeability framework for Expansion. In Heathrow's view, the most effective approach is a 15-to-20-year commitment to the real cost of equity for Expansion within the existing Single RAB, combined with periodically updated, market-based debt allowances. This would better align regulatory commitments with the investment horizon of a long-duration megaproject, while preserving flexibility as debt is raised over time and market conditions evolve.
- 2.94. This approach is directly aligned with the CAA's stated criterion of "*supporting the raising of sufficient cost-effective finance to enable the delivery of Expansion at an efficient price*"<sup>11</sup>. For consumers, the relevance of Model 3 is not investor certainty for its own sake. It is that a credible and predictable financeability framework can reduce the risk premium required to fund Expansion, support timely delivery and reduce the likelihood that regulatory uncertainty is reflected in higher charges.
- 2.95. Heathrow has assessed the Model 3 options with support from independent advisers, as reported in Supporting Document 2, including consideration of how credit rating agencies and investors are likely to evaluate the different approaches. Heathrow considers there is now sufficient evidence to form a more informed view of investor and rating agency reaction, drawing on previous submissions to the CAA, the latest financeability analysis and direct engagement with three leading rating agencies.

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<sup>11</sup> CAP3251, paragraph 5.48.

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**Model 3.1b – Long-term cost of capital for Expansion, with continued BAU redeterminations:**

- 2.96. Heathrow considers that this model has the strongest potential to improve the financeability of Expansion. A long-term determination of the cost of capital for Expansion activities (as a specific perimeter of assets relating to Expansion within the existing single RAB – not a dual RAB or SPV) would better align the regulatory framework with the long construction period, the higher risk profile of Expansion relative to BAU activities, and the longer investment horizons of equity providers.
- 2.97. In particular, a fixed real cost of equity can provide investors with clearer visibility over the return framework, and better alignment to their return on equity requirements, that are applicable to a major, long-duration infrastructure programme - while preserving the existing five-year redetermination cycle for BAU activities. In summary:
- This model is particularly attractive because it can distinguish more clearly between the financing requirements of Expansion and those of Heathrow's existing airport business. A separate Expansion WACC could accommodate a higher cost of equity reflecting greenfield and construction risk, without disturbing the regulatory treatment or periodic redetermination of the WACC for BAU activities.
  - However, Heathrow does not consider that an effective long-term framework requires the cost of debt for Expansion to be fixed for the full construction period. For Heathrow, that would risk constraining the financing strategy unnecessarily, given that debt would be expected to be raised progressively over time and in changing market conditions. In our view, the better approach is a 15-to-20-year commitment to a real cost of equity for Expansion, combined with a cost of debt allowance to be reset periodically and subject to a market-based reopener, so that financing costs can adjust to prevailing conditions.
  - Rating agency feedback supports this approach, also noting that the predictability of the existing regime was viewed as an important strength. They were also not concerned by the suggestions of a separate cost of capital determination for Expansion activities, provided the framework is clear and revenues support capex, opex and financing requirements. Sizewell C was referenced as precedent for this approach.
- 2.98. On that basis, Heathrow supports further development of Model 3.1b, provided it is implemented within Heathrow's existing Single RAB and in a way that avoids unnecessary complexity or delay. The CAA should identify and establish the Expansion WACC in an orderly way, with clear reopeners or adjustment mechanisms where assumptions change materially over time.

**Single RAB, two WACCs – not dual RAB/SPV:**

Heathrow's support for Model 3.1b is conditional on it being implemented as a separate Expansion cost of capital within Heathrow's existing Single RAB, not as a second RAB, separate licence or SPV. A "single RAB, two WACCs" approach would allow the CAA to recognise the different risk profile of Expansion while preserving Heathrow's integrated financing platform, operational accountability and regulatory simplicity.

By contrast, a dual RAB/SPV structure would introduce significant regulatory, legal and financing complexity, including potential licence changes, creditor consent processes and separation of assets and cashflows. It could also weaken financeability if the new vehicle lacked access to Heathrow's brownfield BAU asset base and had to raise large-scale debt without sufficient Heathrow or Government support. That would likely increase financing costs and, ultimately, airport charges. It would also split an integrated airport system between different corporate and financing structures, cutting across the principle that accountability, financing and operational control should remain aligned.

This is consistent with the conclusion set in Supporting Document 2 that a dual RAB/SPV structure would lead to *"less efficient financing, increased airport charges and reduced equity returns without support from HAL or government"*.

Figure 3: The case for a single RAB and two WACCs

**Model 3.3 – Cap and collar:**

- 2.99. Heathrow agrees that this option warrants caution. As currently described, it is unclear that a cap-and-collar mechanism would provide any meaningful incremental benefit over the existing cost of capital framework and incentives regime, particularly if Models 2 and 3.1b are developed appropriately. Much would depend on how the collar operates in practice, the trigger points for any intervention, and the extent to which downside protection is genuinely credible to investors.
- 2.100. In particular, if the collar is intended to guarantee a minimum level of return to investors, that protection would ultimately need to be supported either by airport charges or by some form of external financial support. In Heathrow's context, absent Government support, that would risk shifting downside risk to airlines and consumers without clear evidence of corresponding benefit.
- 2.101. There are also material questions about precedent and implementation:
- *Precedent:* Unlike Model 3.1b, Model 3.3 has limited direct precedent in airport regulation. Implementing a cap-and-collar mechanism for a project of this size, scale and complexity would create material design and execution risk. Ofgem's cap-and-floor regime for interconnectors is not a close comparator: interconnectors have a materially different consumer base, market context and revenue model, and any Heathrow mechanism would need to be assessed against its direct impact on airport charges and consumer outcomes.

- *Alignment with other elements of the framework:* Model 3.3 could also introduce additional complexity into the framework, particularly if it interacts with future price control reviews, incentive mechanisms and wider risk-sharing arrangements in ways that are not yet defined. It would also require greater regulatory discretion, which could undermine the predictability and certainty of the framework — both of which credit rating agencies have indicated are important to financeability.

2.102. Heathrow therefore considers that the CAA should focus its further work on Model 3.1b. That model is more consistent with investor expectations, more readily aligned with Heathrow's financing strategy and more capable of being developed within the existing regulatory architecture. Model 3.1b should be further developed as a single RAB, two WACCs approach: a separate Expansion WACC within Heathrow's existing Single RAB, supported by a 15-to-20-year commitment to the real cost of equity for Expansion and periodically updated, market-based debt allowances.

2.103. Developing Model 3.1b into a separate Expansion RAB, separate licence or SPV structure would be inappropriate. Nor should Model 3.3 be the primary focus of further work unless the CAA can specify its trigger points, calibration, source of downside support, interaction with future price controls and allocation of risk between Heathrow, airlines and consumers. In the absence of that detail, Model 3.1b provides the clearer, more implementable and more financeable route to achieving the CAA's stated objective.

### 3. ENABLING COMPETITION; AVOIDING RISK AND FRAGMENTATION:

**Heathrow remains committed to drawing on third-party expertise to support the delivery of Expansion.** Given the project's size, scale and complexity, it is essential that **the right knowledge, skills and capabilities from across the value chain are actively encouraged and incorporated.** In this context, the **CAA's continued openness to Models 4b and 5b is welcome**, particularly in light of the consumer benefits the CAA itself has identified.

However, **these benefits are undermined by the continued suggestion that such models could be mandated on Heathrow, as well as by the ongoing inclusion of Model 7b** in the shortlisting exercise. While the CAA acknowledges the risks associated with Model 7b, it **underestimates the potential impact this model could have** on the successful and integrated delivery of the UK's hub airport. The CAA should be clear where a model does not serve consumer interests, and the continued consideration of Model 7b — driven largely by the prospect of an alternative promoter — **risks diverting focus, time and resources away from the more practical and deliverable options** presented by Models 4b and 5b.

**Heathrow remains committed to strengthening its enhanced governance proposals and further developing its procurement strategy to assess how these models could then best be applied,** and to identify the assets and work packages for which they may be most suitable.

#### Competition Models – Introduction and Summary:

- 3.1. Heathrow's overarching view is that the principal consumer benefit of Expansion comes from timely delivery of additional capacity, which will enable greater competition between airlines and wider choice for passengers and lower fares.
- 3.2. In Heathrow's view, Models 4b and 5b provide the practical route to delivering the benefits of competition within an integrated airport framework. They allow competitive tension, third-party expertise and alternative delivery models to be applied to specific assets or packages where this can improve whole-system consumer value. Used selectively, they can support cost efficiency, innovation, delivery capacity and lifecycle performance while preserving Heathrow's accountability for system integration, safety, resilience, financeability and the critical path to runway opening.
- 3.3. Model 7b is different in kind. It does not apply competition within the delivery model; it fragments the airport operating model itself by introducing a directly competing terminal operator into a highly integrated hub airport. That creates a materially different risk profile. Rather than using competition to improve procurement and delivery, Model 7b would require a new framework for competing airport operators, wholesale access, interface regulation, market power assessment, charging arrangements and operational coordination. The result is likely to be a more complex, slower and more expensive route to uncertain consumer benefits.

- 3.4. That distinction is central to the CAA’s assessment. Models 4b and 5b can be progressed through Heathrow’s procurement strategy and business plan, scrutinised through the CAA, the Capital Oversight Group and Joint Independent Assurance. They can be applied asset-by-asset, with clear tests for separability, critical-path impact, market appetite, risk transfer, financeability and consumer value. Model 7b, by contrast, would require structural fragmentation before any competitive benefit could arise, and would expose consumers to higher financing costs, duplicated interfaces, weaker operational accountability and significant implementation delay.
- 3.5. Heathrow therefore supports taking forward Models 4b and 5b as active tools within the enhanced Single RAB framework, but does not support mandating their use across broad asset classes or applying them to core safety, security or operational assets where fragmentation would increase risk.
- 3.6. Continued consideration of Model 7b is not neutral. It risks diverting regulatory focus from the more deliverable competition benefits available through Models 4b and 5b, while keeping open a model that would weaken whole-system financeability, increase implementation complexity and fragment operational accountability. Upcoming consultations should therefore distinguish clearly between competition that strengthens delivery and competition that fragments the airport system. The former should be developed through Models 4b and 5b; the latter should be discounted through Model 7b.
- 3.7. The remainder of this chapter assesses the competitive models on that basis. It considers whether each model can deliver effective competition, what impact it would have on financeability and implementation risk, and what next steps Heathrow considers the CAA would need to take. It assesses each model’s ability to deliver effective competition, including lessons learned from the telecoms sector. It also includes expert analysis presented in Supporting Document 2, reviewing each model for its impact on financing – building on the previous reports shared with the CAA.<sup>12</sup> These findings are summarised in Table 2 below.
- 3.8. Heathrow’s proposed approach to identifying suitable assets for Models 4b and 5b is set out in Annex IV, through a gating framework that would be further developed with the CAA, COG and JIA.

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<sup>12</sup> Available at [10-funding-and-expanded-heathrow-santander-freshfields.pdf](#) and [Microsoft PowerPoint - Privileged and Confidential - Lotus report 2 20 January 2026 \[FINAL\].pptx](#)

Table 2: Review of competition models

| Model                                  | Financing                                                          | Effective Competition                                            | Implementation Risk                       | Recommendation                                                 |
|----------------------------------------|--------------------------------------------------------------------|------------------------------------------------------------------|-------------------------------------------|----------------------------------------------------------------|
| <b>Design &amp; Build Model 4b</b>     | Neutral if Heathrow retains control                                | Useful for delivery competition                                  | Manageable for appropriate assets         | Take forward through procurement strategy (scrutinised by JIA) |
| <b>Design, Build, Operate Model 5b</b> | Asset-specific: potentially neutral for non-core, adverse for core | Potentially useful where an asset is separable and non-core      | Manageable for separable, non-core assets | Take forward through gating (scrutinised by JIA)               |
| <b>Terminal Competition Model 7b</b>   | Materially adverse                                                 | Weak. Duopoly outcome as well as constrained airline competition | Very high – leading to significant delays | Discount                                                       |

### Models 4b and 5b: Competitive tendering – Design & Build (D&B) and Design, Build, Operate (DBO) approaches:

3.9. Heathrow supports taking Models 4b and 5b forward as active tools within the enhanced Single RAB framework. Specifically:

- **Model 4b (Design & Build)** is established and can support efficient cost where requirements are clear, design maturity is sufficient and interfaces are manageable. Because financing remains within Heathrow's RAB, the financeability impact should be neutral where Heathrow retains procurement control and accountability for delivery integration. However, mandating D&B, using it before design maturity is sufficient, or applying it across poorly integrated interfaces can create significant delivery and financeability risks, as illustrated by HS2 and Berlin Brandenburg.
- **Model 5b (Design, Build & Operate)** may add value by extending competition into operation and creating lifecycle incentives. It is most likely to be suitable for discrete, non-core assets with predictable operating costs, separable cashflows and manageable interfaces. It is significantly more problematic for core assets such as terminals, where higher third-party financing costs would require unrealistic capex savings to offset, or for assets on the critical path to Expansion, where third-party delay could expose Heathrow to wider revenue, cost and delivery risk.

3.10. Therefore, the issue is not whether these models should be used, but where and how they should be applied. In Heathrow's view, Models 4b and 5b should be developed through an evidence-led, asset-by-asset framework rather than a presumption to mandate. Asset suitability will depend on separability, design maturity, operational interfaces, critical-path impact, market appetite, risk allocation, financing consequences and whole-system consumer value. That assessment should be brought forward through Heathrow's business plan and scrutinised by the CAA, the proposed COG and JIA.

- 3.11. That position is consistent with CAP3251's starting point. CAP3251 states that *"greater reliance on competitive forces could have significant advantages in terms of promoting efficiency and protecting consumers"* and that Models 4b and 5b are intended to *"encourage competition and capital efficiency"* in a way that is consistent with the CAA's statutory duty to promote competition where appropriate<sup>13</sup>. Heathrow agrees. Used well, these models can help reduce costs, improve design quality, accelerate innovation, strengthen lifecycle cost discipline and bring additional delivery capacity into the programme.
- 3.12. Heathrow also notes CAP3251's important clarification that, under Model 4b, Heathrow *"would retain ownership, financing, and operational responsibility and would bear ultimate responsibility for managing and coordinating its contractors"*, and with the corresponding statement under Model 5b that Heathrow would *"retain responsibility for ownership and ultimate responsibility for financing, and for managing and coordinating its contractors"*.<sup>14</sup>
- 3.13. This clarification is important because it recognises that, even where Models 4b and 5b are used, Heathrow remains ultimately exposed to the consequences if they go wrong. Delay, contractor failure, operational disruption or inefficient risk allocation would not be contained within the individual procurement model - they would affect Heathrow's live operations, delivery of other interdependent projects and the financing platform that supports Expansion as a whole. It would therefore be difficult to justify a CAA mandate for a procurement or delivery model while requiring Heathrow to bear the operational, delivery and financeability consequences if that mandated model fails.

Where Models 4b and 5b can add value to efficient delivery of Expansion:

- 3.14. The benefits of D&B and DBO models are well understood. They can sharpen cost discipline, bring specialist design and delivery expertise, support innovation in construction methodology, improve whole-life asset performance and create stronger incentives to optimise cost, quality and programme delivery. Heathrow has successfully used a range of procurement and delivery models across the airport, including design and build, construction management, alliance-style arrangements, staged competitions, frameworks and long-term partnerships.
- 3.15. The evidence in the appendices reinforces the key point: the issue is not whether these tools are available, but whether they are matched to the right asset and implemented under the right conditions. The opportunity for Expansion is to use that full toolkit deliberately, matching the delivery model to the asset and the outcome being sought.

*Model 4b:*

- 3.16. Heathrow broadly agrees with CAP3251's assessment. CAP3251 says that this model can provide *"significant potential advantages in ensuring that HAL makes sufficient use of competitive processes to support the efficient and effective delivery of Expansion"* and that competition for

<sup>13</sup> CAP3251, paragraph 1.41 and third item in paragraph 8.2.

<sup>14</sup> CAP3251, paragraphs 1.44 and 1.47.

design-and-build contracts can help promote “an efficient cost baseline”. Heathrow agrees that, where packages can be specified robustly, where there are multiple credible bidders, where quality and operational requirements can be defined clearly, and where the contract structure preserves delivery accountability, Model 4b can add real value.

3.17. This is supported by Supporting Document 1, who describe Model 4b as a well-established commercial model that should not require significant adjustment to the regulatory pricing framework because the investment would remain within Heathrow’s RAB. This report is clear that this model can strengthen price discovery, bring in specialist market insight and increase confidence that design and build costs have been efficiently tested.

3.18. The case studies in Supporting Document 2 also point to a balanced conclusion:

- Newark AirTrain was authorised in 2019 at \$2.1 billion as a single design-build-operate-maintain contract, but 2022 bids exceeded budget, leading the Port Authority to abandon that structure and repackage the works; the project is now expected to cost approximately \$3.5 billion, with first service not expected until 2030.
- Newark Terminal A also opened later than its 2022 target, with only 21 of 33 gates complete at opening.
- By contrast, LaGuardia’s \$2.8 billion Delta airfield reconfiguration was delivered on schedule through phased construction that kept gates open throughout a seven-year build.

3.19. These build on the case studies Heathrow presented in its response to CAP3195:

- HS2 illustrates the risk of locking in D&B packages before design maturity. Large design-and-build civil packages were let before scope and interfaces were sufficiently mature, embedding risk early and reducing flexibility to adapt. Subsequent redesign and rework contributed to cost escalation, delay and scope reduction.
- Berlin Brandenburg shows the integration risk of fragmented D&B delivery. Multiple design-and-build contracts proceeded without a single accountable system integrator, contributing to late-stage failures — notably around fire systems — repeated re-baselining, significant cost escalation and prolonged delay.

3.20. The lesson from these examples is not that D&B should be avoided. It is that D&B must be used selectively, where design maturity, asset separability and integration responsibilities are clear.

#### *Model 5b:*

3.21. Heathrow agrees with CAP3251’s view that this model can be more challenging to implement than Model 4b because “the requirements during the operational phase may be difficult to forecast early in the project lifecycle”.<sup>15</sup> Evidence in Supporting Document 1 supports that distinction: Model 5b may work well where ongoing operating and maintenance costs are relatively small, certain and predictable, but applying it to more complex assets with significant ongoing expenditure, uncertain

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<sup>15</sup> CAP3251, paragraph 1.48.

revenues or material dependencies on Heathrow would require greater upfront clarity on future cash flows and interfaces. In Heathrow's view, that makes Model 5b particularly valuable when used for assets that are discrete, non-core or otherwise sufficiently separable, and where operating costs, performance requirements and cash flows can be defined with confidence.

- 3.22. Supporting Document 1 also identifies examples of where Model 5b-style approaches may be better suited. Assets such as terminal car parks have predictable costs, many potential experienced operators and limited operational links with the terminals. By contrast, a terminal-style DPC at Heathrow would be materially more complex because it would involve safety, security, baggage, utilities, passenger flows, airline operations, airport continuity and ongoing interaction with Heathrow as system operator. The Thames Tideway Tunnel is relevant by contrast: it is largely independent of the Thames Water network once built, with very low operational expenditure and limited dependency on volumes from Thames Water. That is not the same risk profile as a core terminal asset within a live hub airport.

Why asset selection matters for competitive tendering models:

- 3.23. Asset selection is therefore central. The suitability of D&B, DBO, joint venture or other third-party delivery structures depends on the characteristics of the asset, not on the label attached to the regulatory model. A route that is efficient for a separable landside commercial asset may be inefficient for a critical-path airfield, terminal, surface access or environmental package.
- 3.24. ASTI provides a useful precedent for this asset-specific approach, as set out in Annex II. Ofgem differentiated regulatory treatment according to the delivery characteristics, maturity and strategic importance of projects, rather than applying a one-size-fits-all competitive process. That same principle should guide the application of Models 4b and 5b at Heathrow.
- 3.25. Heathrow's proposed gating framework, set out in Annex IV, would apply two tests. Gate 1 asks whether external delivery is viable: whether the asset is sufficiently separable, whether third-party delivery would avoid material critical-path risk, and whether the relevant risks can be managed more efficiently by a third party than by Heathrow as integrated owner-operator. Gate 2 asks whether external delivery is in consumers' interests in practice: whether there is a credible market, whether expected benefits outweigh transaction costs and risk pricing, and whether service, resilience, safety and financeability are protected.
- 3.26. Passing Gate 1 should not create a presumption of third-party delivery. It should simply mean that the asset merits more detailed testing under Gate 2. This is important because an asset may be technically separable but still fail the consumer value test once transaction costs, interface protections, risk, timetable impacts and financing consequences are taken into account.

### Deep Dive – Car Parking

Car parking is a useful example of why asset suitability for DB or DBO models must be assessed carefully rather than assumed. On the face of it, car parks may appear to be a good candidate for alternative delivery: they are more separable than core terminal, baggage, airfield or security assets, there is an established market of specialist investors and operators and Heathrow already outsources day-to-day car park management to a third-party provider under a management contract.

However, that does not mean car parking is necessarily suitable for full third-party delivery or operation. The case depends on which car parks are being considered, where they sit in the Expansion programme, and how their interfaces with terminals, people movers, surface access, planning obligations and passenger flows are managed and where the risk sits.

Key considerations include:

- **Critical path and interface risk:** Some car parking may be essential for terminal operations and passenger access. If the terminal depends on it, delays or underperformance by a third party would directly affect Heathrow's revenues, operations and Expansion timeline. This risk would extend beyond the car park asset and could impact Heathrow's cost of debt and equity.
- **Planning, stakeholder and ANPS obligations:** Car parks interact closely with planning authorities, transport authorities, local communities, surface access commitments and ANPS obligations. Fragmenting responsibility for delivery and operation could make it harder to manage these coherently, particularly where traffic management, mode share, emissions, construction logistics or local impacts need to be managed across the airport system.
- **Passenger experience and airport revenues:** Car parking is part of the passenger journey. Poor performance can create congestion, missed flights, lower satisfaction, reduced dwell time and lower retail spend. Passengers are unlikely to distinguish between Heathrow and a third-party car park operator; reputational risk would remain with Heathrow even if operational control were transferred.
- **Commercial alignment and pricing behaviour:** Car parking is also part of Heathrow's wider commercial proposition. A third-party operator may have incentives to maximise short-term revenue in ways that are not aligned with Heathrow's long-term passenger, airline or reputational interests (as hotel operators charging significantly higher rates during periods of operational disruption). For example, surge pricing during public transport disruption could create consumer harm and reputational risk. Such risks can be mitigated through contractual controls, but those controls would need to be carefully designed, monitored and enforced.

The conclusion is therefore balanced. Car parking should not be ruled out as a potential candidate for DB, DBO, joint venture or other third-party delivery models. But it should not be assumed to be separable simply because day-to-day management is already outsourced and the site is located away from the immediate airport. Suitability should be tested asset-by-asset through the gating framework, with particular focus on critical-path dependency, passenger impact, pricing controls, interface risk and the extent to which Heathrow must retain control. Hybrid models, including joint ventures or Heathrow-led delivery with specialist third-party operation, may provide a better balance between competition, expertise, control and consumer protection.

Figure 4: Deep Dive – Car Parking

3.27. Annex IV also illustrates how the framework could apply across assets (see overview in Figure 5):

- Perimeter commercial property is likely to be among the strongest candidates for a form of DBO or joint venture because it tends to be highly separable, landside and supported by a liquid commercial property market.
- Car parks may also be suitable in some circumstances, given the maturity of the investor and operator market, although Heathrow's experience shows that even car parking can involve significant interfaces with terminals, people movers, traffic management and airport operations (see Figure 4).
- Cargo infrastructure may support more targeted third-party involvement or joint venture approaches, but its airside-landside interfaces, contribution to airline economics and links to construction logistics mean full DBO treatment would need careful testing.
- Surface access highways, rail, river diversions and natural environment works are more likely to raise critical-path, stakeholder, regulatory and system-integration issues that point towards Heathrow retaining stronger coordination or control.

|                                         |                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | High risk & Low financeability                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Core Operation and Programme Risk       | High criticality / on critical path | <b>Car Parking Infrastructure</b><br>Car parks are relatively separable assets with clear revenue streams and investor appetite, making them broadly suitable. However, early phases are closely tied to terminal expansion and can introduce interface and scheduling risks if not tightly coordinated.<br><br>The key risk is programme interference - misalignment with terminal delivery or over-complex contracting structures could introduce delays or reduce overall efficiency. Subsequently projects of car parks may be viable, but would need to be assessed individually.                                                                                                                                                     | <b>Surface Access Highways</b><br>These assets are deeply integrated with national networks and airfield expansion, requiring coordination across multiple stakeholders (e.g. National Highways and local authorities).<br><br>They sit on the critical path and demand tight programme control. Transaction complexity is high and integration risks are significant. The overriding risk is loss of delivery certainty, any misalignment or delay directly impacts core expansion timelines and operational resilience, making this scope poorly suited overall.                                                                                                                       |
|                                         | Low criticality / off critical path | <b>Perimeter Commercial Property</b><br>The development of perimeter commercial property (e.g. hotels, offices, logistics) through third-party delivery, unlocking private capital and accelerating non-core growth is viable.<br><br>These assets are highly separable from core airfield operations, with established market demand and standardised delivery models. They can proceed largely independently of the expansion critical path, with manageable interface risk. The key risks are limited, primarily around market demand fluctuations or developer performance. Overall, this represents a strong, low-complexity opportunity to leverage external capability while retaining strategic focus on core aviation operations. | <b>Cargo Area</b><br>Cargo infrastructure should be assessed case by case, but unlikely to be fully discrete and separable from Heathrow operations.<br><br>While a DBO model could introduce efficiencies, it adds complexity due to phasing requirements, operational interfaces and critical path risks, and Heathrow would ultimately retain overall integration responsibility.<br><br>Although there is evidence of a capable delivery market, the risks to timely delivery and programme coherence pose important risks. More integrated approaches, such as joint ventures, may help mitigate this and provide a better balance between competition, control and deliverability. |
| Separability & Complexity of Interfaces |                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Low risk & High financeability                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                                         |                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Highly separable and low interface complexity                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|                                         |                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Low separability and high interface complexity                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

Figure 5: Illustrative assessment of suitability of assets for Models 4b and 5b (further detail included in Annex IV)

3.28. This gated approach allows DBO approaches to be used actively and transparently while protecting the integration needed for a live hub airport. Where an asset is well suited to external delivery, the framework should support Heathrow in bringing forward that option. Where an asset is more integrated or critical-path, the framework can still identify more limited forms of third-party involvement, including design input, specialist delivery packages, long-term partnerships or joint venture structures that preserve Heathrow's programme accountability while bringing in external expertise.

### Case Study - Joint Ventures (JVs) in Cargo:

Heathrow already actively explores the use of joint venture structures for certain assets, notably ongoing exploration in relation to cargo development. This reflects a broader approach to applying third-party models selectively and where they preserve both integration and deliverability of the desired asset without compromising wider Expansion programmes, whilst also improving consumer outcomes.

A JV model can offer several advantages when applied selectively on an asset-by-asset basis:

- Targeted use of third-party capital, reducing overall regulated capex burden and supporting financeability
- Access to expertise and land holdings that complement Heathrow's own and facilitates a more efficient, higher-quality development proposition
- Allocation of differing risk and delivery responsibilities to party best placed to manage them
- Stronger commercial discipline by drawing on market expertise and customer engagement to ensure a demand-led development

This type of partnership approach can be particularly well-suited to cargo; the assets are partially separable and likely to benefit from specialist development expertise, whilst still requiring close oversight of interfaces with airside operations and wider Expansion plans and phasing. A joint venture can provide a more balanced solution than a fully disaggregated model such as a DBO model which may introduce additional interface, delivery and integration risks.

The table below illustrates how Heathrow and a third-party could combine expertise and resources in cargo:

| <b>Heathrow</b>                                | <b>Third-party Partner</b>                   |
|------------------------------------------------|----------------------------------------------|
| Land                                           | Land                                         |
| Capital funding                                | Capital funding                              |
| Airport operational interface management       | Property management                          |
| Enabling works delivery                        | Specialist cargo construction                |
| Airport development experience                 | Cargo development market experience          |
| Airport development expertise and supply chain | Cargo development expertise and supply chain |

These structures, as with any, involve considering trade-offs including shared control, more complex structuring and reduced access to full upside potential. However, they demonstrate there is a range of viable delivery models that sit between full self-development and full-third party development and operation.

Heathrow is already progressing practical consideration of deploying models on this spectrum, including considering a range of options for the cargo development project specifically. Heathrow will continue to develop and test joint venture approaches alongside other models (including DBO), ensuring that the chosen structure for each asset reflects the viability of separability, critical path impact, market capability, financeability and consumer benefits.

Figure 6: Joint Ventures in Cargo

3.29. The evidence on implementation reinforces the need for a gated approach. Supporting Document 1 notes that a robust Model 5b tender for a core asset such as a terminal would require bidders to understand both the revenue stream and the detailed relationship with Heathrow during operation. Experience from other regulated sectors shows how long that can take:

- Ireland's National Broadband Plan took seven years from publication of the original plan to contract award, in part because of the need to define the commercial relationship between the winning bidder and the incumbent.
- The HARP aqueduct project illustrates the same challenge in a regulated infrastructure context: it took around three years to progress from tender launch to preferred bidder selection, despite being a comparatively separable greenfield project with far fewer operational interfaces than a live airport terminal.
- Other PR19 DPC candidate projects did not proceed as originally expected, illustrating that even in the water sector, where DPC is established and assets may be more separable, implementation can be slow, asset-specific and dependent on the commercial and regulatory framework being sufficiently clear.

3.30. That does not mean DBO models should not be used. It means the gating framework must identify the assets for which the operational framework can be specified with sufficient confidence and without creating avoidable delay.

#### Financing of Model 4b and 5b:

##### *Model 4b:*

3.31. Model 4b is capable of being neutral to financeability where Heathrow retains ownership, financing and operational responsibility, and where the CAA's role is limited to proportionate assurance or oversight. Supporting Document 2's conclusion is that Model 4b would not materially improve either access to, or the cost of, new debt, and should be broadly neutral where appropriate guardrails preserve accountability and responsibility.

3.32. They also identify the key risk: if CAA involvement moved beyond procurement assurance into directing Heathrow's procurement strategy, this would blur accountability for overruns, create misalignment between accountability and control, and introduce complexity that rating agencies would view negatively. On that basis, the fundamental risk profile underwritten by debt and equity investors remains unchanged only if Heathrow retains clear control over procurement decisions.

##### *Model 5b:*

3.33. Model 5b is more sensitive to asset type, but that sensitivity is also what makes it useful when targeted well. For discrete, non-core assets with predictable operating costs and limited operational interfaces, a third-party structure may be capable of attracting capital on competitive terms, transferring relevant construction or availability risk, and introducing specialist operating expertise in a way that benefits consumers.

3.34. For core operational assets like Terminals, Supporting Document 2 indicates the need for greater caution:

- A Direct Procurement for Customers-style structure for such an asset would require investors to price greenfield construction risk, operational interface risk, demand uncertainty, long construction horizons and the absence of an established brownfield RAB platform.
- That capital is likely to be more expensive than Heathrow's RAB-based financing. Supporting Document 2 indicates third-party target returns of 15–20%, funding costs up to 150bps above BAU, and gearing of up to 75%.
- A terminal-style DBO structure could therefore increase airport charges by around £0.82–£3.17 per passenger relative to more traditional delivery, with more than 30% capex savings required at the higher IRR ranges to offset the charge increase.
- This is before accounting for the additional risks of applying a DBO model to terminals, including coordination, competition and resilience risks similar to those identified for Model 7b.

3.35. The conclusion is therefore that Model 5b should be developed positively, but selectively. It has the potential to unlock value where the conditions for efficient third-party delivery genuinely exist. Additional third-party capital, operating capability and lifecycle incentives can benefit consumers where the asset is sufficiently separable and the risk allocation is clear.

3.36. The right test is whole-system value for consumers: whether the model lowers cost, improves quality, brings useful expertise, supports timely delivery and preserves financeability compared with Heathrow delivery under the integrated RAB framework.

#### Implementation and delivering effective competition – 4b and 5b:

##### *Model 4b:*

3.37. As long as it is Heathrow's decision, employing Model 4b is a practical and familiar route for applying competition to design and build activity, particularly where the asset can be specified clearly and Heathrow remains responsible for delivery integration.

##### *Model 5b:*

3.38. Model 5b can go further by creating incentives across design, build and operation, and may therefore unlock additional whole-life efficiencies where operating costs and performance requirements can be specified with sufficient confidence. But the implementation task is critical: bidders need clarity on specifications, interfaces, risk allocation, payment mechanisms and quality requirements so they can price efficiently and consumers capture the benefits. Where that clarity does not exist, bidders will either price additional risk, seek pass-through protections that dilute efficiency incentives, or defer commitment.

3.39. For that reason, Heathrow considers that Models 4b and 5b should be taken forward through a positive, evidence-based and criteria-led framework, rather than imposed through a blanket mandate or prescriptive licence obligation.

- 3.40. CAP3251 itself states that the CAA “*will be looking to HAL to bring forward proposals for a procurement strategy*” and that this strategy should provide comfort that Heathrow will “*make optimal use of competitive tendering and manage construction risks appropriately*”.<sup>16</sup> Heathrow agrees with that approach. It should be for Heathrow, as the integrated owner-operator and the party accountable for cost, schedule, safety, service, resilience and financeability, to determine how these models are applied to specific assets and work packages, subject to transparent scrutiny through the CAA, COG and JIA. Heathrow’s long-term Expansion business plan<sup>17</sup> should therefore include the evidence base for those judgements, including market appetite, procurement options, interface assessment, financing impact and consumer value.
- 3.41. Licence modification should not be the starting point. Heathrow does not agree that the right next step is to move quickly towards “backstop licence obligations” of the kind described in CAP3251. A mandated approach risks substituting a regulatory preference for a programme-level procurement judgement and could undermine Heathrow’s accountability by requiring a particular delivery approach while leaving Heathrow responsible for the consequences. If the CAA wishes to retain such a backstop, the legal basis on which it considers it has powers under CAA12 to mandate a particular procurement or delivery model, needs to be clear first – and that basis is not clear from CAP3251. Any such intervention should be a last resort only, subject to a high evidential threshold and explicit safeguards on risk allocation, cost recovery, decision rights and accountability.
- 3.42. This is also consistent with ASTI (see Annex II). Ofgem preserved strong scrutiny and cost discipline, but did not rely on mandatory competitive tendering as the default tool where the priority was timely, coordinated delivery of strategically important infrastructure. That precedent supports a model in which COG/JIA scrutiny, evidence-based challenge and clear incentives sit alongside Heathrow-led procurement decisions, rather than replacing them.

#### Next Steps:

- 3.43. Heathrow therefore considers that the CAA should take forward Models 4b and 5b on the following basis:
- Confirm that Models 4b and 5b are active procurement tools within the enhanced Single RAB framework, not mandated defaults;
  - Recognise that Models 4b and 5b can create consumer disbenefits if applied to assets that are not sufficiently separable, financeable or deliverable through third-party structures;
  - Require Heathrow to bring forward, through its business plan, an evidence-led methodology for assessing asset suitability as part of a wider procurement strategy for Expansion;
  - Use the COG and JIA to scrutinise that methodology and the proposed treatment of material assets;
  - Treat any backstop licence obligation as a last resort only, subject to a clear legal basis, a high evidential threshold provided by the JIA and explicit safeguards on accountability, cost recovery, risk allocation and timely delivery.

<sup>16</sup> CAP3251, paragraph 1.50.

<sup>17</sup> For avoidance of doubt, this is not a reference to the 27-29 Business Plan the CAA have requested that pertains to costs forecast to be incurred in those years.

This approach would allow the benefits of competition to be captured where they are real, while avoiding the risks of mandating delivery models that could increase cost, delay or complexity for consumers.

### **Model 7b: Direct Competition for Airport Operation Services:**

#### Review of CAP3251:

- 3.44. Heathrow recognises the context in which the CAA is consulting on regulatory models for Expansion, including the existence of competing schemes and the CAA's statutory duties to further the interests of consumers and, where appropriate, to promote competition in the provision of airport operation services. Heathrow understands why the CAA has assessed alternative models in that context and supports careful consideration of competition where it can demonstrably improve consumer outcomes.
- 3.45. That is why Heathrow supports further development of Models 4b and 5b as targeted tools within an integrated single owner-operator framework, subject to clear tests on separability, critical path impact, operational resilience, financeability and demonstrable consumer benefit. Those models can introduce competitive tension, specialist expertise and innovation while preserving Heathrow's accountability for system integration and delivery.
- 3.46. Model 7b is materially different and distinct. It does not simply extend competitive procurement - it fragments the airport operating model by introducing a directly competing terminal operator into a highly integrated hub. The CAA has already concluded in CAP3251 that Model 7b is materially weaker than Models 4b and 5b. The evidence from Supporting Document 1, Supporting Document 2 and the CAA's own Centrus report all point in the same direction: Model 7b is less likely to deliver effective competition- it will not promote airline competition (indeed, comparator evidence suggests it may constrain it) and it creates a duopoly that precedence in the telecoms sector shows does not deliver for consumers. Moreover, it would be materially more difficult to implement, would weaken whole-system financeability and would increase risk – and ultimately costs - to consumers.
- 3.47. Continued consideration of Model 7b is not neutral: it keeps open a structural model that would fragment core airport operations and materially alter the investment proposition at the point when shareholders are being asked to support a privately financed, multi-billion-pound Expansion programme. The CAA should therefore discount Model 7b at this juncture and focus its next phase of work on the more practical, deliverable and pro-consumer competition routes available through Models 4b and 5b.
- 3.48. Below, Heathrow builds on two critical areas of impact that model 7b would have:

### Impact on Operations:

- 3.49. As the CAA acknowledges in CAP3251, Model 7b raises significant operational and implementation complexity, particularly around fragmented accountability, coordination across a highly integrated hub operation, increased interface risk and disputes. Heathrow agrees with the CAA and Steer's assessment that the model would *"materially reduce clarity of system-wide operational accountability and would increase the coordination risk between construction and live operations"*<sup>18</sup>. That is not a marginal implementation issue; it goes to the core of whether Heathrow can continue to operate as a resilient, integrated hub while delivering Expansion.
- 3.50. A hub airport functions as a single, integrated system. Fragmenting terminal ownership would reduce end-to-end operational control (including APOC escalation), create ambiguity over who is "in charge", and slow decision-making as operators prioritise their own commercial objectives. Operability risk is amplified by fragmented IT and data ownership: disconnected systems reduce situational awareness, impede passenger-flow management and make recovery from incidents slower and harder.
- 3.51. This is not a Heathrow-specific concern. In its response to the U.S. Department of Transportation's request for information on Washington Dulles International Airport, Global Infrastructure Partners argued that a terminal-only model would fragment the airport campus and make it harder to optimise passenger flows, gate utilisation and airline charges. It recommended a whole-airport concession because it provides a holistic solution with a single point of accountability<sup>19</sup>. The same logic applies with greater force at Heathrow, given the intensity of the hub operation, scarcity of capacity and operational interdependence across terminals, airfield, baggage, security, surface access and disruption response.
- 3.52. Real-world experience at Heathrow illustrates why single-point control and integrated systems matter:
- Weak-link caps the system (ground handling): post-pandemic disruption demonstrated that fragmented ground handling capacity can cap the performance of an entire airport, driving cancellations, lost bags and severe passenger impact. Fragmenting terminal ownership would multiply the number of "weak link" failure points.
  - Crisis response (Collins Aerospace cyber-attack): during the Collins Aerospace cyber-attack, recovery only stabilised once the airport authority imposed a single, integrated response. Multiple owners and competing priorities would have delayed decisions and prolonged disruption for passengers.
  - Integrated IT/data is not optional: where terminals or facilities were built with separate systems (e.g. Dubai International), operators have subsequently had to join them up to restore basic

<sup>18</sup> Steer, Technical assessment of the CAA regulatory models for Heathrow Expansion | Final Report, May 2026, Table 7.17, Page 66

<sup>19</sup> Revitalizing Washington Dulles International Airport: Response to the Department of Transportation's Request for Information, Global Infrastructure Partners, January 2026. Available at <https://www.regulations.gov/comment/DOT-OST-2025-1887-0023>.

control and shared data (including baggage tracking and disruption management). Model 7b moves in the opposite direction by design.

#### *Impact on Service Quality:*

3.53. The CAA suggests that under Model 7b there would be an *“incentive on both HAL and the alternative developer to deliver more efficiently and to improve service standards<sup>20</sup>”*, and refers to JFK International Airport as a comparator. Heathrow does not dispute that competition can, in principle, create incentives to improve service. The issue is whether those incentives would be effective in practice at a space-constrained, transfer-intensive hub where operators would remain operationally interdependent and where passengers experience the airport as a single system. The evidence does not support the conclusion that fragmented terminal operation has delivered superior service outcomes at comparable airports.

3.54. Consistent with this, JFK International Airport is currently rated as a 3-star airport by Skytrax, with reported inconsistencies between terminals and varying service quality. [REDACTED]

3.55. The efficiency evidence points in the same direction. Multi-operator airports such as JFK and LAX run 11–29% lower terminal efficiency (Mott MacDonald, 2026)<sup>21</sup>, driven by duplicated systems, weaker incentives to optimise across the whole airport and reduced asset utilisation. Adopting the same relative inefficiency as JFK and LAX would mean 17m–44m fewer passengers served by the same infrastructure. [REDACTED]

3.56. Nor is JFK a straightforward precedent for Heathrow. The original purpose of multi-terminal models at JFK and other US airports was to reduce public capital requirements and accelerate development during periods of aviation growth. That is materially different from Heathrow, where the Single RAB model has successfully raised private capital to fund growth, investment and service improvement. JFK also operates within a public airport landlord framework, with features that can provide downside protections to terminal developers. Comparable protections should not be assumed to exist at Heathrow, where a third-party operator would be operating within a privately financed, regulated hub model.

#### Financing of Model 7b:

3.57. Heathrow agrees with the CAA that *“the introduction of a second operator would introduce fragmentation and interface risks which are not currently present<sup>22</sup>”*. The CAA-commissioned Steer

<sup>20</sup> CAP3251, paragraph 1.52.

<sup>21</sup> Available at [15-multi-operator-airports-mott-macdonald\\_redacted.pdf](#)

<sup>22</sup> CAP3251, paragraph 6.213.

report also states that mitigation measures cannot fully remove “*operational interface risks and end-to-end integration challenges associated with structural fragmentation*”<sup>23</sup>, with the CAA-commission Centrus report similarly recognises that Model 7b introduces additional complexity, greater delivery risk and potential pressure on the cost of capital. The key point is that additional third-party capital is not the same as improved whole-system financeability where that capital is more expensive and weakens Heathrow’s existing financing platform.

3.58. Under Model 7b, investors would price materially higher interface, dispute, construction, operational integration and demand risk. In Supporting Document 2, our financial advisers have outlined analysis informed by the market and rating agencies that confirms the impact would be two-fold:

- *Standalone Terminal on charges*: an uplift of WACC by around 100–150bps, adding approximately £250m–£290m per annum of financing cost over 20 years. This would see the average passenger charge increase by at least £2.73.
- *Heathrow’s own business risk profile*: Introducing a competing standalone terminal would weaken Heathrow’s own business risk profile by reducing revenue predictability, increasing demand uncertainty, and undermining its single-till stability. This could lead to tighter credit metrics, higher required charges (e.g. ~£5.56 to maintain ratings), or increased debt costs (e.g. +50bps), raising financing costs for Heathrow itself.

3.59. Overall, the model results in a more expensive and riskier financing structure across both the SPV and Heathrow, with limited evidence of net benefit unless substantial and unlikely cost savings are achieved.

3.60. The implication is that Model 7b is unlikely to be financeable on an efficient whole-system basis relative to Heathrow delivery. It would be expected to increase airport charges if it raises the cost of capital for both Heathrow and the alternative developer. Heathrow’s financing costs may rise if fragmentation weakens revenue predictability and RAB stability. Moreover, the alternative developer’s financing costs are also likely to exceed Heathrow’s RAB-based cost of capital given greenfield construction risk, operational integration risk, demand risk and the absence of government-backed financial support.

3.61. That conclusion is reinforced by rating-agency evidence. Heathrow’s advisers have spoken to rating agencies, who view Model 7b as the most credit-negative option because direct terminal competition could weaken Heathrow’s revenue predictability, cashflow stability and overall business risk profile (Supporting Document 2). The recent revision of JFK New Terminal One LLC’s outlook from stable to negative also illustrates the credit risk associated with standalone terminal structures exposed to construction delay, ramp-up risk and demand uncertainty.

3.62. As such, Heathrow agrees with the CAA, that “*direct competition with HAL might increase the risk exposure of both the third party and HAL, since both parties would be exposed to competitive*

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<sup>23</sup> Steer, Technical assessment of the CAA regulatory models for Heathrow Expansion | Final Report, May 2026, Page 8

*pressure, and might result in both parties being subject to weaker credit metrics and a higher cost of capital<sup>24</sup>*

- 3.63. Model 7b also creates an unclear allocation of downside risk. Even where construction or operating risk appears to transfer to the third-party developer, the terminal would remain embedded in Heathrow's wider airport system. If the third-party operator experienced delay, cost overrun, operational failure or financial distress, Heathrow may in practice need to intervene to preserve resilience and continuity.
- 3.64. Model 7b would only benefit consumers if the alternative developer could deliver capex savings of more than 30% versus Heathrow's RAB-funded delivery case, such that airport charges are no higher than under Heathrow delivery and Heathrow's investment-grade position is preserved. In Heathrow's view, a saving of that scale is unlikely to be realistic for a core, highly integrated terminal asset.
- 3.65. That matters for shareholders and investors. The investment proposition for Expansion depends on a stable, predictable and financeable regulatory framework. Retaining Model 7b despite the evidence that it would worsen whole-system financeability and consumer outcomes is not an implementation detail to be managed later; it is a decisive reason to discount Model 7b now.
- 3.66. Taken together, the financing evidence points to a clear conclusion: Model 7b would introduce more expensive capital, weaken Heathrow's existing financing platform, create unclear downside risk allocation and set an unrealistically high efficiency hurdle before consumers could benefit. It should therefore be discounted now, rather than retained for further development.

#### Implementation and delivering effective competition – Model 7b:

- 3.67. Heathrow agrees with the CAA's conclusion that competition can play a constructive role in targeted procurement and delivery mechanisms under Models 4b and 5b. That is precisely why regulatory effort should now focus on developing the practical framework for those models. Model 7b would displace that effort by requiring substantial work on legislative, licensing, market power, wholesale charging and interface questions for a model that is less likely to deliver consumer benefits.
- 3.68. The likely increase in duplication, transaction costs and delivery complexity would outweigh any theoretical competitive benefits, while creating unnecessary uncertainty and delay for Expansion. The need to carry out market power determinations, develop wholesale charges, establish licensing arrangements and define contractual arrangements for the overall operation and coordination of the airport could add around 10 years to the process, putting Government schedule ambitions at risk. That delay would postpone the principal consumer prize from Expansion:

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<sup>24</sup> CAP3251, Para 6.220

additional capacity, greater airline competition and the unwinding of around £3bn per annum of scarcity rent, as well as wider economic benefits estimated at around £17bn per annum.

- 3.69. Analysis in Supporting Document 1 builds on these themes - demonstrating that even if a new entrant independent from Heathrow were to operate a terminal, the likely market outcome would be a duopoly, with the entrant relying on Heathrow for upstream airport infrastructure while competing with Heathrow in downstream airport operation services. This is the classic structure of an entrant facing a vertically integrated incumbent, but in a setting where the entrant would need to commit multi-billion-pound capital before the regulatory framework had been tested in practice.
- 3.70. Several features of that market structure indicate that it would be unlikely to deliver effective competition:
- Duopoly: there would be only two terminal operators, with little realistic prospect of further entry.
  - Switching constraints: large airlines and alliances face material barriers to moving between terminals because of connection needs, sunk costs, capacity constraints and the operational inefficiency of splitting demand.
  - Higher risk and higher cost: potential bidders would require clarity on revenues, price regulation, access charges and operating obligations before committing investment. Absent that clarity, they would either require a significant regulatory risk premium or defer commitment.
- 3.71. The consequence for consumers and regulation is important. In this market structure, outcomes would be driven less by effective competition and more the design of the framework to regulate the duopoly. The CAA would also be left regulating a more complex system, including Airport Operating Services pricing, access to common airport infrastructure, non-discrimination obligations and disputes between operators. That is a materially weaker route to consumer benefit than applying competition through targeted procurement and delivery models under Models 4b and 5b.
- 3.72. The telecoms evidence supports this conclusion. Initial fixed-line liberalisation created a duopoly between BT and Mercury, but Mercury made limited inroads into BT's market share and competition remained concentrated on high-margin customer segments. Retail price regulation continued to be needed to protect end users. Cable operators also faced financial difficulties despite some economies of scope and regulatory support. Effective competition developed only where there were lower barriers to entry, multiple providers or regulated access to upstream infrastructure on terms that took many years to develop.
- 3.73. The lesson for Heathrow is direct. Competition is not an end in itself. It can benefit consumers where market conditions support effective rivalry or where competition is applied through well-designed procurement. Model 7b would instead create a highly regulated duopoly, with continuing dependence on Heathrow's upstream infrastructure, extensive interface regulation and limited evidence that competitive pressure would be sufficient to reduce prices or improve service. The regulation of this duopoly would be an inherent regulatory risk that would need to be reflected in a high than necessary cost of capital for both a new terminal asset and Heathrow own business risk

profile. It is therefore less likely to deliver consumer benefits than Models 4b and 5b, which apply competition where it is more practical.

Next Steps:

- 3.74. Heathrow supports the CAA's broad conclusion that Model 7b is materially weaker than Models 4b and 5b from a consumer benefits perspective. Heathrow also notes that the CAA's primary rationale for retaining Model 7b on its shortlist appears to be the existence of a potential rival promoter, rather than the merits of the model itself.
- 3.75. However, given the CAA's statutory duties and its future role as a consultee throughout the Expansion process, it is important that the CAA clearly and transparently sets out the risks that Model 7b poses to consumer outcomes. If Model 7b is likely to result in materially poorer outcomes, increased complexity, or significant operability and integration risks, this should be explicitly reflected in the CAA's assessment and treated as a relevant consideration within the wider planning process. The planning process should not be used as a reason to defer regulatory judgement where the consumer, operational and financeability evidence already points clearly in one direction.
- 3.76. Accordingly, Heathrow expects the CAA to remove Model 7b from its list of recommended models. This is particularly important in the context of the anticipated wording of the revised ANPS and the Government's broader support for Heathrow's proposed scheme, both of which could be undermined by continued consideration of an alternative promoter model. If a rival promoter were eventually to secure a DCO, it would remain open to the CAA to consider the regulatory implications at that stage. Until then, continued inclusion of Model 7b would be disproportionate, counterproductive and damaging to shareholder confidence.

#### 4. THE WAY FORWARD – AN ENHANCED FRAMEWORK FOR EXPANSION:

Heathrow supports **taking forward a form of six of the seven models shortlisted by the CAA**, combining them into an enhanced Single RAB framework designed for the scale, complexity and financing challenge of Expansion.

**That framework would preserve an integrated owner-operator**, while introducing high quality governance and assurance, calibrated incentives, a long-term commitment to the real cost of equity, enhanced procurement scrutiny and targeted third-party delivery where it improves whole-system consumer value.

**These enhancements are not a defence of the status quo.** They are targeted changes to address the specific risks of a long-duration, highly interdependent megaproject. In doing so, they **better support the CAA's duties** by promoting timely delivery of capacity, efficient cost, financeability, and proportionate scrutiny. The **package also addresses airline concerns on cost discipline, transparency and informed engagement without structural fragmentation.** Competition should be harnessed through procurement, not by fragmenting the airport that would increase cost, complexity, financeability risk and delay.

The CAA should therefore **move beyond shortlisting and confirm this enhanced Single RAB as the target framework for Expansion**, discount Model 7b, and set a clear implementation timetable for the financeability and risk-allocation decisions needed to unlock timely consumer benefits.

- 4.1. The CAA now has a clear route to move from model shortlisting to implementation. CAP3251 identifies the core building blocks of a future framework for Expansion. The task is no longer to keep all structural options alive, but to assemble those building blocks into a practical and financeable framework that is in the long-term interests of consumers.
- 4.2. As advanced in this response, the target framework comprises a single integrated owner-operator and Single RAB, enhanced by:
  - a Capital Oversight Group and Joint Independent Assurance (model 1a);
  - a staged incentives regime calibrated to maturity and controllability (model 2);
  - longer-term regulatory commitments for Expansion financeability (model 3);
  - enhanced procurement scrutiny (model 4a);
  - and targeted use of Models 4b and 5b where third-party delivery demonstrably improves whole-system consumer value.

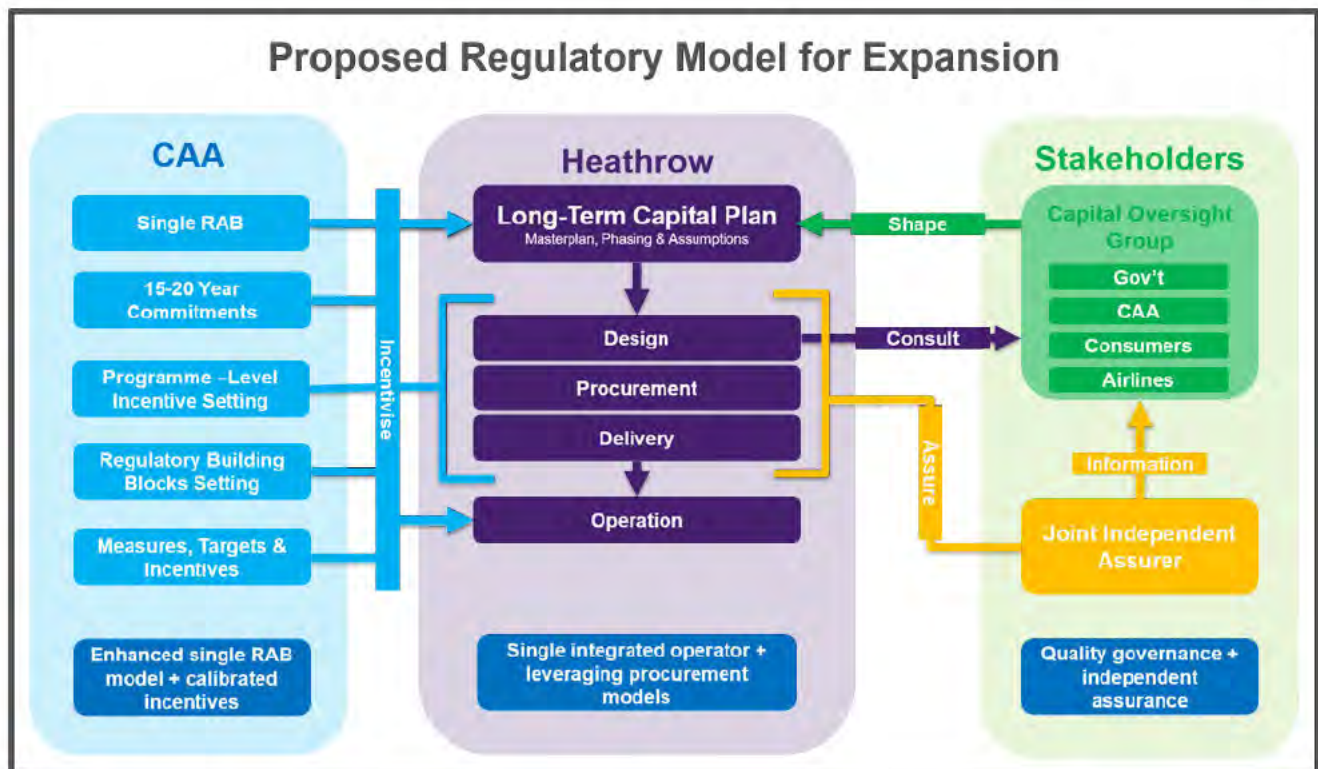


Figure 7: Target framework

4.3. The enhanced Single RAB is better aligned with the CAA's statutory duties than a fragmented alternative, and it provides the strongest platform for timely, efficient and integrated delivery of new capacity. The CAA's July statement should therefore move beyond shortlisting and confirm the enhanced Single RAB model as the target framework for Expansion (Figure 7). Continuing to hold open structural fragmentation would not be a neutral act. It would prolong uncertainty, divert regulatory effort from implementable enhancements, and weaken investor confidence at precisely the point when the framework needs to support mobilisation.

4.4. This section outlines four key points:

1. The scale and complexity of Expansion require evolution of the existing regulatory framework.
2. The enhanced single RAB model best meets the CAA's duties.
3. The enhancements directly address airline concerns without fragmentation.
4. The CAA should confirm the target framework and move to implementation.

The scale and complexity of Expansion require changes to the existing regulatory framework:

4.5. That framework should remain centred on a single RAB and a single integrated owner-operator, but evolve in targeted ways where the current arrangements are not well suited to a long-duration, highly interdependent megaproject. As Table 3 shows, the issue is not that the existing framework is fundamentally flawed, but that some of its features can lead to late challenge, avoidable rework, weaker decision-making, financing uncertainty or governance duplication if left unchanged. In

practice, those shortcomings can slow procurement and mobilisation, create governance drag around key choices, and increase total delivery cost without improving outcomes for consumers.

- 4.6. The right response is therefore not to add layers of bureaucracy or fragment accountability, but to use existing structures better and supplement them proportionately through higher quality capital governance, independent assurance, better-calibrated incentives, longer-term regulatory commitments and targeted third-party delivery where it adds value. That package is not a defence of the status quo. It is a practical evolution of the framework designed to improve the quality and timeliness of decisions, surface material issues earlier, reduce avoidable churn and redesign, support faster mobilisation, and lower the overall cost and risk of delivery in consumers' interests.

Table 3: Targeted evolution of current framework

| Feature of existing framework                                                                                                         | Consequence if not addressed                                                                                                                                                          | Mitigation / proposed feature of new framework                                                                                                                                                                |
|---------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Engagement processes can be extensive, but are not always early enough or focused enough on the most material strategic decisions.    | Late challenge, avoidable rework, slower decisions and weaker ability to shape key choices before positions harden → delayed delivery and higher charges.                             | A senior Capital Oversight Group focused on the most material programme issues, with clear remit, escalation routes and timely engagement on strategy, phasing, procurement and major cost drivers.           |
| Information is available through existing arrangements, but not always in a form that is decision-useful or timely for a megaproject. | Debate can become prolonged or overly positional, with less confidence in the evidence base and greater risk of delay or inefficient challenge → delayed delivery and higher charges. | Joint Independent Assurance providing objective, expert and ongoing review of cost, schedule, risk, maturity and delivery assumptions, reported transparently to key stakeholders.                            |
| The existing H7-style incentives framework is too blunt for a long-duration, highly uncertain and interdependent programme.           | Poorly calibrated risk transfer could raise financing costs, distort decisions or slow delivery without improving efficiency → higher charges                                         | A staged, programme-level incentives regime calibrated to controllability, maturity and risk, with stronger ex ante challenge where appropriate and proportionate protections where uncertainty remains high. |
| The standard regulatory cycle does not align well with the financing and delivery profile of Expansion.                               | Unnecessary financing uncertainty, weaker investment confidence → higher charges and/or delayed mobilisation.                                                                         | Longer-term regulatory commitments, particularly on the real cost of equity, while retaining appropriate BAU redeterminations.                                                                                |

The proposed enhancements better discharge the CAA duties and have precedent in other regulated sectors:

- 4.7. Assessed against the CAA’s primary duty to further the interests of users of air transport services, and the related section 1 matters to which it must have regard, the enhanced single RAB model is better aligned with the statutory framework than a fragmented alternative (see Table 4).

Table 4: Mapping target framework to CAA duties

| CAA duty                                     | Why the enhanced Single RAB model serves it better                                                                                                                                | Why fragmentation serves it worse                                                                                                                                                                                                            |
|----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Users’ interests</b>                      | More likely to deliver timely, efficient and financeable Expansion — the clearest route to new capacity, stronger airline competition and better consumer outcomes.               | Delays or weakens delivery of new capacity, replacing tangible consumer benefits with a more speculative fragmentation model.                                                                                                                |
| <b>Competition where appropriate</b>         | Promotes competition where it works best: procurement, design, delivery and targeted third-party involvement – and unlocks valued airline competition in a timely manner.         | Creates a regulated duopoly rather than effective competition, given switching constraints, shared infrastructure and limited scope for further entry. Moreover, comparator evidence points to it undermining effective airline competition. |
| <b>Economy and efficiency</b>                | Preserves whole-system optimisation across scope, phasing, interfaces, operations and financing, with higher-quality governance and assurance.                                    | Creates duplication, interface risk, complexity and loss of system efficiency that is likely to outweigh any asset-level gains.                                                                                                              |
| <b>Financeability</b>                        | Better supports efficient financing through an integrated RAB platform, longer commitments, clearer risk allocation and lower overall funding costs.                              | Introduces a structurally riskier and more expensive funding model, very likely increasing charges and weakening investability.                                                                                                              |
| <b>Meeting demand / efficient investment</b> | Better supports coordinated, timely and efficient investment to meet future demand and deliver capacity by giving investors certainty over risk and returns over a longer period. | Risks fragmented decisions, delayed delivery and weaker alignment between investment and system-wide needs.                                                                                                                                  |
| <b>Environmental effects</b>                 | Enables joined-up management of mitigation, compliance and trade-offs across the whole programme.                                                                                 | Splits responsibility for interdependent environmental commitments and mitigation delivery, increasing coordination risk and the likelihood of delay or duplicated activity.                                                                 |

- 4.8. It is also reflected in relevant UK regulatory precedent. As set out in the ASTI case (Annex II), Ofgem adapted its framework to support the timely and coordinated delivery of strategically important infrastructure, while retaining accountability and consumer protection. The relevance of ASTI is not that its mechanisms should be copied directly, but that it demonstrates a regulator can adapt standard arrangements where conventional tools would put timely delivery of strategic infrastructure — and therefore consumer benefit — at risk. The same principle is relevant here: where delay would materially harm consumers, the regulatory framework should support timely, financeable and integrated delivery, while applying targeted scrutiny and competition where they add value.

The enhancements answer concerns raised by some airlines with regards to the single RAB model:

- 4.9. As outlined above, the proposed enhancements would improve decision quality, transparency and cost discipline in ways that are valuable in their own right. Heathrow recognises that some airlines continue to criticise the Single RAB model on the basis that it may encourage over-specification, weaken incentives for cost efficiency, provide insufficient transparency over capital decisions and leave airlines unable to form an informed view on whether investment is justified before their consent for investments is required.
- 4.10. Heathrow notes those concerns, but do not share the underlying diagnosis or the structural remedies some airlines advocate. In our view, the Single RAB model does deliver efficient outcomes. However, these concerns are important because stakeholder confidence is itself relevant to the durability of the framework. The point of the proposed enhancements is therefore not simply to rebut airline concerns, but to address the areas where transparency, assurance and confidence can genuinely be improved.
- **Over-specification:** The proposed capital governance reforms materially address this concern. The COG, supported by JIA, would receive earlier, more structured visibility of strategic choices, design development, cost evolution, procurement strategy and risk, enabling more informed scrutiny of scope, standards and sequencing while preserving clear delivery accountability.
  - **Cost efficiency incentives:** The proposed package also addresses concerns that the RAB model can weaken cost discipline. A more tailored incentives regime, calibrated to risk, controllability and project maturity and supported by JIA, would provide stronger efficiency challenge where appropriate without relying on blunt mechanisms that could increase financing costs, delay delivery and raise charges. Moreover, moving incentives to programme-, rather than project-, level would create meaningful cost pressure in design, and not just delivery, as well as lessen the likelihood of creating perverse incentives to meet project-level delivery obligations at the expense of programme level efficiencies.
  - **Transparency and information asymmetry:** Heathrow accepts that these have been recurring concerns. The COG and JIA would provide airlines, the CAA, Government and consumer representatives with earlier, more structured and independently assured information on key capital planning, design and delivery - materially improving the basis for engagement and challenge without creating veto rights or weakening accountability.
  - **Leveraging competition:** Heathrow does not agree that the benefits of competition are best pursued through structural fragmentation. The greater consumer benefit comes from timely Expansion itself, while competition in delivery can be better harnessed through targeted procurement and third-party delivery models within an integrated framework.

The CAA should now move to implementation of the enhancements to unlock timely delivery of Expansion benefits

- 4.11. The CAA has already set a constructive direction of travel. The priority now is to convert that direction into a practical, financeable and pro-consumer framework that can be implemented with

confidence. Timely delivery of that framework is critical because it is what unlocks investment, supports earlier mobilisation and procurement, and enables new capacity – the principal route through which Expansion can deliver meaningful benefits for consumers.

4.12. In its July statement, the CAA should:

- Confirm the enhanced Single RAB model, based on an integrated owner-operator and supported by higher quality governance and better calibrated incentives.
- Take forward Model 3.1b through a 15-to-20-year commitment to the real cost of equity for Expansion, with a market-based debt allowance.
- Confirm that competition should be pursued through procurement oversight and targeted third-party delivery where this demonstrably improves consumer value.
- Discount Model 7b from further consideration.
- Establish a timetable to determine risk allocation, target credit rating and the Expansion risk premium as soon as possible.

4.13. This is the route most likely to secure timely, efficient and financeable delivery of new capacity, and therefore the one most consistent with the CAA's statutory duty to further the interests of consumers. It would preserve the benefits of integration and accountability, while improving transparency, challenge and cost discipline in a way that supports faster, lower-cost and more reliable delivery in practice.

4.14. This approach is also consistent with the planning process. The CAA does not need to defer regulatory judgement where the evidence already supports a clear target model. On the contrary, a clear regulatory position will support the planning process by reducing uncertainty, strengthening investment confidence and helping ensure that the consumer benefits of Expansion can be delivered without avoidable delay.

4.15. If the CAA were to confirm as above, Heathrow would take immediate steps to begin implementing the framework:

- Finalise draft COG and JIA proposals with the CAA and engage airlines and consumer representatives on detailed design.
- Seek expert, independent advice on our emerging Expansion Procurement strategy, including the draft gating framework in Annex IV.
- Develop a detailed proposal for incentive setting and incentive governance (and the specific role of the JIA).
- Facilitate a meeting between the CAA and Heathrow's financial advisors (and credit rating agencies) to understand the implications of Model 2 and Model 3.1b on the risk premium.

## 5. REFINING THE CASE FOR CHANGE:

The CAA was **right to revisit the underlying evidence base used for its original case for change – and make important interventions that demonstrate a more positive view of Heathrow’s service quality, the impact of factors outside our control on the overall airport charge, and the efficiency of capital delivery.**

Taken together, these changes show that **the regulatory framework has been delivering for consumers – and requires evolution to meet the needs of Expansion**, not revolution to meet the needs of the airlines.

Despite this however, **gaps remain in the CAA’s updated analysis that cannot go unchecked.** Re-opening this evidence base further will be a vital step in not only developing the right framework for Expansion but **avoiding unintended knock-on impacts** to more day-to-day regulatory decision making.

- 5.1. Heathrow agrees that Expansion warrants changes to the regulatory framework. A project of this scale and complexity requires higher quality governance and assurance, better calibrated incentives and a long-term commitment to investment case inputs than the current framework was designed to provide.
- 5.2. However, the evidence set out in CAP3251, particularly on service, charges and capital efficiency, does not support a finding of broad failure in the existing single RAB model, and therefore does not provide a sufficient basis for more intrusive structural reform. In a number of areas, the updated analysis is more qualified and less conclusive than the overall “case for change” framing may imply.
- 5.3. In Heathrow’s view, the evidence supports a more proportionate conclusion: that the framework should evolve in targeted ways to improve scrutiny, cost discipline and delivery confidence, while retaining the integrated owner-operator structure that is best placed to deliver Expansion efficiently and in consumers’ interests.
- 5.4. This section therefore distinguishes between the case for targeted reform, which Heathrow supports, and the case for structural fragmentation, which the evidence does not support. Heathrow acknowledges that the CAA are not intending to update the case for change in future consultations. However, Heathrow believes it is important to outline where Heathrow supports the CAA’s updated conclusions, and where further challenge is required. Doing so is important to ensure that future regulatory decisions are grounded in a balanced interpretation of the evidence, both for Expansion and for wider regulatory policy.

### Evaluation Framework:

- 5.5. Although the CAA has not adopted all of the changes Heathrow proposed in response to CAP3195, Heathrow support the CAA using their methodology to discount several unworkable models, and

ensuring that there is a clear need to assess models on their ability avoid unnecessary delay, which would “*inappropriately delay the delivery of benefits to consumers of Expansion*”<sup>25</sup>.

- 5.6. Heathrow also support the CAA’s conclusion that the economics of the Expansion scheme will be dictated by Government policy, and scheme choice, not the regulatory framework – meaning “affordability” as a metric on its own, is not appropriate. Heathrow also welcome the CAA’s clarification that its primary duty is to consumers — present and future passengers and cargo owners — and that airlines are not themselves consumers for these purposes: “*We have a primary duty to further the interests of consumers, which include present and future passengers and those with a right in property carried by the service (that is, cargo owners). This definition of consumers does not include airlines*”<sup>26</sup>.

### Case for Change:

#### Service Quality:

- 5.7. Heathrow supports the CAA’s update in CAP3251, that “*service quality has improved since the pandemic, contrary to our previous finding in the Working Paper that it had deteriorated between 2022 and 2025*”<sup>27</sup>. This correction is important because the service evidence does not support a conclusion that the Single RAB model has failed to deliver for consumers. Rather, it points to a more targeted issue: how the framework should support continued investment and service resilience at a mature, capacity-constrained hub.
- 5.8. As set out in Heathrow’s response to CAP3195, the current evidence base indicates strong recent performance: in 2025, 96% of passengers rated their journey Good or Excellent and 98% of passengers cleared security in under 5 minutes. In Q1 2026, security performance has moved up to 98.5% (vs 97.3% in Q1 2025) and Heathrow continues to lead European hubs for punctuality performance.
- 5.9. As the CAA continues to use Skytrax as part of its evidence base, it is also relevant that Heathrow rose to 16th in the 2026 World Airport Awards, ranked third globally for airport security screening, and was awarded World’s Best Airport for Shopping. While not a regulatory metric, this provides a further external indicator that Heathrow’s recent performance is inconsistent with a conclusion of sustained service decline.
- 5.10. This performance is also evident in the value Heathrow creates for airlines: airline revenues at Heathrow are around £27bn per year, approximately £12bn higher than the average across comparator hubs<sup>28</sup>. This is not itself a direct service-quality metric, but it is consistent with Heathrow’s continued attractiveness to passengers and airlines despite capacity constraints. It

<sup>25</sup> CAP3251, Para 1.24

<sup>26</sup> CAP3251, Para 3.49

<sup>27</sup> CAP3251, Para 2.67

<sup>28</sup> Airport IS 2025 FY / Fares exclude APD and taxes / All pax considered / GBP:EUR Exchange rate: 0.869

reinforces the need for the CAA's case for change to distinguish between targeted improvements to the framework and any suggestion that the existing model has failed to deliver value.

- 5.11. Heathrow has delivered these outcomes while operating at record passenger volumes and materially closer to capacity than most comparator airports. That context is essential: strong service performance in a highly constrained hub is not evidence of regulatory failure - it is evidence that the current integrated operating model has continued to deliver resilient outcomes under pressure.
- 5.12. However, while the CAA continues to argue that service quality has not yet fully recovered to pre-pandemic levels, caution should be exercised in the weight placed on cross-sectional benchmarking comparisons between airports. In particular, there are two important factors that warrant further consideration: first, the methodological differences between ASQ and Heathrow's QSM measures; and second, the relationship between post-Covid traffic recovery, capacity utilisation and passenger satisfaction outcomes.
- 5.13. The implication is that the CAA should be cautious about treating residual gaps in selected satisfaction metrics before and after Covid as evidence of model failure. The more plausible interpretation is that Heathrow is delivering strong service outcomes under unusually high capacity pressure, and that any remaining service risk is best addressed through sufficient investment and targeted framework enhancements.

#### Measurement of Service Quality Data:

- 5.14. Whilst ASQ is an important benchmarking metric, the survey only captures satisfaction with the departures leg of a passenger's journey thus not accounting for their arrivals experience and as a result only reflects part of the end-to-end airport experience.
- 5.15. Furthermore, ACI changed both the data collection mode and questionnaire content for Departures ASQ in 2022. The move from paper-based to tablet collection, combined with changes to question content and flow, creates a material break in the time series. As a result, comparisons between 2019 and 2025 should be treated with caution. They may reflect methodological change as well as underlying service performance. This does not mean ASQ should be disregarded. It means that ASQ should be used as one input among several, rather than as the principal basis for concluding that service has not recovered.
- 5.16. Heathrow's regulatory QSM measure, by contrast, captures both arrivals and departures performance and has remained methodologically consistent across the pre- and post-Covid periods, providing a more stable basis for comparison over time (Table 5).

Table 5: Heathrow QSM 2019-2025

| Year | Overall Passenger Satisfaction (Departures and Arrivals QSM Combined) |
|------|-----------------------------------------------------------------------|
| 2019 | 4.24                                                                  |
| 2022 | 4.19                                                                  |
| 2023 | 4.32                                                                  |
| 2024 | 4.33                                                                  |
| 2025 | 4.36                                                                  |

#### Traffic recovery and capacity utilisation:

5.17. The issue of traffic recovery and capacity utilisation is also an important factor in service quality comparisons. Many international hub airports are not directly comparable with Heathrow in terms of post-pandemic passenger satisfaction performance because they have not experienced the same pace of recovery in passenger volumes, nor are they operating as consistently close to declared capacity.

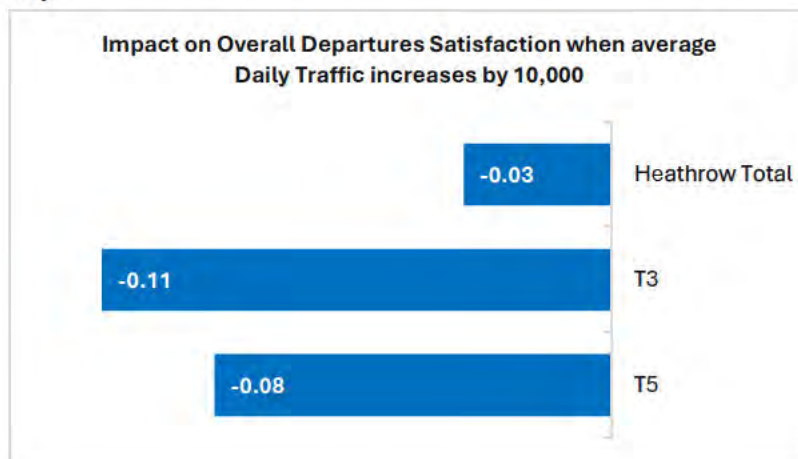


Figure 8: Impact on overall departures (Source: Heathrow Airport Departures QSM and passenger volumes Oct 23 – Sep 24)

5.18. The impact of increased passenger volumes in terminals close to their stated capacity particularly impacts the passengers' satisfaction with their departures journeys and as Heathrow has consistently highlighted there is a strong relationship between the congestion this causes and passenger satisfaction (Figure 8).

5.19. But perception of increased terminal congestion also impacts dwell behaviour and retail performance. For example, increases in the proportion of passengers reporting terminals as "very crowded" are associated with reductions in spend per passenger, particularly in impulse-driven retail categories. Passenger behaviour in these circumstances becomes more functional and seating-led, with reduced engagement in discretionary retail activity. More broadly, congestion can

adversely affect perceptions of comfort, ease of movement and overall journey quality, even where operational performance remains resilient.

- 5.20. Airports with greater spare capacity are inherently less exposed to the crowding, queueing and operational pressures that can negatively influence passenger feedback, even where the underlying quality of service has improved. Heathrow and Madrid are among the few major hubs to have exceeded 2019 passenger levels, with Heathrow simultaneously recording comparatively low year-on-year growth, reflecting the extent to which the airport is already capacity constrained (Table 6).

Table 6: Pre and Post Covid recovery vs capacity comparisons

|            | 2019              | 2024              | 2025              | 2024 v 2019   | 2025 v 2019   | 2024 > 2025 growth |
|------------|-------------------|-------------------|-------------------|---------------|---------------|--------------------|
| AMS        | 71,680,334        | 66,825,587        | 68,770,891        | 93.2%         | 95.9%         | 2.9%               |
| CDG        | 76,135,725        | 70,253,327        | 71,992,488        | 92.3%         | 94.6%         | 2.5%               |
| FRA        | 70,456,630        | 61,499,642        | 63,121,056        | 87.3%         | 89.6%         | 2.6%               |
| <b>LHR</b> | <b>80,957,079</b> | <b>83,859,729</b> | <b>84,463,061</b> | <b>103.6%</b> | <b>104.3%</b> | <b>0.7%</b>        |
| MAD        | 61,633,969        | 66,126,468        | 68,062,534        | 107.3%        | 110.4%        | 2.9%               |

- 5.21. Against this backdrop, there is a risk of a disconnect between the CAA's objective of improving passenger outcomes and the level of capital investment allowed through the price control. If the CAA is concerned that congestion may affect service quality, the primary response should be to ensure that Heathrow has sufficient investment to manage those pressures — not to infer that the underlying regulatory model has failed.

- 5.22. Under the proposed £5.8bn H8 investment envelope, Heathrow would be unable to progress a number of passenger experience initiatives needed to maintain and improve service quality in an increasingly capacity-constrained environment. Heathrow's analysis indicates that this would likely reduce Departures passenger satisfaction by approximately 0.06 points by 2031 relative to 2024 levels, returning scores towards levels last seen before the opening of Terminal 2 in 2014.

- 5.23. In short, the service-quality evidence supports better investment within the integrated model. It does not support structural fragmentation, which would add operational interfaces and weaken the integrated accountability needed to maintain service resilience at a constrained hub.

#### Airport Charges:

- 5.24. The CAA's revised benchmarking moves in the right direction, but it still does not provide a fully like-for-like basis for drawing broader conclusions about Heathrow's relative efficiency.
- 5.25. Heathrow welcomes the CAA reviewing the updated evidence on charges and making material adjustments to their charges gap vs other benchmarked airports. This shows a clear acknowledgement that local issues and environment have a significant impact on the level of airport charges.

5.26. Heathrow particularly welcome the update on the cost of construction that adjustments were “reasonable”, given this will be a clear and significant impact as the Expansion of the airport is delivered. However, there remain a number of areas where the treatment of the evidence in our KPMG commissioned report<sup>29</sup> does not fully capture the underlying drivers of Heathrow’s charges. Taken together, the adjustments set out in Figure 9 indicate a comparator difference of around £6.17 per passenger, illustrating that the remaining gap reflects structural and environmental factors rather than underlying inefficiency:

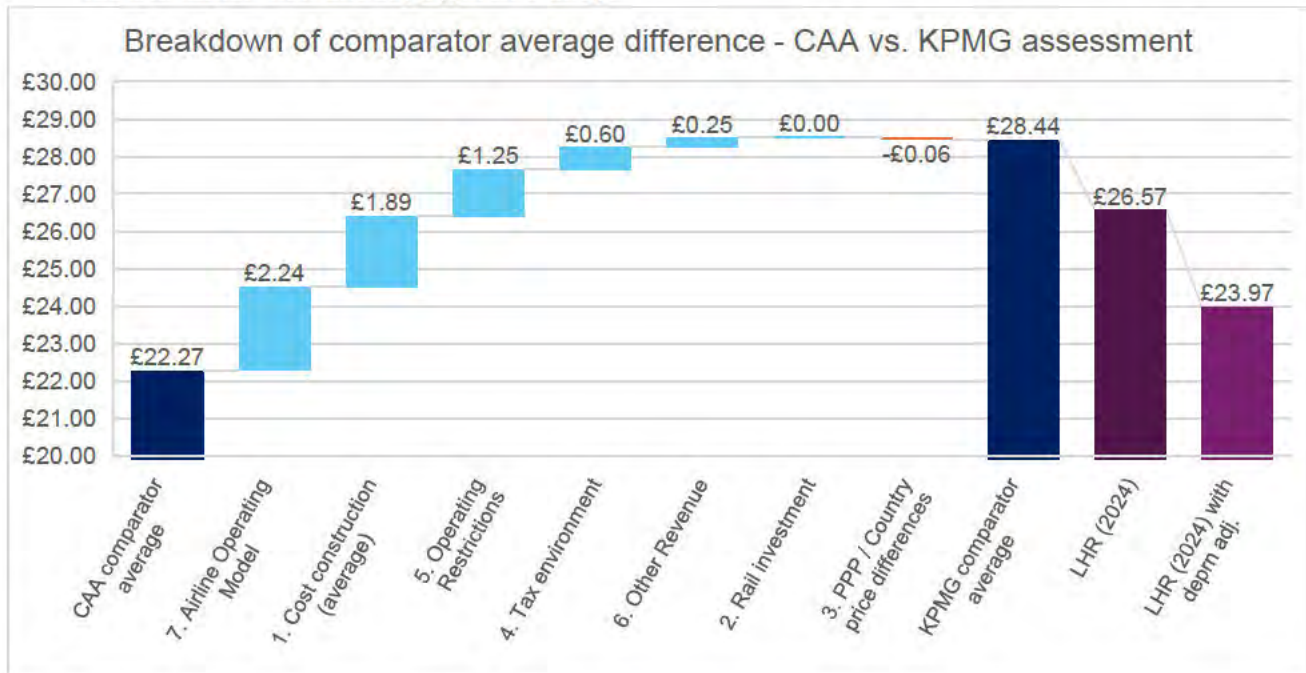


Figure 9: CAA comparator average vs. KPMG comparator average / Heathrow (2024 charges)

5.27. The differences are evidently not marginal. They arise from structural features of Heathrow’s operating and regulatory environment that materially affect charges per passenger. The most important are airline operating model effects, construction cost environment, operating restrictions, the removal of VAT-free shopping and historic regulatory depreciation. These factors should be recognised before drawing any broader conclusion about Heathrow’s efficiency or the need for structural reform.

Airline operating model ( difference vs. KPMG comparator average):

5.28. Heathrow welcomes the CAA’s acceptance that a higher proportion of widebody aircraft increases asset intensity and therefore costs per passenger. However, the current approach captures only part of the mechanism. The same operating model features also reduce passengers per movement. This is not a separate effect but a direct consequence of airline behaviour. Heathrow-style aircraft configurations<sup>30</sup> operate at lower seat density than comparators, around versus and narrowbody load factors are also lower, around versus up to These

<sup>29</sup> Available at [kpmg-airport-comparator-analysis-of-aeronautical-revenue-report.pdf](https://www.kpmg-airport.comparator-analysis-of-aeronautical-revenue-report.pdf)

<sup>30</sup> When measured as the Average Seat Kilometres relative to Equivalent Seat Kilometres (use of IBA.com data)

factors reduce passengers carried per movement and are the primary mechanism through which the operating model affects charges per passenger.

[REDACTED]

[REDACTED]

- 5.31. [REDACTED] the comparator average evidence show that lower passengers per movement drive a material increase in charge per passenger, of around £2 per passenger. Approximately 15% of this effect arises from load factor differences, with the remainder driven by seat configuration.
- 5.32. The CAA excludes this throughput effect on the basis that it is offset by Heathrow's scale. This does not hold in a capacity constrained hub. Heathrow operates under a binding movement cap, so lower passengers per movement cannot be offset through higher volumes and instead translate directly into higher unit costs.
- 5.33. This creates a structural inconsistency. The CAA accepts higher cost per movement from the operating model but assumes away the corresponding reduction in passengers per movement. In a constrained system, both effects operate in the same direction. Excluding throughput therefore removes a material driver of cost per passenger and risks understating the impact of the airline operating model.

*Cost of construction* ([REDACTED] difference vs. KPMG comparator average):

- 5.34. While the CAA accepts that construction costs are a material driver of airport charges, introducing Turner & Townsend alongside Arcadis risks creating an inconsistent blended approach without clear justification or weighting. Heathrow supports the CAA's conclusion that construction costs are a relevant driver, but the choice of index is critical to ensuring internally consistent, like-for-like benchmarking.
- 5.35. The issue is not whether Turner & Townsend is credible in isolation, but whether it supports a coherent framework. In this respect, it has limitations: it does not cover the full comparator set, requires backfilling from other indices, and spans a narrower range of building types than Arcadis. As a result, it does not provide a single, internally consistent dataset across all comparator airports.

- 5.36. This matters in an airport context, where asset bases extend beyond standard commercial buildings to include terminals, baggage systems, airfield infrastructure and complex engineering plant. Arcadis covers a broader mix of industrial, logistics and infrastructure assets, whereas Turner & Townsend is more weighted towards commercial and residential assets, reflecting a different asset focus.
- 5.37. These methodological differences lead to materially different outcomes. Turner & Townsend produces a comparator average c.£3.8 per passenger lower (around 13%), while the Arcadis 2016 index remains closely aligned to the 2024 baseline. It also produces different cross-market relativities. For example, New York shifts from an index value of 88 under Arcadis to 128 under Turner & Townsend, indicating a materially different set of cost relativities across cities.
- 5.38. Taken together, this evidence points to differences in underlying methodology rather than a single consistent view of construction cost environments. Combining indices therefore does not improve robustness; it risks blending structurally different methodologies into a single output that does not reflect any coherent cost environment, weakening the internal consistency of the analysis.
- 5.39. On that basis, Heathrow considers alternative indices are better used as sensitivities rather than core inputs. A single, consistent index such as Arcadis is required to ensure differences in charges reflect underlying cost environments rather than methodological choice.

*Operating restrictions* ( difference vs. KPMG comparator average):

- 5.40. Heathrow is concerned that the CAA's interpretation of operating restrictions places undue weight on observed utilisation and does not fully reflect how constraints operate in practice within a capacity-constrained hub.
- 5.41. The CAA's analysis suggests that reduced operating hours can be offset by operating more intensively within the remaining periods, such that overall utilisation, and therefore effective capacity, is not materially affected. This implicitly assumes a high degree of temporal substitutability in airport operations, i.e. that activity can be redistributed across time without loss of efficiency.
- 5.42. However, this assumption is limited in practice. Demand at a hub airport is not evenly distributed across the day and cannot be freely shifted into available periods. Operating restrictions constrain the available scheduling window and require activity to be redistributed across remaining periods, rather than being accommodated without cost. This is consistent with Department for Transport commissioned research (including the 2017 SYSTRA study), which explicitly models behavioural responses to restrictions, including changes in flight timing and demand, and therefore does not treat such restrictions as neutral in their impact.
- 5.43. While utilisation during permitted peak periods may be high, constraints on early morning and late evening operations reduce the ability to smooth demand across the day. In practice, this contributes to higher peak intensity and less efficient use of capacity overall, rather than

demonstrating that capacity is unaffected. More broadly, operating restrictions are recognised as measures that can reduce the operational capacity of an airport, reinforcing that their effects extend beyond simple re-timing assumptions.

- 5.44. In this context, high utilisation should be understood as a consequence of binding constraints rather than as evidence that those constraints have no impact. The system is operating at the limit of its available capacity during permitted hours, not demonstrating that capacity is unchanged.
- 5.45. This has direct implications for efficiency. The inability to spread movements more evenly across the day reduces scheduling flexibility, increases operational complexity, and limits the achievable passenger throughput from a given asset base. Airports with longer operating windows are better able to accommodate demand more evenly and make more effective use of infrastructure over time.
- 5.46. Against this backdrop, assuming that reduced operating hours can be offset through higher intensity risks overstating effective capacity and understating the impact of operating restrictions on Heathrow's performance. Without adjusting for these effects, comparisons with airports operating under materially different hour regimes are unlikely to be fully like-for-like.

*Tax environment* (difference vs. KPMG comparator average):

- 5.47. While the CAA accepts that structural tax differences, including the removal of VAT free shopping, are material and relevant, its treatment of this adjustment does not yet reflect the scale evidenced in Heathrow's commercial performance.
- 5.48. There is now clear and observable evidence of the impact since the removal of VAT free. Between 2019 (VAT free period) and 2024 (post-removal), spend per passenger in the most directly affected categories has reduced materially. In 2024 prices, World Duty Free spend has fallen from approximately [REDACTED] per passenger to [REDACTED] while Luxury retail has decreased from around [REDACTED] to [REDACTED] per passenger. These are categories most exposed to VAT free incentives and therefore provide a strong indicator of policy impact rather than underlying demand weakness.
- 5.49. In addition, Heathrow has lost the associated VAT refund income stream, estimated at approximately [REDACTED] per passenger. Taken together, these effects imply a total commercial revenue loss of around [REDACTED] per passenger (in 2024 prices) relative to the prior VAT free period.
- 5.50. At Heathrow's 2024 passenger volumes (c.83.9m passengers), this equates to an annual impact of approximately [REDACTED]. This materially exceeds the £100m estimate previously referenced and demonstrates that the effect is both significant and persistent.
- 5.51. Importantly, this is not a modelling assumption but an outcome observed in actual outturn data. The direction, magnitude and category concentration of the impact are all consistent with the removal of VAT free shopping, and there has been no equivalent structural change affecting comparator airports in the same way.

5.52. In this context, applying a blanket reduction to Heathrow's estimate on the basis of "uncertainty" is not supported by the available evidence. A more robust approach would recognise the empirical scale of the impact and reflect it appropriately within the benchmarking framework, or at a minimum set out clearly which elements of the estimate are considered uncertain and why.

5.53. Absent this, the current treatment risks materially understating a structural, policy driven difference in Heathrow's revenue base and distorting comparisons of airport charges.

*Depreciation* ( [REDACTED] structural impact not factored into Heathrow charges, rising to [REDACTED] ):

5.54. Historic regulatory depreciation choices materially affect Heathrow's current charges and should be accounted for when considering the efficiency of airport charges.

5.55. Heathrow considers that CAP3251 does not adequately reflect the material and ongoing impact of historic regulatory depreciation choices on current airport charges. This is not a benchmarking issue or a comparison with other airports. It is a direct consequence of decisions taken within the Heathrow regulatory framework.

5.56. The regulatory framework allows a real return on an inflating RAB. European airports generally allow a nominal return on fixed assets. In theory each approach should lead to the same NPV of charges, but the impact of the approaches can differ over time, particularly if regulatory depreciation is miscalibrated. For Heathrow, using figures from 2024 and the H7 determination, the charges based on a real return on RAB are [REDACTED] per passenger higher than they would be from a nominal return on fixed assets.<sup>31</sup> This difference has arisen as a result of choices on regulatory depreciation leading to higher RAB growth.

5.57. Regulatory depreciation is a policy variable determined by the regulator which governs the timing of cost recovery from consumers. It is not mechanically linked to asset lives, nor simply an accounting convention. Earlier price controls at Heathrow recovered capital at materially lower rates (c.2–3%), well below a steady-state level consistent with typical asset lives (c.20 years, or ~5% per annum). This deferred recovery allowed the RAB to build up over time, with a direct and enduring effect on charges today.

5.58. As a result, it is possible to directly link around [REDACTED] per passenger of this [REDACTED] effect as a consequence of lower depreciation since 2004. While depreciation may be neutral over the life of an asset in NPV terms, it is not neutral for consumers within any given control period. The profile of recovery matters on charges.

- 5.59. This is therefore not an exogenous or unexplained outcome; it is an intended consequence of the regulatory framework. In that context, suggestions that similar effects may exist elsewhere do not address the issue at hand. The relevant point is that Heathrow's current charges are demonstrably shaped by prior regulatory design choices within this framework.
- 5.60. Accordingly, any assessment of whether current and future charges are efficient, and in the interests of consumers, must explicitly recognise the structural impact of historic under-recovery. Failing to do so risks treating a policy-driven outcome as if it reflected underlying efficient costs. More fundamentally, it risks undermining the internal consistency of the RAB-based model itself, which relies on a predictable and stable approach to cost recovery over time. If the consequences of prior regulatory decisions are not recognised in the assessment of current charges, this risks weakening the consistency and predictability of the cost recovery framework that underpins investor confidence and the financeability of long-term infrastructure investment.

*Comparison to EU hubs (> 50m passengers):*

- 5.61. The KPMG evidence indicates that charges at European hub airports are materially above the average of the comparator set, with eurohubs (>50m passengers) identified as being c.19% above that average and around c.28% above Heathrow. In light of the adjustments outlined above, Heathrow asks the CAA to disclose how its updated benchmarking positions Heathrow relative to that comparator average.

Capital Efficiency:

- 5.62. On capital efficiency, the evidence remains too mixed and qualified to support a conclusion of broad structural inefficiency, particularly given Heathrow's demonstrated record of delivering major complex assets without the overruns commonly seen elsewhere.
- 5.63. Heathrow supports the CAA's recognition that "*in delivering Terminal 5 and Terminal 2, HAL avoided the substantial cost increases and/or extensive delays that have affected some other major investment projects*"<sup>32</sup>. This clarification is important. As Heathrow set out in its response to CAP3195, Bent Flyvbjerg's analysis of over 16,000 projects, which show that only 8.5% meet planned cost and time targets, and just 0.5% achieve cost, time, and benefit objectives together<sup>33</sup>. Against that benchmark, Heathrow's delivery of major, operationally complex airport infrastructure within a live hub environment is relevant evidence that should be given appropriate weight.
- 5.64. In that context, Heathrow does not consider that the evidence presented in CAP3251 supports a broad finding of structural capital inefficiency in the existing model. The evidence is mixed, highly context-specific and inherently difficult to interpret. In particular, the CAA's statement that "*even projects that are delivered "on budget" may still demonstrate some inefficiency if the original budget was relatively generous*"<sup>34</sup>, risks recasting successful historic delivery as evidence of

<sup>32</sup> CAP3251, Para 2.101

<sup>33</sup> Para 3.47 - [heathrow-response-to-cap3195-working-paper-on-regulatory-models-final-2- redacted.pdf](#)

<sup>34</sup> CAP3251, Para 2.101

inefficiency without clear evidence that the original budget was materially overstated relative to an efficient benchmark.

- 5.65. This matters for regulatory credibility. Long-term infrastructure investment depends on a predictable framework in which efficient delivery and financing decisions are assessed consistently over time. If successful historic delivery is retrospectively reframed as evidence of inefficiency without clear supporting evidence, that could weaken confidence in the regulatory framework and increase perceived regulatory risk. That, in turn, could raise financing costs and ultimately work against consumers' interests.
- 5.66. The appropriate conclusion is therefore more limited and more proportionate. Heathrow accepts that Expansion requires a higher-quality capital governance and incentive framework than the arrangements used for previous price controls. That is why Heathrow supports higher quality governance through the COG, better-calibrated incentives and greater transparency over scope, cost, risk and delivery assumptions – independently assured by the JIA. Those reforms respond directly to concerns about cost discipline and confidence in capital efficiency.
- 5.67. However, the evidence does not support a conclusion that the Single RAB model has failed, nor that structural fragmentation is required to protect consumers. Heathrow therefore considers that the CAA should revisit the capital efficiency conclusions before relying on them to support any material change in regulatory posture – for Expansion or otherwise. Any such conclusion should be grounded in clear, objective and compelling evidence of inefficiency, and should distinguish carefully between evidence of genuine inefficiency and evidence that historic outcomes reflect the regulatory framework, project complexity, risk allocation or budget-setting decisions made at the time.

## **ANNEX: Heathrow response to CAP3251 – CAA Shortlist of Regulatory Models**

## Annex I: Approaches to Long-Term Capital Planning in UK Regulated Sectors

### Introduction

This annex includes a high-level and thematic overview of regulatory precedent on long-term capital planning across key UK regulated sectors -namely rail, energy and water. It draws on evidence of how these sectors:

- structure long-term planning frameworks;
- involve stakeholders; and
- link long-term strategies to funding decisions and regulatory determinations.

The analysis highlights common principles relevant to the design of a proportionate and effective approach to long-term capital planning in the aviation sector.

### Cross-sector lessons for long-term capital planning

Regulatory precedent across UK infrastructure sectors demonstrates a high degree of consistency in how long-term capital planning is approached:

#### *Planning, engagement and decision-making*

- Long-term capital plans are developed by the regulated entity, often supported by an internal system-level planning functions.
- Stakeholders are engaged through structured consultation and scrutiny mechanisms, but do not hold formal approval or veto powers.
- Final decisions on investment and funding are taken by the regulated entity and/or the regulator, preserving clear accountability.

#### *Long-term planning horizons to inform price control periodic regulatory processes, not setting capital envelope*

- Regulated companies are typically required or incentivised to produce long-term strategies (20–30 years).
- However, these strategies do not directly determine funding outcomes, which are instead set through periodic regulatory processes.
- Regulatory determinations are primarily focused on defined control periods (typically five years).
- Long-term plans serve to frame and contextualise near-term investment decisions, rather than replace or override them.

#### *Incentivisation rather than enforcement of long-term planning*

- Regulatory frameworks include mechanisms to encourage robust long-term planning (e.g. incentives, scrutiny processes).
- Regulated companies accountable for delivering shorter term investment plans and required to ensure consistency with longer term investment planning at subsequent reviews.

#### *Implications for governance design*

Overall, precedent supports a model where:

- long-term plans provide strategic direction and coherence;

- separate and specific regulatory frameworks determine funding and delivery obligations; and
- stakeholder engagement is required but ultimate decision-making rests with company and the regulator, safeguarding accountability.

### **Rail sector**<sup>35</sup>

The rail sector provides an example of a structured, system-wide approach to long-term planning.

#### ***Planning framework***

- Network Rail's System Operator leads the Long-Term Planning Process (LTPP), which typically looks 30 years ahead.
- The LTPP integrates:
  - market studies (strategic demand requirements);
  - route studies (local infrastructure options); and
  - national strategies (cross-network priorities).
- Planning is based on whole-system modelling, assessing whether future needs are best met through operational optimisation or capital investment.

#### ***Stakeholder roles***

- The framework involves multiple actors:
  - Government (DfT/Transport Scotland) sets strategic outputs and funding envelopes (HLOS/SoFA);
  - ORR provides independent regulatory oversight and final determinations;
  - operators contribute demand inputs and operational requirements.
- Stakeholder input is integral, but funding decision-making authority remains with government and the regulator.

#### ***Link to funding decisions***

- The LTPP informs investment priorities, but funding decisions are made through five-year control periods.
- Investment plans are constrained by government funding settlements and regulatory determinations.

#### ***Summary:***

Rail demonstrates a model where centralised long-term system planning informs, but does not determine, periodic funding decisions.

### **Water sector (Ofwat)**<sup>36</sup>

The water sector illustrates a model based on adaptive long-term strategies aligned with periodic price reviews.

#### ***Planning framework***

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<sup>35</sup> This may evolve in the future in the context of ongoing rail reform.

<sup>36</sup> This considers the Periodic Review 2024 context

- Companies are required to produce Long Term Delivery Strategies (LTDS) over ~25 years.
- These strategies address systemic challenges (e.g. climate change, population growth) and are updated across regulatory cycles.
- Regulatory incentives (e.g. Business Plan Incentive) encourage high-quality long-term planning. However, Ofwat through the price control only makes a decision over the next 5 years of water business plans (e.g. not the whole LTDS). This means that LTDS are significantly less consequential than the shorter term investment that informs Ofwat price control decisions.

#### **Stakeholder roles**

- Companies undertake extensive engagement with customer groups and stakeholders.
- However, stakeholders:
  - provide input and challenge;
  - do not have formal decision-making authority within the regulatory process.

#### **Link to funding decisions**

- Ofwat determines funding primarily through five-year price reviews, focusing on the near term.
- LTDS:
  - set long-term direction;
  - but only the first five years are developed and funded in detail.
- Large or uncertain schemes may be addressed through separate processes or regulatory reopeners.
- Companies are rewarded and or penalise based on the quality of the LTDS, through regulatory mechanisms imposed by Ofwat

#### **Summary:**

Water demonstrates a two-tier framework, where long-term strategies guide direction but formal funding decisions remain short-term and regulator-led.

#### **Energy sector (Ofgem)**

The energy sector highlights a growing role for centralised strategic planning via NESO (government owned company) alongside regulated company plans.

#### **Planning framework**

- Core regulation is based on five-year price controls.
- The National Energy System Operator (NESO) develops a Centralised Strategic Network Plan (~25 years) to inform system-wide investment needs.

#### **Stakeholder roles**

- In price control decisions, engagement is formalised through mechanisms such as the Independent Stakeholder Group (ISG), which:
  - provides scrutiny and challenge;
  - ensures broad stakeholder engagement; and

- supports accountability for delivery.
- Nonetheless, decision-making authority remains with the company and Ofgem, not stakeholders.

***Link to funding decisions***

- Ofgem determines capital allowances through price control decisions (e.g. RIIO frameworks).
- Investment outcomes reflect an interaction between central planning (NESO), company proposals and regulatory judgement.

***Emerging direction***

- There is a trend towards greater centralisation of long-term planning, increasing the influence of system-wide strategies over time.

***Summary:***

Energy reflects a hybrid model, combining centralised system planning with company-led proposals and regulator-led funding determinations.

## **Annex II - ASTI case study: a highly relevant precedent for Heathrow Expansion**

### **Why ASTI is the most relevant precedent for Expansion**

Ofgem's Accelerated Strategic Transmission Investment (ASTI) framework is potentially the most relevant regulatory precedent for the CAA's consideration of Heathrow Expansion. ASTI addresses the same core regulatory challenge: how to regulate strategically important, time-critical infrastructure where consumer benefits depend primarily on timely and coordinated delivery.

ASTI was introduced because Ofgem concluded that standard regulatory arrangements were not well suited to a set of projects whose strategic importance, scale and delivery timetable meant that delay would impose material costs on consumers and the wider system. In response, Ofgem adapted its regulatory approach to better support delivery, while maintaining accountability and consumer protection.

This makes ASTI particularly relevant to Heathrow Expansion. In both cases, the regulatory task is not simply to identify an efficient framework in the abstract, but to put in place arrangements capable of supporting timely delivery of complex infrastructure, while preserving cost discipline and financeability. ASTI therefore represents more than an analogy: it is a practical example of a regulator exercising judgement to introduce a targeted development of its framework where conventional mechanisms were not best suited to the characteristics of the programme.

### **Key lessons from ASTI for Heathrow Expansion**

The relevance of ASTI lies in three closely related lessons that speak directly to the issues raised in CAP3251:

- Timely delivery can properly be treated as a core consumer interest. ASTI shows that where delay would materially harm consumers, regulators can legitimately place weight on delivery pace above cost efficiency, rather than treating timeliness as a secondary consideration.
- Competition was selectively rejected, reflecting a conscious choice to prioritise certainty and timely delivery. Under ASTI, Ofgem explicitly chose to prioritise delivery certainty and programme pace over introducing new delivery frameworks (such as CATO) or testing alternative promoters where these could increase fragmentation, delay or execution risk. Competition was therefore set aside where it could undermine coordinated delivery and consumer outcomes.
- Regulatory tools should be tailored to delivery requirements. ASTI demonstrates that incentives, funding mechanisms and scrutiny can be sequenced and adapted to project maturity, rather than applied through a one-size-fits-all model.

These principles are directly relevant to the CAA's assessment of Heathrow Expansion and align closely with the analytical direction set out in CAP3251.

### **Competition should be applied where it strengthens delivery**

A particularly important feature of ASTI is that Ofgem did not treat competition as an objective in its own right. Instead, it made an explicit judgement about where competitive processes were likely to enhance consumer outcomes, and where they might instead introduce delay, fragmentation or additional delivery risk.

This is not a rejection of competition. Rather, it reflects a pragmatic view that the benefits of competition depend on how and where it is applied. For certain strategically critical ASTI projects, Ofgem concluded that mandating additional competitive tendering or introducing new delivery entities could jeopardise delivery timelines and undermine consumer benefit. Exemptions from competitive tendering were used strategically to enable consumer benefits from infrastructure delivery.

The implication for Heathrow Expansion is clear. The question is not whether competition should be used, but where and how it should be used. Competition is most effective when it strengthens accountability and delivery, not when it fragments them. For Heathrow, this points towards competition being deployed by a single promoter primarily through a comprehensive and flexible procurement strategy, aligned with the wider delivery plan and critical path, rather than through rigid structural prescriptions. Heathrow is an informed client operating with the skill and acumen needed at this point in a programme, having in-depth understanding and long standing experience in deploying competitive procurement models – as described above in relation to Model 4a being consulted by the CAA.

### **Supporting timely and financeable delivery**

ASTI also illustrates how tailored regulatory tools can actively support timely delivery. In particular, the framework allows earlier access to funding through Pre-Construction Funding and Early Construction Funding, ahead of full planning consent. This reflects the practical reality that timely delivery depends on early mobilisation, including design development, surveys, land access, supply-chain engagement and preparatory works.

This is highly relevant to Heathrow Expansion. An effective procurement strategy depends not only on contract form, but on having the regulatory flexibility and funding support to sequence early activity efficiently. Without this, opportunities to reduce risk and improve delivery outcomes may be lost.

Crucially, ASTI does not relax cost discipline. Instead, it preserves accountability through clear guardrails:

- Pre-construction funding is tied to defined deliverables and subject to “use-it-or-lose-it” provisions;
- Early construction funding is capped and targeted at activities that materially reduce schedule risk; and
- Full cost efficiency scrutiny is applied later, at Project Assessment Stage, once designs are more mature and risks are better understood. A proportionate sharing mechanism applies, under which costs are shared within a defined band of  $\pm 5\%$  around the approved cost.

This sequencing shows how regulation can support pace and financeability without sacrificing consumer protection.

### **Incentives aligned with delivery, efficiency and consumer protection**

ASTI’s incentive regime reinforces the value of a bespoke and balanced approach. Ofgem combined a specific incentive linked to timely delivery with retained ex post efficiency scrutiny and consumer protections. This avoids the pitfalls of both overly protective regimes and high-powered challenge applied too early.

Ofgem introduced Output Delivery Incentives (ODIs) under ASTI to reflect the material costs that delivery delays can impose on consumers and the wider system. The ODIs link financial consequences directly to delivery timing, while incorporating safeguards to keep exposure proportionate and protect financeability. No penalties apply for the first 12 months after the target delivery date, recognising residual uncertainty in large projects; penalties accrue only thereafter, while rewards remain available for delivery up to 12 months after the target date. Aggregate rewards and penalties are capped at 10% of forecast project totex.

Alongside this, ASTI differentiates cost treatment across the lifecycle: Pre-Construction Funding (PCF) is capped and subject to use-it-or-lose-it provisions; Early Construction Funding (ECF) is capped but not subject to efficiency judgement, reflecting a deliberate choice to enable early mobilisation and reduce schedule risk; and full efficiency scrutiny is deferred to the Project Assessment Stage, where a proportionate sharing mechanism applies within a  $\pm 5\%$  cost variation band around the approved estimate.

### **Implications for Heathrow Expansion**

ASTI provides the clearest and most relevant precedent for the CAA's current decision-making. It shows how a regulator can take a balanced, evidence-based approach: supporting competition where it enhances outcomes, while recognising where alternative arrangements are more likely to secure timely delivery and protect consumers.

ASTI should not be viewed as a template to be replicated mechanically. Its value lies in the regulatory principles it illustrates, and in demonstrating that adapting the regulatory framework to the characteristics of a major infrastructure programme is both legitimate and practical.

For Heathrow Expansion, the central implication is that competition and efficiency are most likely to be secured through a single-promoter model supported by flexible, well-designed procurement, embedded within a bespoke regulatory framework that reflects the programme's scale, risk profile, interfaces and financeability requirements.

### Annex III – Approach and Considerations for Procurement Strategy:

Annex III supports Heathrow's response on Models 4a, 4b and 5b by setting out the procurement toolkit through which competitive tension and third-party capability can be applied in practice.

- For Model 4a, it shows the range of procurement routes available to Heathrow and therefore the type of evidence that the CAA, COG and JIA could scrutinise when assessing whether Heathrow's procurement strategy is robust, market-tested and aligned with consumer value.
- For Models 4b and 5b, it demonstrates why Design & Build and Design, Build & Operate should be treated as important tools within that wider toolkit, rather than as default or mandated solutions. The appropriate procurement route will depend on the characteristics of the asset or package, including design maturity, separability, operational interface, market appetite, critical-path impact, risk allocation and whole-system value for consumers.

This annex therefore provides the practical bridge between enhanced scrutiny under Model 4a and the selective, evidence-led application of Models 4b and 5b within an integrated owner-operator framework.

Table 7: Heathrow's procurement toolkit

| Delivery Model                                                           | Key Characteristics                                                      | Pros                                                                                                                                                                                                                 | Cons                                                                                                                                                                                          | Typical Industry Examples                                                                                                                                                                                                                                                                       | Notes / Evidence                                                                                         |
|--------------------------------------------------------------------------|--------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| Traditional<br>(Requirements → Design → Build)                           | Sequential design then construction; full design completed before tender | <ul style="list-style-type: none"> <li>• Strong client control over design</li> <li>• Clear accountability split</li> <li>• Competitive tendering on complete design</li> </ul>                                      | <ul style="list-style-type: none"> <li>• Limited contractor buildability input</li> <li>• Longer programme duration</li> <li>• Higher risk of variations/claims due to design gaps</li> </ul> | <ul style="list-style-type: none"> <li>• Havant Thicket Reservoir (UK) – delivered via a fully designed brief before major works tendering.</li> <li>• Many office, commercial and public-sector building projects – traditional procurement widely used in London &amp; South East.</li> </ul> | Traditional DBB is widely used for projects where a complete client design is required before tendering. |
| ECI<br>(Requirements → Design → Early Contractor Involvement → Delivery) | Contractor engaged early to influence design and delivery strategy       | <ul style="list-style-type: none"> <li>• Better risk visibility and cost accuracy</li> <li>• Improved buildability and innovation</li> <li>• Reduced re-design and smoother delivery for complex projects</li> </ul> | <ul style="list-style-type: none"> <li>• Longer and more resource-intensive procurement</li> <li>• Reduced price competition at construction stage</li> </ul>                                 | <ul style="list-style-type: none"> <li>• HS2 (UK) – government advocates ECI to improve value for money and early risk visibility.</li> <li>• Ministry of Justice “New Prisons Programme” – uses early supply chain involvement to develop delivery models.</li> </ul>                          | ECI commonly applied on complex, high-risk programmes needing early contractor input.                    |

|                                        |                                                                        |                                                                                                                                                                                                                      |                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                   |                                                                                                          |
|----------------------------------------|------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
|                                        |                                                                        |                                                                                                                                                                                                                      | <ul style="list-style-type: none"> <li>• Requires mature client governance</li> </ul>                                                                                                                           |                                                                                                                                                                                                                                                                                   |                                                                                                          |
| Design & Build<br>(Requirements → D&B) | Single contractor responsible for both design and construction         | <ul style="list-style-type: none"> <li>• Single point of responsibility</li> <li>• Faster delivery via overlapping stages</li> <li>• Contractor optimises design for cost/constructability</li> </ul>                | <ul style="list-style-type: none"> <li>• Limited client influence once awarded</li> <li>• Design optimisation may compromise quality/functionality</li> <li>• Changes later are costly and difficult</li> </ul> | <ul style="list-style-type: none"> <li>• Multiple DBIA Award-winning D&amp;B projects in the US, e.g., WSU Cultural Hub; demonstrates global adoption.</li> <li>• Tideway Tunnel (UK) – major tunnelling works delivered with integrated design–construction packages.</li> </ul> | D&B widely used for large infrastructure packages where single-point accountability is beneficial.       |
| Alliance / Integrated Delivery Model   | All parties share risks, rewards, KPIs and act as one integrated team  | <ul style="list-style-type: none"> <li>• Highly collaborative, innovation-friendly</li> <li>• Best for complex/uncertain mega-projects</li> <li>• Reduces adversarial behaviour and improves transparency</li> </ul> | <ul style="list-style-type: none"> <li>• Requires high behavioural maturity</li> <li>• Complex governance structures</li> <li>• Commercial outcomes less certain upfront</li> </ul>                             | <ul style="list-style-type: none"> <li>• Heathrow Terminal 5 (UK) – large, complex programme delivered using a partnering/alliance-style model.</li> <li>• Helsinki Light Rail Line 15 (Finland) – completed early and under budget using the Alliance Model.</li> </ul>          | Alliance models are effective for mega-projects with high uncertainty and multi-stakeholder integration. |
| Construction Management (CM)           | Client directly appoints trade contractors; CM manages and coordinates | <ul style="list-style-type: none"> <li>• Fast-track; design and construction overlap</li> <li>• High client control and transparency</li> <li>• Flexible procurement of packages</li> </ul>                          | <ul style="list-style-type: none"> <li>• Client holds majority of cost/schedule risk</li> <li>• Heavy client management burden</li> <li>• More interfaces = more coordination risk</li> </ul>                   | <ul style="list-style-type: none"> <li>• Widely used in UK refurbishment and redevelopment projects – CM used where early start on site is needed and packages are directly let.</li> </ul>                                                                                       | CM suits projects with fast-track requirements and heavy client control over trade packages.             |
| Management Contractor (MC)             | Management contractor procures/manages packages on client's behalf     | <ul style="list-style-type: none"> <li>• Buildability input early</li> <li>• Faster mobilisation</li> <li>• Good for evolving or partially defined designs</li> </ul>                                                | <ul style="list-style-type: none"> <li>• Client retains cost risk</li> <li>• Higher management overheads</li> <li>• Dependent on strong collaboration and integration</li> </ul>                                | <ul style="list-style-type: none"> <li>• Royal Liverpool Hospital (UK) – cited as a managing contractor–delivered project.</li> <li>• Large time-critical projects requiring early start on site, as noted in Eversheds Sutherland guidance.</li> </ul>                           | MC is used for complex, evolving projects where early management contractor involvement is valuable.     |

## Annex IV – Further detail on Models 4B and 5B

Heathrow's substantive position on Models 4b and 5b is set out in the main body of this response. In summary, Heathrow supports the targeted use of D&B, DBO, joint venture and other third-party delivery structures where they can improve whole-system consumer value, but does not support their mandated application across broad asset classes.

The purpose of this annex is narrower: to set out the proposed gating framework for assessing asset suitability. The framework would be applied through the business plan process, with appropriate scrutiny from the CAA, the Capital Oversight Group and Joint Independent Assurance. It is intended to ensure that any use of Models 4b and 5b is evidence-led, asset-specific and consistent with safe, timely, resilient and financeable delivery of Expansion.

The assessment should proceed in two stages. Gate 1 is a threshold screen, testing whether an asset is capable of being considered for third-party delivery. Gate 2 then tests whether third-party delivery would in practice be efficient, financeable, deliverable and in consumers' interests.

### Gate 1 — threshold tests

An asset should proceed to detailed assessment only if it passes all three Gate 1 tests:

- **Separability:** the asset can be clearly defined and delivered without unacceptable interfaces with Heathrow's existing or future operations, including safety, security, operational resilience, land strategy and system integration.
- **Critical path:** the procurement, mobilisation and delivery of the asset through a third-party model would not introduce material risk to the Expansion timetable, including Government milestones for runway delivery and associated infrastructure.
- **Efficient risk ownership:** the relevant delivery, interface and operational risks can be more efficiently managed by a third party than by Heathrow as integrated owner-operator.

If an asset fails any Gate 1 test, full third-party delivery is unlikely to be appropriate. More limited forms of third-party involvement — such as design input, specialist delivery packages, long-term partnerships or joint ventures — may still be considered.

### Gate 2 — detailed value tests

Where an asset passes Gate 1, Heathrow would then assess whether third-party delivery remains justified in practice, having regard to:

- **Market credibility:** whether there is a credible market with the capability, appetite and financial capacity to deliver the asset under the required performance, interface and resilience obligations.
- **Net consumer value:** whether expected efficiency, innovation, quality or financing benefits outweigh transaction costs, risk pricing, interface management costs, contract management costs and any impact on airport charges.

- **Service and resilience:** whether third-party delivery would preserve or improve passenger outcomes, operational resilience, safety, security, accountability and Heathrow's ability to manage the airport as an integrated system.

For avoidance of doubt, passing Gate 1 should not create a presumption of third-party delivery. It should simply mean that the asset merits more detailed testing against the Gate 2 criteria.

Table 8 below provides a preliminary qualitative illustration of how the framework could apply across selected asset classes. It is not a final asset allocation or procurement decision. The detailed assessment would be developed through Heathrow's business plan, informed by market testing, programme design, financing analysis and scrutiny through the CAA, COG and JIA.

## Preliminary suitability assessment for delivery through Models 4b and 5b

Table 8: Preliminary qualitative assessment of asset suitability for alternative delivery schemes in Expansion: *Good* / *Medium* / *Poor*

| Masterplan element                    | GATE 1                                                                                                                                                                     |                                                                                                                                                                       |                                                                                                                                                | GATE 2                                                                                                                                                          |                                                                            |                                                                                                                                                                                       |
|---------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                       | Is the project discrete and separable from the current Heathrow operation?                                                                                                 | Would implementing alternative delivery impact completing the Expansion programme by the Government's timeline ambition?                                              | Is Heathrow best placed to manage risk as an integrated owner-operator?                                                                        | Does the cost of commissioning the project through a competitive delivery mechanism outweigh the potential benefits of external delivery?                       | Is there/ is there likely to be a market for delivery of the project?      | Are delivery and operation of the asset so fundamental to the customer experience or to operational resilience that Heathrow should retain a greater degree of direct responsibility? |
| Perimeter commercial property         | Highly separable, predominantly landside, with limited operational interface. Masterplan confirms lower dependency on core airport systems and flexibility in phasing.     | Not on critical path; can proceed in parallel or independently. UK experience (e.g. station over-site developments) shows low schedule interference when ring-fenced. | Delivery and commercial risk transferable with governance. Risk profile similar to commercial real estate rather than aviation infrastructure. | Strong value case: off-RAB funding, risk transfer, and access to specialist developers. Aligns with UK trend of leveraging private capital for non-core estate. | Highly liquid UK real estate market with strong Heathrow adjacency demand. | Low operational criticality; benefits (income, quality) can be realised without Heathrow retaining delivery control.                                                                  |
| Terminal Adjacent commercial property | Not separable from current operation, history of equivalent sites at T2 and T5 implies significant challenge of managing demand alongside existing operational priorities. | Not on critical path but construction of sites likely to interfere with development of critical phases.                                                               | Delivery and commercial risk more difficult to transfer given complex interfaces with congested terminal areas.                                | Strong value case: off-RAB funding, risk transfer, and access to specialist developers. Aligns with UK trend of leveraging private capital for non-core estate. | Highly liquid UK real estate market with strong Heathrow adjacency demand. | Reputational management as they form fabric of wider Heathrow place-making, would benefit from some Heathrow involvement in operation.                                                |

| Masterplan element | GATE 1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                 | GATE 2                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                    | Is the project discrete and separable from the current Heathrow operation?                                                                                                                                                                                                                                                                                                                                                                                                                                 | Would implementing alternative delivery impact completing the Expansion programme by the Government's timeline ambition?                                                                                                                                                                                                                                                                                                                                                                                                       | Is Heathrow best placed to manage risk as an integrated owner-operator?                                                                                                                                                                                                                                                         | Does the cost of commissioning the project through a competitive delivery mechanism outweigh the potential benefits of external delivery?                                                                                                                                               | Is there/ is there likely to be a market for delivery of the project?                                                                                                                                                                                                                                                                 | Are delivery and operation of the asset so fundamental to the customer experience or to operational resilience that Heathrow should retain a greater degree of direct responsibility?                                                                                                                                                                                                                                                                                                                          |
| Cargo area         | <p>To be assessed case-by-case - cargo area projects likely to be partially separable from current Heathrow operations.</p> <p>DBO approach would require consideration of appropriate phasing (e.g. decommissioning existing infrastructure or constructing new infrastructure) where critical interfaces with existing cargo operations, wider airport operations and airport traffic exist.</p> <p>Need to structure this upfront may increase delivery complexity of implementing a DBO structure.</p> | <p>Cargo infrastructure, facilitating capacity growth, plays a key role in supporting Expansion and Government trade ambitions.</p> <p>Phasing would need to ensure impacts to existing cargo operations are minimised and delivery risk created from the complexity of implementing DBO structure would not materially detriment ability to maximise the benefits of a third runway upon completion.</p> <p>Delays to delivery of cargo infrastructure would impact business case for the Government's timeline ambition.</p> | <p>While delivery risk could beneficially be transferred, Heathrow would retain systemic integration risk. Regulated operators typically retain core system risk.</p> <p>Hybrid approaches such as joint ventures may provide a more effective balance between competition, control and deliverability for this asset type.</p> | <p>A cargo DBO model could reduce costs and improve value if it delivers capacity when needed. But DCO construction logistics are assessed against overall limits – passing this on under DBO could constrain the wider programme, increasing costs and reducing benefits elsewhere</p> | <p>There is an, albeit limited, market of specific cargo facility developers, in which there is evidence of competitive interest for delivery.</p> <p>Cargo handling facilities also share many characteristics with the industrial shed logistics sector, for which there is also evidence of a competitive market for delivery.</p> | <p>Given the airside-landside nature of cargo development it is unlikely a typical industrial developer has developed – or has a supply chain experienced in – the complexities of airside delivery. This could be mitigated if Heathrow, or Heathrow's Propco, were partners in the design and delivery.</p> <p>A cargo-specific developer is likely to have more expertise in this area. Again, this could be further strengthened through a partnership arrangement with Heathrow or Heathrow's Propco.</p> |

| Masterplan element                                                      | GATE 1                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                             | GATE 2                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                    |                                                                                                                                                                                                                                                                                           |
|-------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                         | Is the project discrete and separable from the current Heathrow operation?                                                                                                                                                                                                                | Would implementing alternative delivery impact completing the Expansion programme by the Government's timeline ambition?                                                                                                                              | Is Heathrow best placed to manage risk as an integrated owner-operator?                                                                                                                                                                                                                                                                                     | Does the cost of commissioning the project through a competitive delivery mechanism outweigh the potential benefits of external delivery?                                                                                                                                                                                                         | Is there/ is there likely to be a market for delivery of the project?                                                              | Are delivery and operation of the asset so fundamental to the customer experience or to operational resilience that Heathrow should retain a greater degree of direct responsibility?                                                                                                     |
| <b>Car parks</b><br>New northern and southern airport parking provision | Car parks are largely separable, with precedent for third-party operation and clear asset boundaries. However, Heathrow experience highlights very high interface complexity (200+ interfaces at T4) and integration with terminals, people movers and ops centre limits clean carve-out. | Early phases (e.g. Southern Parkway) sit on the critical path to terminal Expansion, constraining DBO use. UK programmes show interface-led delay risk when layering delivery models late. Later, more peripheral phases are less schedule-sensitive. | While delivery risk could be transferred, Heathrow retains systemic integration risk (traffic, passenger flows, operations). Regulated operators typically retain core system risk (e.g. rail stations, motorway junctions). Hybrid approaches such as joint ventures may provide a more effective balance between competition, control and deliverability. | Mature market, lifecycle optimisation potential, and established third-party operations. Comparable to UK MSCP concessions where DBFO-style models deliver efficiency. However, as parkway assets are delivered progressively, a DBO approach would also require phasing and interfaces to be structured upfront, increasing delivery complexity. | Competitive investor/operator market (property/infrastructure funds, parking operators) with DBO capability and financing appetite | Important for passenger experience, but not mission-critical to airfield operations. Risk manageable through contractual KPIs, unlike core airside assets. Hybrid approaches such as joint ventures may provide a more effective balance between competition, control and deliverability. |

| Masterplan element                                                             | GATE 1                                                                                                                                                                        |                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                   | GATE 2                                                                                                                                                                                                                                                                                                        |                                                                                                              |                                                                                                                                                                                       |
|--------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                | Is the project discrete and separable from the current Heathrow operation?                                                                                                    | Would implementing alternative delivery impact completing the Expansion programme by the Government's timeline ambition?                                             | Is Heathrow best placed to manage risk as an integrated owner-operator?                                                                                                                                                                                                                                                                           | Does the cost of commissioning the project through a competitive delivery mechanism outweigh the potential benefits of external delivery?                                                                                                                                                                     | Is there/ is there likely to be a market for delivery of the project?                                        | Are delivery and operation of the asset so fundamental to the customer experience or to operational resilience that Heathrow should retain a greater degree of direct responsibility? |
| <b>Surface access – Highways</b><br>New roads, diversions and M25 enhancements | Highly integrated with airfield Expansion, terminals, and national networks (M25). Interfaces with multiple stakeholders (DfT, National Highways) increase complexity.        | Core critical path to runway opening; UK major projects consistently show highways enabling works must remain tightly controlled to avoid programme slippage.        | National Highways (NH) will have to be central in delivery. This should be a multiparty endeavour but NH have better understanding of delivery and integration of this type of scheme. The same for the local roads with TfL / Local Borough's. Multi-party governance (as seen on RIS and HS2 interfaces) increases delivery friction under DBO. | High transaction and coordination costs outweigh benefits. Evidence suggests limited efficiency gain vs integrated delivery for complex enabling works.                                                                                                                                                       | Capability exists, but complexity and approval dependencies reduce bidder appetite and increase risk premia. | Mission-critical for access, safety and resilience. Failures directly impact national infrastructure performance; typically retained by asset owners in regulated sectors.            |
| <b>Surface access – Rail</b><br>New rail links to an expanded Heathrow         | Structurally separable but heavily interface-driven (Network Rail, TfL, Heathrow station systems, and life-safety infrastructure. Requires complex contractual pass-throughs. | Less directly on runway critical path, but tightly linked to ANPS mode share commitments and DCO surface access modelling, requiring Heathrow control over outcomes. | Promoting the rail scheme directly strengthens Heathrow's EH Surface Access strategy in view of ANPS mode share targets, meaning Heathrow may need full control of all mode share levers. DCO conditions could also set timelines for new rail connection.                                                                                        | Potential financing benefits (as seen in regulated rail concessions), but significant risk premiums reduce net value. There is unlikely to be a viable business case for a third party to build a rail scheme to Heathrow without a significant contribution by Heathrow (under CAA's surface access policy). | Some investor interest, but contingent on subsidies/guarantees due to weak standalone business case.         | High importance for mode shift, sustainability, and passenger experience; failure impacts regulatory outcomes, suggesting retained influence is required to some degree.              |

| Masterplan element                                                                          | GATE 1                                                                                                                                       |                                                                                                                                              |                                                                                                                                                                                                                           | GATE 2                                                                                                                                    |                                                                                                            |                                                                                                                                                                                       |
|---------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                             | Is the project discrete and separable from the current Heathrow operation?                                                                   | Would implementing alternative delivery impact completing the Expansion programme by the Government's timeline ambition?                     | Is Heathrow best placed to manage risk as an integrated owner-operator?                                                                                                                                                   | Does the cost of commissioning the project through a competitive delivery mechanism outweigh the potential benefits of external delivery? | Is there/ is there likely to be a market for delivery of the project?                                      | Are delivery and operation of the asset so fundamental to the customer experience or to operational resilience that Heathrow should retain a greater degree of direct responsibility? |
| <b>Natural environment</b><br>River diversions and enhancements to the natural environment. | Highly integrated across all assets (drainage, rivers, floodplains, compliance). Cannot be cleanly separated without affecting wider system. | Critical path for consenting and runway delivery (e.g. river diversions). UK NSIP experience shows environmental works drive programme risk. | Heathrow must retain control to manage regulatory compliance, environmental commitments and stakeholder scrutiny. Lessons from Water Sector regarding inability to transfer license conditions (regulatory requirements). | No clear commercial upside; DBO unlikely to deliver cost or performance benefits vs integrated approach.                                  | Supply chain exists, but not in a commercially investable DBO format (non-revenue generating asset class). | Essential for regulatory compliance, flood resilience, and licence to operate; failure jeopardises whole programme.                                                                   |