

H8 Price Control Review – Initial Proposals

Appendices A Statutory Duties and B Glossary

CAP3232D

Contents

Published by the Civil Aviation Authority, 2026

Civil Aviation Authority
Aviation House
Beehive Ring Road
Crawley
West Sussex
RH6 0YR

You can copy and use this text but please ensure you always use the most up to date version and use it in context so as not to be misleading, and credit the CAA.

First published March 2026

Enquiries regarding the content of this publication should be addressed to: economicregulation@caa.co.uk

The latest version of this document is available in electronic format at: www.caa.co.uk

Contents

Appendix A	4
Our duties	4
Appendix B	6
Glossary	6

APPENDIX A

Our duties

- A1 The CAA is an independent economic regulator. Our duties in relation to the economic regulation of airport operation services (“AOS”), including capacity expansion, are set out in the CAA12.
- A2 CAA12 gives the CAA a general (“primary”) duty, to carry out its functions under CAA12 in a manner which it considers will further the interests of users of air transport services regarding the range, availability, continuity, cost and quality of AOS.
- A3 CAA12 defines users of air transport services as present and future passengers and those with a right in property carried by the service (i.e. cargo owners). We often refer to these users by using the shorthand of “consumers”.
- A4 The CAA must also carry out its functions, where appropriate, in a manner that will promote competition in the provision of AOS.
- A5 In discharging this primary duty, the CAA must also have regard to a range of other matters specified in the CAA12. These include:
- the need to secure that each licensee is able to finance its licensed activities;
 - the need to secure that all reasonable demands for AOS are met;
 - the need to promote economy and efficiency on the part of licensees in the provision of AOS;
 - the need to secure that the licensee is able to take reasonable measures to reduce, control and/or mitigate adverse environmental effects;
 - any guidance issued by the Secretary of State or international obligation on the UK notified by the Secretary of State; and
 - the Better Regulation principles.
- A6 CAA12 also sets out the circumstances in which we can regulate airport operators through an economic licence. In particular, airport operators must be subject to economic regulation where they fulfil the Market Power Test as set out in CAA12. Airport operators that do not fulfil the Test are not subject to economic regulation. As a result of the market power determinations we completed in 2014 both HAL and GAL are subject to economic regulation.

- A7 We are only required to update these determinations if we are requested to do so and there has been a material change in circumstances since the most recent determination. We may also undertake a market power determination whenever we consider it appropriate to do so.

APPENDIX B

Glossary

B1 The terms used in this document are arranged in the following groups:

- legislation and regulatory processes;
- price controls;
- stakeholders;
- CAA documents – in chronological order;
- stakeholder documents;
- financial;
- capex-related; and
- recurring terms.

Legislation and regulatory processes

Acronym / term	Description
ACR2011	The Airport Charges Regulations 2011 (S.I. 2491/2011)
AOS	Airport Operation Services, defined in section 68 CAA12.
Better Regulation Principles	The principles to which the CAA must have regard under section 1(3)(g) CAA12 and set out in subsection 1(4) CAA12
CAA12	The Civil Aviation Act 2012
CE	Constructive Engagement: a CAA-mandated process that requires the airport operator to discuss its business plan with the airlines before the CAA develops its proposals for the relevant price control.
CMA	The Competition and Markets Authority
Companies Act 2006	The Companies Act 2006
Consumers	“Users” are defined in section 69 CAA12 as passengers and those with “a right in property” (cargo) carried by air transport services and include future users.
The Licence	The licence granted to Heathrow Airport Limited by the Civil Aviation Authority under section 15 CAA12 on 13 February 2014.
S factor	The security factor in the price control formula that allows a partial pass-through of costs resulting from changes to security standards

Price controls

Acronym / term	Description
Q5	Q5 was the price control for the period from 2008 to 2013, the approach to which was subsequently extended to cover January to March 2014.
Q6 / Q6 price control	Q6 was the price control for the period from 2014 to 2018, the approach to which was successively extended to cover 2019 and 2020 to 2021.
Airline Alternative Plan	Submitted by Heathrow in October 2025
H7	The price control period for Heathrow from 1 January 2022 until 31 December 2026.
iH7	The interim H7 price control, running from 1 January 2020 until 31 December 2021.
H8	The new five-year price control period from 1 January 2027 to 31 December 2031
H8 Business Plan	HAL's business plan.
H8 Method Statement	This document confirms the timeline for the H8 price control and the broad approach to setting that review.
PR19	The five-year price control settlement for water companies in England and Wales for 2020-2024. Ofwat's decision published in December 2019 can be found at: www.ofwat.gov.uk/wp-content/uploads/2019/12/PR19-final-determinations-Overview-of-final-determinations.pdf
RP3	The NATS En Route plc (NERL) Reference Period 3 price control that was originally expected to run from 1 January 2020 to 31 December 2024.

Stakeholders

Acronym / term	Description
AOC/LACC	Airline Operators' Committee (for Heathrow) / London (Heathrow) Airline Consultative Committee, set up by IATA to implement a collaborative consultation framework for Heathrow airport.
ARORA	The Arora Group
BA/IAG	British Airways plc/International Airlines Group (owner of British Airways).
BA	British Airways.
CAA ("us"/"we")	The Civil Aviation Authority.

CAA Consumer Panel	A non-statutory body established to act as a “critical friend” to the CAA. It provides expert advice to make sure that the consumer interest remains central to CAA policy development
CEPA	Cambridge Economic Policy Associates.
EE	Europe Economics.
FE	Frontier Economics
FTI Consulting	Advisors on WACC
HAL	Heathrow Airport Limited, the licence holder and operator of Heathrow airport.
HPF	Heathrow Passenger Forum.
IATA	International Air Transport Association, a global trade association representing airlines.
LACC	London (Heathrow) Airline Consultative Committee, set up by IATA to implement a collaborative consultation framework for Heathrow airport.
NERL	NATS En Route plc.
Skylark	A management consultancy advising airlines on H8 issues
STEER	A management consultancy advising the CAA on H8 issues
OXERA	Independent economics consultancy.
UKRN	UK Regulators Network – a group of economic regulators that promotes collaboration and consistency across regulated sectors.
VAA	Virgin Atlantic Airways.
YA	York Aviation

CAA documents – in chronological order

Acronym / term	Description
The Grant of HAL’s Licence	CAP1151 “The granting of the licence for the economic regulation of Heathrow Airport, including price control of airport charges, from April 2014”. See www.caa.co.uk/CAP1151 .
The December 2016 Consultation	CAP1476 “Future of service quality regulation for Heathrow Airport Limited: Consultation on the design principles for a more outcome-based regime”. See: www.caa.co.uk/cap1476 .
Final Proposals	This document: CAP2365 “Economic regulation of Heathrow Airport Limited: H7 Final Proposals” June 2022. See www.caa.co.uk/CAP2365

Acronym / term	Description
Guidance on Other Regulated Charges	CAP2591: "H7 Guidance on Other Regulated Charges (ORC) protocols and dispute resolution for Heathrow Airport" September 2023. www.caa.co.uk/CAP2591
H7 Final Issues - Consultation	CAP2890: "Economic Regulation of Heathrow Airport: H7 final issues2 March 2024 www.caa.co.uk/CAP2980
H7 Final Issues Decision	CAP3001: "Economic Regulation of Heathrow airport: H7 final issues – decision" July 2024. www.caa.co.uk/CAP3001
H7 Terminal Drop-Off Charge (TDOC)	CAP3071: "H7 TDOC revenue allowances review consultation" December 2024. www.caa.co.uk/CAP3071
CAA Views on H7 TDOC	CAP3100: "H7 TDOC revenue allowances review – CAA views following consultation (April 2025). www.caa.co.uk/CAP3100
OBR Mid-Term Review Consultations	CAP3073: "Initial Proposals" January 2025. www.caa.co.uk/CAP3073 CAP3108: "Final Proposals" July 2025. www.caa.co.uk/CAP3108 CAP3187: "Decision on Mid-Term Review" November 2025 www.caa.co.uk/CAP3187

Stakeholder documents

Acronym / term	Description
BPI	Business Plan Incentive
FTI Report	Report on the WACC by FTI
Modernising Heathrow Programme	Programme to upgrade Heathrow's existing terminals, baggage systems, ground-operations technology, and central infrastructure.

Acronym / term	Description
PR24 Provisional Determination	Draft regulatory decision issued by Ofwat as part of the 2024 Price Review (PR24).

Financial

Acronym / term	Description
Asset Beta	Used to estimate the cost of equity within the WACC
CAPM	Capital Asset Pricing Model
CPI	Consumer Price Index
CPIH	The Consumer Prices Index including owner-occupied housing costs
Cost of Embedded Debt	Considered separately from cost of new debt
Cost of Equity	Estimated using the CAPM and forms part of the WACC
Debt Risk Premium (DRP)	DBR forms part of the cost of debt within the WACC.
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortisation
Equity Beta	Company specific estimate of risk relative to the whole market
Equity Risk Premium (ERP)	A key input to the CAPM and used to estimate the cost of equity within the WACC.
FFO	Funds From Operations
FTSE100	Financial Times Stock Exchange 100 Index
iBoxx indices	The Markit iBoxx Corporates Indices represent investment grade fixed-income bonds issued by public or private corporations and are produced by IHS Markit. We have made reference to iBoxx indices to estimate HAL's cost of debt allowance for H7
IMF	International Monetary Fund
ILG	Index-linked Gilt
IRR	Internal Rate of Return
Financing Platform	Arrangements for the issue of bonds under HAL's WBS. Details of the arrangements can be found at: www.heathrow.com/company/investor-centre/offering_related-documents

LCC	Low-cost carriers
Market Asset Ratios (MAR)	Enterprise value divided by regulatory capital value.
Notional financial structure	Financial structure of the notional company that reflects our views on the efficient balance between debt and equity finance.
Notional Gearing	Assumed proportion of debt to total capital.
NPV	Net Present Value
OBR	Office for Budget Responsibility
OLS	Ordinary least squares
ONS	Office of National Statistics
P0	The price per passenger at the beginning of a price control
PL2	Portfolio Level 2 Tranche
PMICR	Post Maintenance Interest Cover Ratio
Risk Free Rate (RFR)	Forms a core component of the cost of equity and cost of debt within the WACC.
RORE	Return On Regulatory Equity
RPI	Retail Price Index
Share of New Debt	Used when calculating the overall cost of debt within the WACC.
TMR	Total Market Return
Vanilla WACC	The allowed return applied to the regulatory capital value.
WACC	Weighted Average Cost of Capital
WBS	Whole Business Securitisation
Winsorization	A method of replacing the extreme outliers in the data set to limit the effect of the outliers.

Capex-related

Acronym / term	Description
Capex	Capital Expenditure
Capex baseline	The forecast of development and core expenditure
Capex category	Capex categories include projects that have common outputs / objectives and similar levels of risk and controllability

Acronym / term	Description
Capital Efficiency Handbook	HAL publication which includes details of the capex governance framework and associated processes.
CTA	Central Terminal Area
Core and development framework	The core and development framework describes the transition of capex from development capex to core capex. Core capex is capex that has been through Gateway 3 (investment decision stage) of capex governance, in line with the approach for the Q6 price control. Development capex is capex at an earlier stage of development
DIWE	Demonstrably Inefficient and/or Wasteful Expenditure
DIWE Framework	Demonstrably Inefficient and/or Wasteful Expenditure Framework
Early costs	Expansion-related costs that are incurred by HAL prior to obtaining planning consent
<i>Ex ante</i> framework	An <i>ex ante</i> framework where HAL's performance is measured against cost baselines agreed in advance of delivery.
<i>Ex post</i> review	A backward looking review using actual figures rather than forecasts.
Gateway 3 (G3)	Capex projects follow an eight phase "Gateway" process which aligns with each project's level of maturity. Project business cases are reviewed at key points (Gateways) throughout their life. Gateway 3 is an investment decision stage of capex governance arrangements, in line with the approach for the Q6 price control.
IFS	The Independent Fund Surveyor for Heathrow, which is jointly appointed by HAL and the airlines, with a duty of care to the CAA. The scope of the IFS role is broadly to assure that capital funds are invested efficiently to meet agreed project objectives
Thames Tideway Project	A 25km sewer being built under London. www.tideway.london/

Recurring terms

Acronym / term	Description
ATM	Air Traffic Movements
Building blocks	Price control building blocks, including passenger numbers, operating costs, capital expenditure and commercial revenues
CdG	Charles de Gaulle Airport

Acronym / term	Description
Commercial revenues	Revenues HAL derives from services to passengers, such as retail, food and beverage, <i>bureaux de change</i> , advertising and car parking, or from services to airlines, such as office rental, airline lounges and warehousing, discussed in detail in chapter 5 (Commercial revenues).
DO	Delivery Obligations
Expansion	HAL's programme to expand Heathrow airport by the construction of a new northwest runway and associated infrastructure in accordance with the Airports National Policy Statement (see "NPS").
H8 DMS	H8 Draft Method Statement. CAA's proposed approach to setting the H8 price control.
H8 FMS	H8 Final Method Statement. CAA's final rulebook for determining airport charges for the H8 price control period (2027-2031).
HBS	Hold Baggage Screening
Lower Quartile scenario	This scenario uses the lower quartile of the input range used in financial modelling. One end of the input range is HAL's updated RBP projections scaled to CAA passenger forecasts. The other end of the input range is CEPA/Taylor Airey's mid case.
MTI	Measures, Targets and Incentives.
mppa	Million passengers per annum
OBR	Outcome Based Regulation
Opex	Operational Expenditure
ORC	Other Regulated Charges, which are for specified services and facilities that are collected separately from the general regulated airport charges and are, in general, levied on a "user-pays" basis)
PATM	Passenger Air Transport Movement
Price Control Model (PCM)	The financial model developed by the CAA to calculate HAL's revenue requirements for H8.
PRMs	Passengers with Reduced Mobility
RAB	Regulatory Asset Base
RNS	The London Stock Exchange Regulatory News Service
Shock factor	A downward adjustment to volume forecasts to address the asymmetry of risks
SQRB	Service Quality Rebates and Bonuses, the service quality regulation regime for Q6.

Acronym / term	Description
TRS	Traffic Risk Sharing
TTS	Track Transit System