

Economic Regulation of Heathrow Airport Limited
Heathrow capacity expansion – CAA consultation on
Update on the Approach to the Regulatory Framework, CAP 3286
Response from Richmond Heathrow Campaign
13 August 2026

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INTRODUCTION

1. This is a written response of the Richmond Heathrow Campaign (RHC) to the CAA's consultation titled '*Heathrow capacity expansion – update on the approach to the regulatory framework, CAP 3286*'.
2. RHC represents three amenity groups in the London Borough of Richmond upon Thames: The Richmond Society, The Friends of Richmond Green, and the Kew Society, which together have over 2000 members. The members of our amenity groups are adversely affected by noise from Heathrow Airport's flight paths, poor air quality and road and rail congestion in west London. We acknowledge Heathrow's contribution to the UK economy and seek constructive engagement in pursuit of a better Heathrow. We are an active participant in the Heathrow Community Noise Forum.
3. Our premise is that it would be preferable to aim for a better Heathrow rather than bigger Heathrow and to capitalise on the world beating advantage of London's five airports, in particular by improving surface accessibility to all five airports, which would be a major benefit to users. Our approach is to continue supporting the case for no new runways in the UK and we believe this is well supported by the evidence produced by the Airports Commission and the DfT in relation to the Airports National Policy Statement and the UK's Carbon Budgets.
4. RHC has responded to fourteen CAA consultations on economic regulation - CAPs 1510, 1541 in 2017, CAPs 1610 and 1658 in 2018 and CAPs 1722, 1769, 1782, 1812 and 1832, in 2019 and CAPs 1871, 1876 and 1940 in 2020 CAP 2265A in 2021 and CAP 3251 in June 2026. Responses and other material are on RHC's website www.richmondheathrowcampaign.org.
5. RHC's views of the CAA's regulation of Heathrow expansion were set out in June 2026 when responding to the CAP 3251 consultation and we ask please that this response here be considered in the light of our earlier response.

SUMMARY

6. We high-light in this RHC response Heathrow's expansion capex, cashflows, affordability and financability - distinguishing between three approaches, which we believe raise issues that need to be taken into account in the course of the CAA's development of an Approach to its Regulatory Framework for Heathrow:
 - a. Baseline (2R+) Scheme that we outlined in our response to CAP3251 and which we believe requires essential consideration,
 - b. 3R Scheme, as proposed by Heathrow Airport Limited (HAL), combined with the Baseline (2R+) Scheme components, and
 - c. Incremental 3R Scheme without the Baseline (2R+) components.

7. The Baseline (2R+) Scheme continues with runway capacity of 480,000 ATMs a year in segregated mode while increasing runway and terminal passenger capacity by 28 million passengers a year (mppa) from 82 mppa in 2024 to 110 mppa at a cost of £10bn (2024 prices) plus £5bn for essential Modernisation of Heathrow's ageing infrastructure. Heathrow's fleet increases its passenger capacity from 177 passengers per ATM in 2024 to 234 passengers per ATM by 2083 according to Frontier Economics Report for HAL - '*Heathrow Expansion CBA August 2025*' and which is within historic trends. This is substantial expansion and not a Do Nothing case or business as usual and we recommend should be regulated as a substantial expansion. The aero charge rises modestly from say £29 a passenger for H8 to £31 (2024 prices) in H9, et seq., assuming a 5% discount rate.
8. The 3R Scheme increases capacity by 68 mppa from 82 mppa to 150 mppa at a cost of £48bn (2024 prices) including the costs of £15bn for the Baseline (2R+) Scheme components. The costs are recovered from 150mppa but the aero charge needs to rise from £29 to £49 a passenger from first 3R flight in 2035, assuming a discount rate of 5%pa. Note, the 150 mppa requires runway use by 640,000 ATMs a year assuming 234 pax per ATM and not 756,000 ATMs a year sought by HAL's proposal. HAL's proposal would require another terminal costing say £5bn (2024 prices), which is not included in the £48bn budget for the 3R Scheme. In other words, proposals for runway and terminal capacities are not aligned.
9. The Incremental 3R Scheme increases capacity by 40 mppa with a 3rd runway and two terminals. We have assumed the aero charge recovers the full cost from first flight in 2035, although the second terminal does not become available until 2054. The aero charge needs to rise from £31 to £114 a passenger (2024 prices), assuming a discount rate of 5%pa.
10. The incremental 3R cashflow requiring an aero charge of £114 a passenger would clearly be far too high for acceptance by consumers and airlines. Were the CAA, as regulator, and the airlines and Heathrow not able to agree upfront long-term aero charges then any commitment to the development by Heathrow would expose HAL's balance sheet to a large contingent liability. For example, if the realised aero charge were subsequently limited by the regulator to £31 per passenger (2024 prices) then this would erase £21bn from HAL's balance sheet and thereby trigger HAL's bond covenants and potentially place HAL into Administration. At the very least HAL's shareholders suffer substantial dilution of cashflow return from the 3R Scheme compared to the Baseline (2R+) Scheme.
11. Throughout this submission we compare the 3R Scheme proposed by HAL '*Proposal for Expanding Heathrow, summer 2025*' with a Baseline (2R+) Scheme that is included in HAL's '*H8 Business Plan 2027-2031 July 2025*' and the Frontier Economics Report '*Heathrow Expansion CBA August 2025*'.
12. A key point RHC wishes to make in this submission is the need to include a baseline as a "Reasonable Alternative" in the draft HENPS, which at present it does not. In our view the inclusion of the Baseline (2R+) Scheme within the HENPS is fundamental to the assessment of the underlying choices in respect of Heathrow expansion. Its omission as an independent and free - standing alternative handicaps response to the HENPS in important ways:
 1. As a result of the origins of the HENPS and its self - fulfilling brief of addressing only the third runway option, the draft HENPS contains no counter-factual from which consultees responding to it can assess the disadvantages and benefits of the third runway scheme, as opposed to a credible alternative. The '2R+' is a practical alternative with which the third runway scheme can be compared and is omitted;

2. The '2R+' scheme as a stand - alone scheme can deliver substantial expansion for Heathrow Airport. It is far too substantial to be dismissed as an alternative, on the basis that it is simply incremental infrastructure changes; or alternatively that it is simply part of the infrastructure development needed for the third runway development. It can and should be presented as a credible stand - alone alternative.
13. At the end of our response we briefly address Surface Access and who will undertake the necessary schemes and who will pay - a matter complicated by the sharing of capacity between background and Heathrow demand. The CAA's regulatory role is unclear.
14. RHC recommends that the CAA considers the approach to the expansion of Heathrow in the manner outlined in this response when considering appropriate regulatory frameworks for Heathrow's expansion.

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HEATHROW EXPANSION CAPEX, CASHFLOWS, AFFORDABILITY AND FINANCABILITY

Richmond Heathrow Campaign 13 August 2026
based on the draft HENPS June 2026 and other recent evidence

AIRCRAFT FLEET, RUNWAY AND TERMINAL CAPACITIES AND USE

A. AIRCRAFT FLEET CAPACITY

15. The Frontier Economics Report '*Heathrow Expansion CBA August 2025*' on behalf of HAL, outlined a 2R+ Scheme for expanding Heathrow without a 3rd runway. Heathrow's aircraft fleet capacity rises from 177 pax/ATM in 2024 to 234 in 2083. The growth in pax/ATM assumes higher load factors and the average size of aircraft in Heathrow's fleet increasing by replacement of existing aircraft with new and larger versions. The fleet capacity compound growth rate (2024 - 2083) is 0.5% per annum and is well within the historic 30 year trends at Heathrow and other UK airports as shown in Figure 1. There is no good reason for the HENPS to flatline the aircraft fleet passengers per ATM, as seemingly is the case in Figure 1.
16. There is no good reason for the Heathrow 3R pax/ATM to differ from that for the Baseline (2R+) Scheme, i.e. rising from 177 pax/ATM in 2024 to 234 by 2083

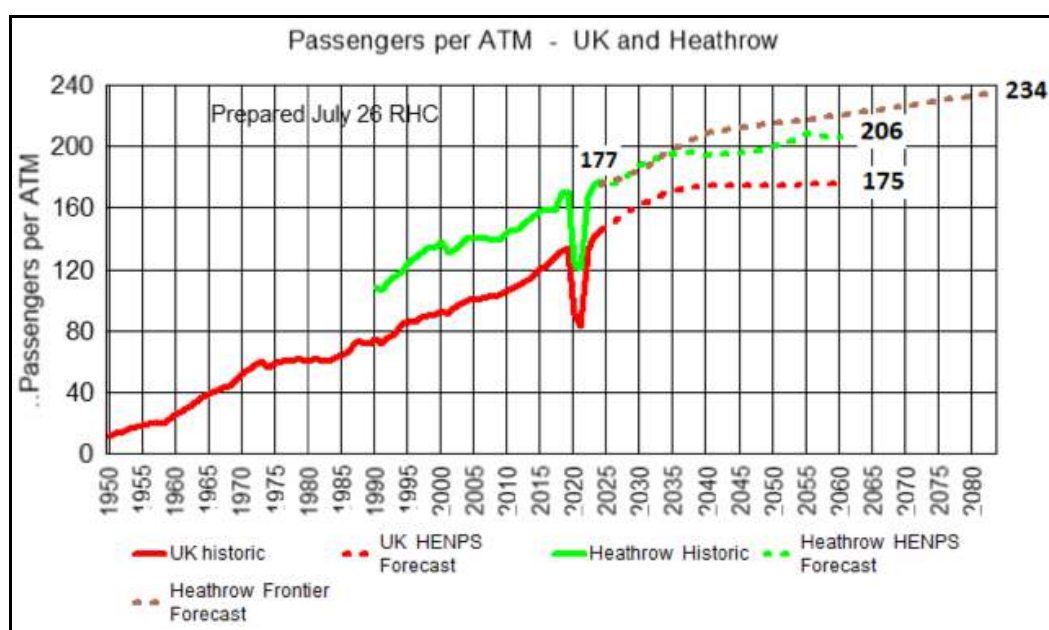


Figure 1

Runway capacity

17. The Baseline (2R+) Scheme runway capacity remains at the T5 planning consent limit of 480,000 ATMs per year in segregated mode but runway passenger capacity rises to 112 mppa by 2083 (234 x 480k) due to increasing pax/ATM, as shown by the solid pink line "D" in Figure 2 over-page.
18. The 3R Scheme runway capacity rising to a maximum 756,000 ATMs in 2035, which in turn results in 176 mppa in 2083 (234 x 756K). The 3R Scheme runway capacity is shown by the solid green line "B" in Figure 2.

Terminal capacity

19. HAL's '*H8 Business Plan 2027-2031 July 2025*', which was submitted to the CAA as Regulator, outlines a Modernisation Plan enhancing the quality of service (efficiency and

occupancy) at Heathrow’s ageing terminal assets, which RHC understands is needed in order to compete successfully with a premium service and retain Heathrow’s dominance in the UK’s growing long-haul market. The Plan also adds 14 mppa of capacity to terminals T2, T3, T4, T5 and related satellites in H8/H9 regulatory periods by say 2033 and adds a net increase of 14 mppa by replacing T3 with an expanded T2 and satellites by 2049. Cumulatively, terminal declared capacity rises by 28 mppa from 82 mppa in 2024 to 110 mppa by 2050, which is shown as a dotted pink line “C” in Figure 2

20. The proposal by HAL ‘*Proposal for Expanding Heathrow, summer 2025*’, adds a 3,500m runway and terminal capacity to start serving additionally 276k ATMs a year and 20 mppa from a new northwest terminal (T5XW) in 2035 and 20 mppa from a new northwest satellite (T5XN) nearly 20 years later in 2054. The 3R Scheme terminal capacity is shown by the dotted green line “A” in Figure 2. It reaches 150 mppa in 2054 (82 mppa in 2024 rising by 28 mppa from the Baseline (2R+) Scheme components and 40 mppa from the Incremental 3R Scheme).
21. Figure 2 shows the Baseline (2R+) capacities for fleet, runways and terminals broadly matching.

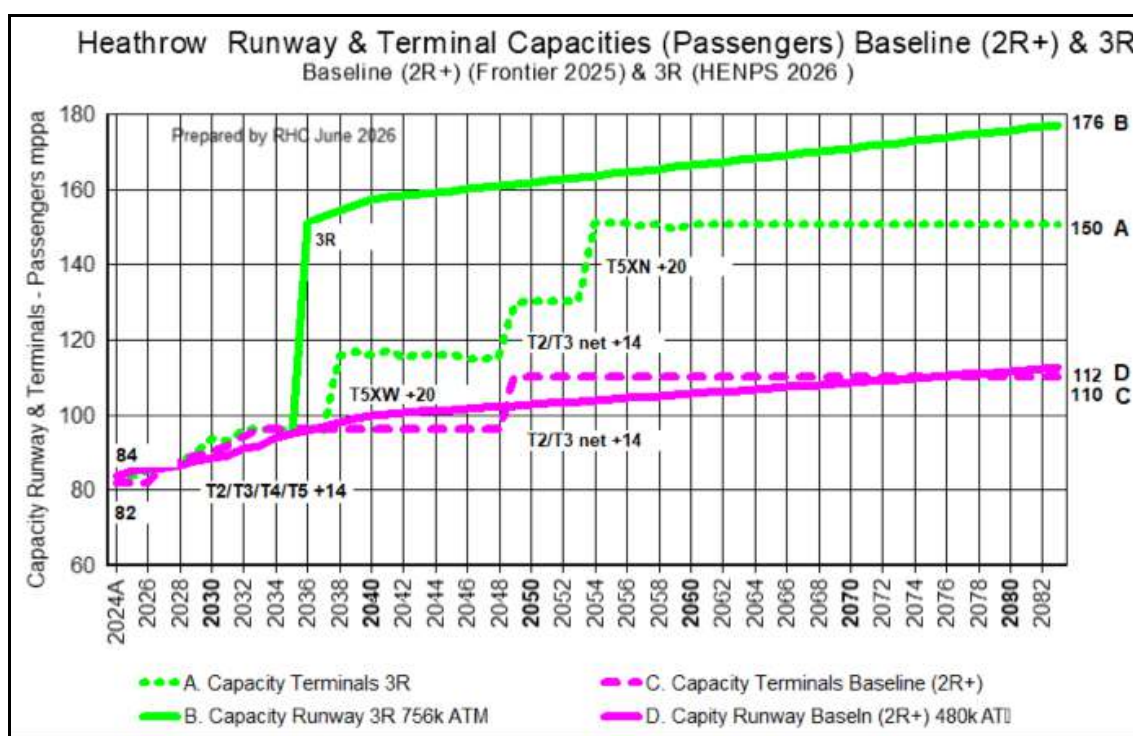


Figure 2

22. Figure 3 over-page details numerically the changes in capacities for the Baseline (2R+) Scheme and the Incremental 3R Scheme in terms of Heathrow’s Fleet, Runways and Terminals in line with the capacities shown graphically in Figure 2.

HEATHROW CAPACITY	End date	Fleet	Runways		Terminals
			ATM	Pax	Pax
		Pax/ATM	'000 pa	mppa	mppa
Baseline (2R+):					
Base Year	2024	177	474	84	82
Fleet		57		27	
Runways			6	1	
Terminals T2/T3/T4/T5	2033				14
Terminals T2/T3 net	2049				14
Baseline (2R+)	2083	234	480	112	110
3R Increment:					
Northwest Runway	2035	200	276	55	
Fleet		34		9	
Terminal T5XW	2035				20
Terminal T5XN	2054				20
3R Increment	2083	234	276	64	40
Total Baseline + 3R	2083	234	756	176	150
Prepared by RHC July 2026					

Figure 3

B. PASSENGER DEMAND

23. Figure 4 shows the passenger use of Heathrow, as restricted at any point in time by capacities of Aircraft Fleet, Runways and Terminals. Total passengers are shown and are comprised of Terminating and International-to-International passengers. The Baseline (2R+) passenger use is shown by a solid pink line ("C") in Figure 4 and rises to 112 mppa by 2083. Terminating passengers are shown by the dotted pink line ("D") in Figure 3 and grow from 66 mppa in 2024 by 60% to 107 mppa in 2083.
24. 3R passenger numbers grow from 84 mppa in 2024 to 150 mppa in 2054 from whence they remain unchanged. Terminating passengers grow from 66 mppa in 2024 to 143 by 2083.

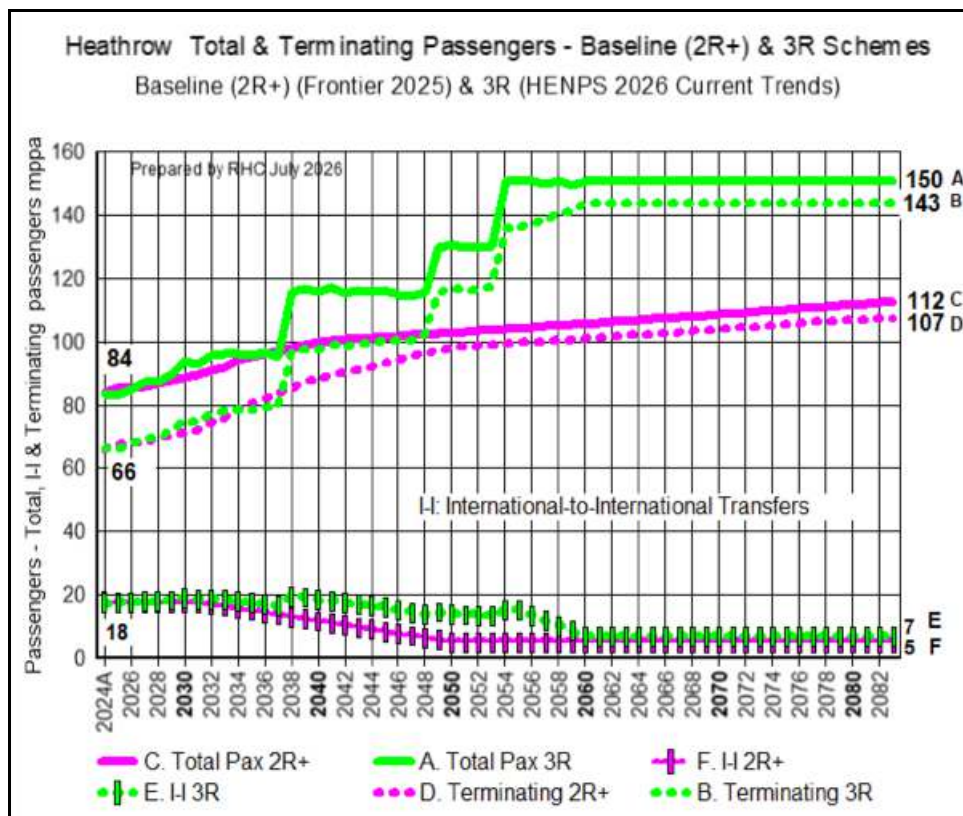


Figure 4

HEATHROW EXPANSION CAPEX, CASHFLOWS, AFFORDABILITY AND FINANCABILITY

C. HEATHROW SITE

25. Figure 5 is the Heathrow site showing the proposed land acquisition for 3R in yellow and the existing two runways and terminals. Also shown is the proposed terminal Modernisation for the Baseline (2R+) Scheme and the new 3,500 metre 3rd runway and terminals for the 3R Scheme.

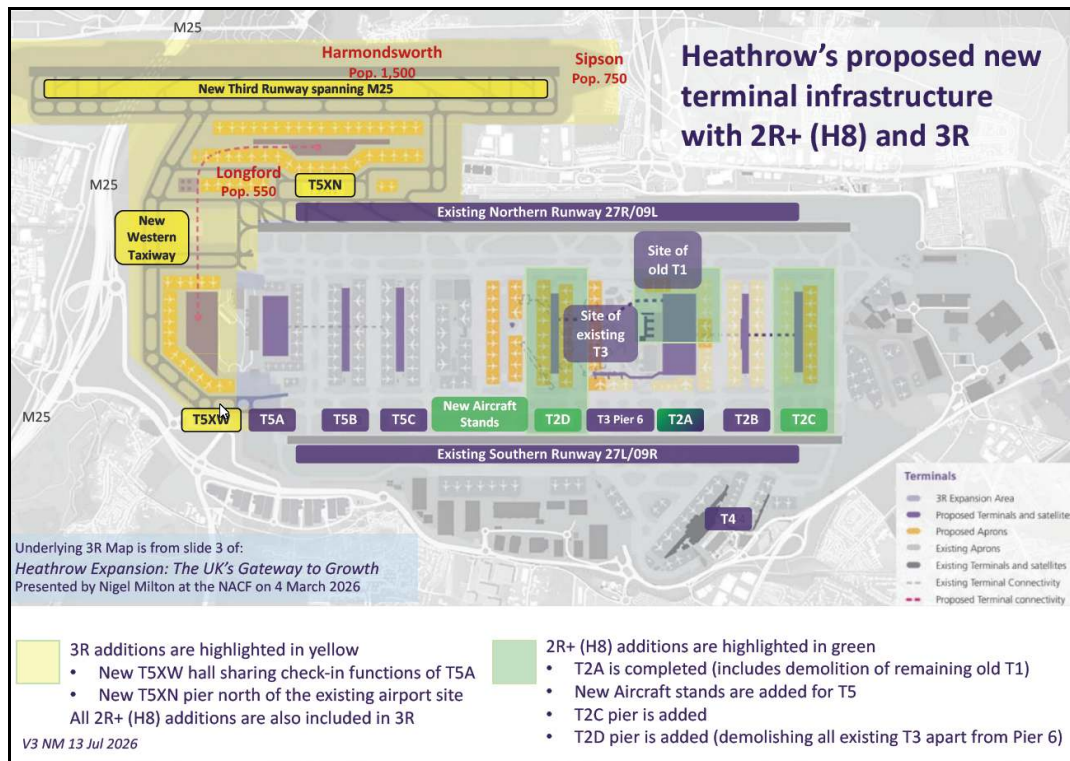


Figure 5

26. **There are a number of issues that need to be fully addressed by the draft HENPS and so far this is not the case and by the CAA's regulatory framework**
- What is the process for Heathrow's acquisition of the 3rd runway site (yellow area)? Will it be acquired before the DCO decision?
 - How will taxiing and terminals link, taking account of terminal occupancy by different airlines and airline alliances?
 - How will passengers move around the airport - to/from points of access and transfers?
 - Where will the surface access entry/exit points be located - road, rail, underground and issues of drop offs and long term parking?
 - Where will the construction space, on and off-site, be located and how will the impact on surface access be mitigated?
 - Where will the large number of construction workers be housed for up to 20 years?
27. **Of especial concern is the plight of residents in Sipson and surrounding areas that will lose their homes and their villages. The continuing uncertainty and blight must be intolerable. Additionally, those that still have a home but are left in close proximity to the new 3rd runway will suffer substantial increase in noise. This situation needs to be addressed sympathetically with utmost urgency by Heathrow, the CAA and government.**

D. CAPEX

Baseline (2R+) Capex

28. HAL's 'H8 Business Plan for 2027-2031 July 2025' forecasts £15bn (2024 prices) of capital spend for modernising and enhancing the quality of service (efficiency and occupancy) at Heathrow's

ageing terminal assets, The £15bn also adds 14 mppa of capacity to terminals T2, T3, T4, T5 and related satellites in H8/H9 regulatory periods by say 2033 and adds a net increase of 14 mppa by replacing T3 with an expanded T2 and satellites by 2049. Cumulatively, terminal declared capacity rises by 28 mppa from 82 mppa in 2024 to 110mppa by 2083. Figure 6 shows the capex comprising Asset Replacement at approx. 4% of RAB value (RHC's assumption based on the H8 Business Plan and HAL's RAB accounts) and £15bn for Baseline (2R+) terminal Modernisation and additional terminal capacity. The timing of expenditure is based on the H8 Business Plan. HAL's average RAB in 2024 was £20bn and rises to £35bn (2024 prices) with the Baseline (2R+) Scheme. RHC assumes £5bn is for modernisation and £10bn for the additional terminal capacity.

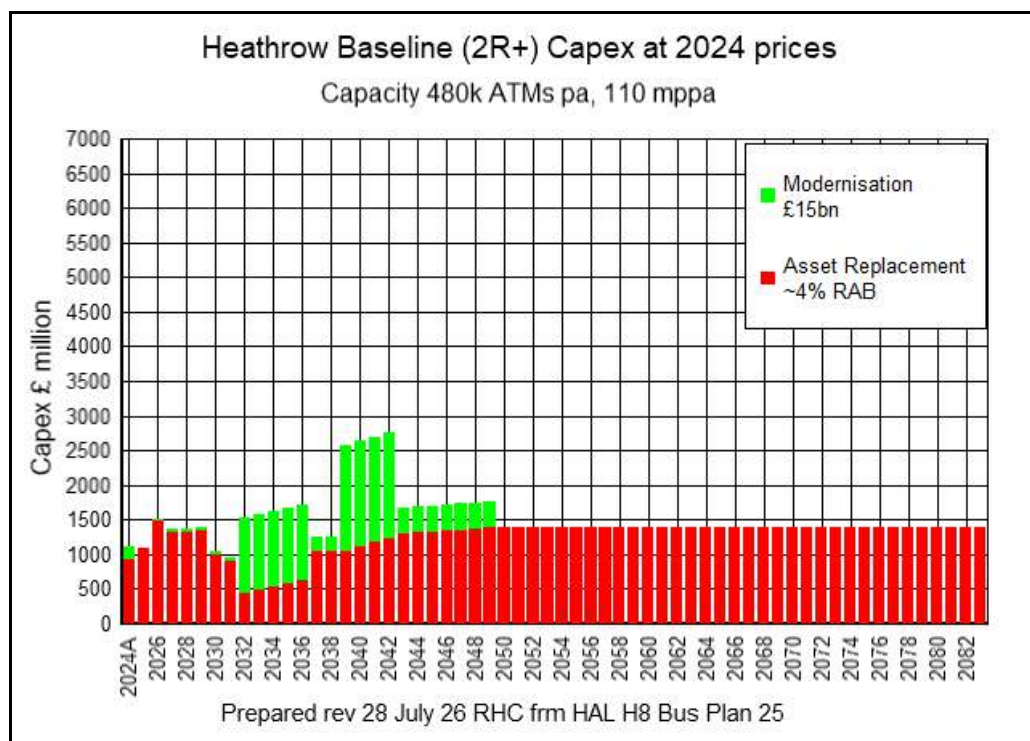


Figure 6 Note: minor revisions to previous versions

3R Capex

29. HAL's 'Proposal for Expanding Heathrow, summer 2025' and Steer's Report for the CAA 'Initial technical and cost efficiency assessment of capex expansion plans for Heathrow Airport April 2026' provide details of 3R capex and its timing. The capex adds a 3,500m runway and terminal capacity to start serving additionally 276k ATMs and 20 mppa from a new northwest terminal (T5XW) in 2035 and 20 mppa from a new northwest satellite (T5XN) nearly 20 years later in 2054. The capital cost is estimated to be £21bn (2024 prices) for land acquisition (say £5bn), runway (say £11bn), M25 and local road re-configuration and related air-side facilities (say £5bn) and £12bn for terminal and satellite - £33bn in total (2024 prices). Figure 7 shows the capex for the Baseline (2R+) components and the incremental 3R and terminals. HAL's RAB value rises from £20bn in 2024 to £68bn in 2054.

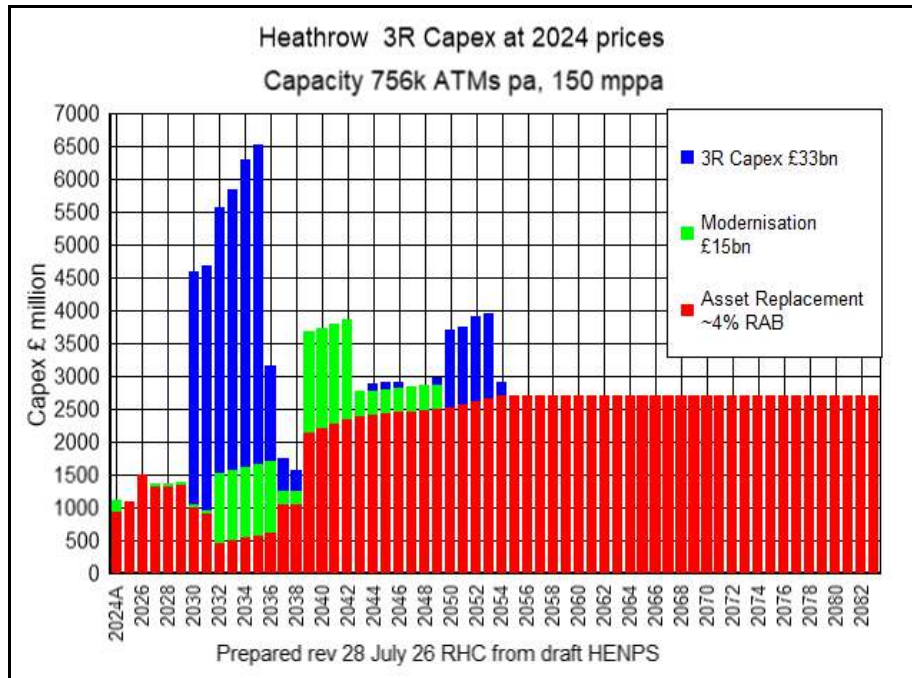


Figure 7 Note: minor revisions to previous versions

Summary of Capex

30. Figure 8 summarises the capex detail for the Baseline (2R+) and 3R Schemes.

Heathrow Baseline (2R+) and 3R Capital Expenditure		Land	Surface Access	Runways	Terminals	Total
2024 prices		£bn	£bn	£bn	£bn	£bn
Baseline (2R+):						
Modernisation	2033				5	5
Expansion:						
Terminals T2/T3/T4/T5	2033				5	5
Terminals T2/T3	2049				5	5
Baseline (2R+)	2083				15	15
3R Increment:						
Expansion:						
Northwest Runway	2035	5	5	11		21
Terminal T5XW	2035				7	7
Terminal T5XN	2054				5	5
3R Increment		5	5	11	12	33
Total Baseline (2R+) + 3R	2083	5	5	11	27	48
Prepared by RHC July 2026 from Heathrow H8 Business Plan 2025 and Expansion Proposals 2025						
Excludes Asset Replacement Capex ~ 4% of balance sheet CCP Adjusted value						
Surface Access here is for M25 and near vicinity roads and roundabouts. Excludes wider surface access costs.						

Figure 8

E. DELIVERABILITY

31. The Heathrow site is relatively small and today has twice as many passengers per hectare as any other major European airport. The rate of maximum efficient spend arose in years 2000 to 2010 with the construction of T5 and T2 and was around £2bn a year (2024 prices). The maximum rate depends on very restrictive congested site area, no degradation of complex airport operations, complex national procurement, limited labour supply, congested local surface access, restrictions on noise disturbance and the world's highest construction costs.
32. The acquisition of land shown in Figure 5 might allow for some increase in the maximum rate of efficient spend. But Figure 3 suggests that to achieve first flight by the end of 2035 will require a near impossible rate of spend. Note also, the Heathrow site and its surrounds will become a

development site for 20 plus years with all the associated blight. **The deliverability issues need to be addressed fully by the draft HENPS and so far this is not the case.**

F. CAPACITY CAPITAL COST PER PASSENGER.

33. If it were assumed that of the said £15bn for the Baseline (2R+) Scheme, £5bn were for terminal modernisation (efficiency and quality of service) and £10bn were for additional capacity, then the Baseline (2R+) Scheme adds 28 mppa for £10bn (£357/mppa). For comparison, Heathrow's regulatory balance sheet (RAB) averaged £20bn in 2024 based on declared terminal capacity of 82 mppa, or £25bn if the terminal quality enhancement cost of say £5bn were included (£305/mppa). The 3R Scheme adds 40 mppa for £33bn (£825/mppa). The 3R Scheme's incremental capital cost per passenger for expansion is more than twice that of the Baseline (2R+) Scheme and the cost of existing assets per the RAB. The RAB is adjusted each year for inflation and is not the historical asset cost. The high capital cost of the 3R Scheme is reflected in the affordability (cost per passenger) and in financability as discussed below.

G. CASHFLOWS, AFFORDABILITY AND FINANCABILITY

Baseline (2R+) Cashflow

34. Figure 9 shows the Baseline (2R+) cashflow including capex, opex and revenue (aero & non-aero) for Heathrow as a whole and not just the incremental Baseline (2R+). The pre-tax cost of capital is assumed to be 5%pa with the aero charge set to a level that retains the 60 year NPV at the 2024 HAL RAB value of £20bn.

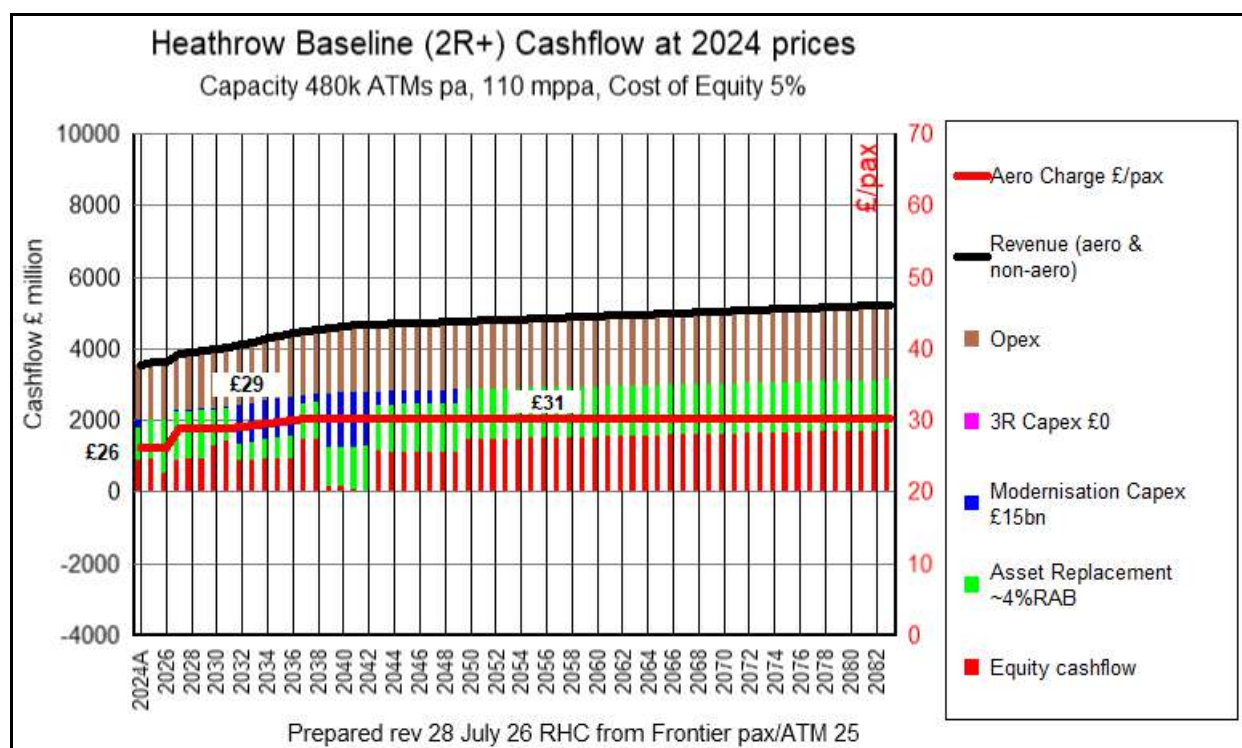


Figure 9 Note: minor revisions to previous versions

Baseline (2R+) Affordability

35. The aero charge was approximately £26 per passenger in H7 and RHC expects the aero charge for the H8 period (2027-2031) to be agreed by the CAA as regulator, airlines and HAL at around £29 per passenger. The aero charge needs to rise to around £31 per passenger (2024 prices) but would be higher were the cost of capital assumption higher. The project cost of capital makes no assumption about the debt financing and the 5% pa is not a weighted average cost of capital.

Baseline (2R+) Financability

36. Figure 5 shows the equity cashflow remaining positive throughout but falling to around zero in the years 2039 to 2042. So the capex could be funded by internally generated funds and there is no requirement for shareholders to invest new capital except to the extent they opt to receive dividends. The RAB rises by £15bn to £35bn and HAL probably could maintain a debt ratio of around 70% and therefore raise £10bn of new debt to add to existing debt. The financability of the Baseline (2R+) appears to be reasonably robust.

3R Scheme

3R Cashflow

37. Figure 10 shows the 3R cashflow including capex, opex and revenue (aero & non-aero) for Heathrow as a whole and not just the incremental 3R Scheme.

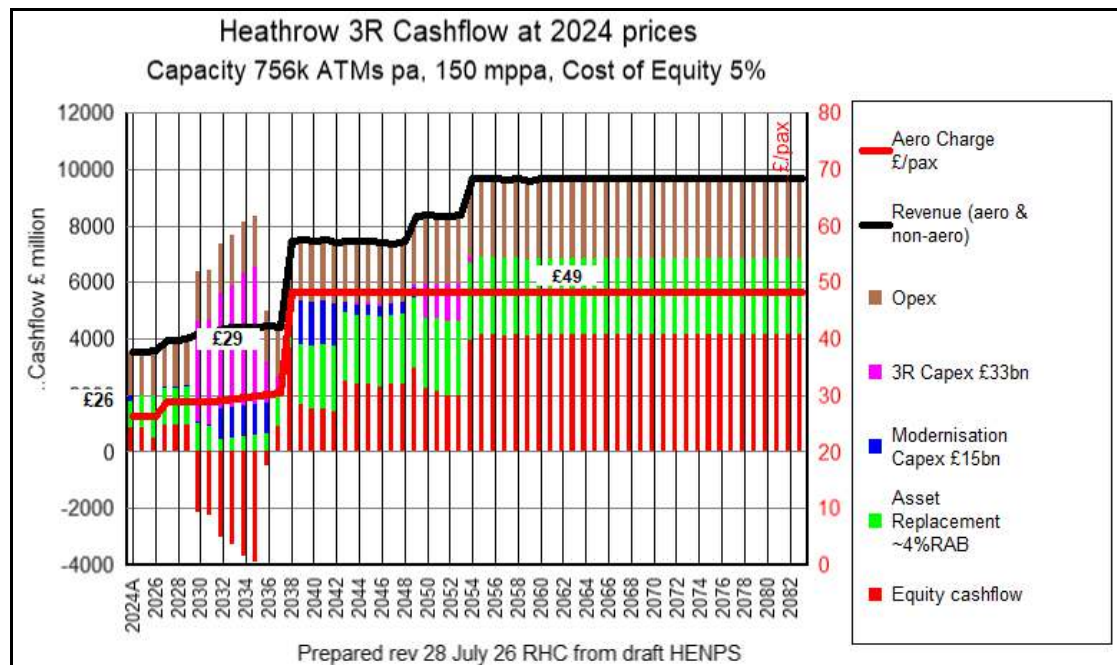


Figure 10 Note: minor revisions since previous versions

3R Affordability

38. The aero charge needs to rise from £29 per passenger to £49, which the airlines view as far too high. Heathrow West Limited (HWL) proposes an alternative scheme including a shorter runway. HWL claim their proposal is lower cost than the HAL 3R Scheme but Steer in their report to the CAA titled '*Initial technical and cost efficiency of capex expansion plans for Heathrow Airport, April 2026*' examine the figures in some detail and concludes the HWL Scheme is still costing £30bn compared to the HAL Scheme costing £33bn (2024 prices). The Oliver Wyman Report for International Airlines Group '*LHR Affordable Capex Envelope, March 2026*' says Heathrow's airlines could not afford to pay more than an additional £4.50 to £5.50 per passenger, which we interpret as a £35 limit (2024 prices). **The affordability issues need to be addressed fully by the draft HENPS and so far this is not the case and by the CAA as Regulator**

3R Financability

39. The new equity required between 2030 and 2034 is £18bn, as shown by Figure 10. Part of this could be debt. The project's cost of capital is assumed to be 5% pa as discussed above. A higher cost of capital would increase the finance required. The RAB rises from £20bn in 2024 to £68bn (2024 prices) by 2054 on completion of the satellite terminal TX5N. The internally generated funds could repay the £18bn by the end of 2046 assuming no dividends.

40. In theory, were the shareholders expecting the positive equity cashflow to be paid out as dividends each year then new capital and debt would need to fund the full £48bn of capex. At a debt equity ratio of say 70/30 this would require £34bn of new debt and £14bn of new equity. There is a cost to deferring the dividend return to shareholders resulting in an even higher aero charge so it is not a solution in this case. Furthermore, the shareholders would probably wish to see the returns from the existing Heathrow continue rather than be diverted to support expansion. We would not expect the incremental 3R Scheme to be financially non-recourse to HAL's balance sheet but the aim should be for the 3R Scheme to be financially sound in its own right, which clearly it is not, as discussed in the following paragraphs.

Incremental 3R

41. Figure 11 shows the cashflow for the incremental 3R Scheme. It differs from Figure 10 in that the income is derived only from the incremental number of passengers serviced by the new terminals associated with the 3rd runway, i.e around 40 mppa. In practice, the income is derived from the difference between the Baseline (2R+) passengers (solid pink line "C" in Figure 4 Total & Terminating Passengers) and the 3R passengers (solid green line "A" in Figure 4). In Figure 10 above, by contrast the income is derived from all the passengers in the 3R Scheme rising to 150 mppa (i.e. line "A" in Figure 4).
42. The reduced number of passengers in the incremental assessment requires the aero charge to be increased substantially to £114 per passenger from £29 in order for the cashflow to breakeven (discounted at 5%pa). In effect, the aero charge of £49 per passengers in Figure 10 is the weighted average between the £114 and the £31 required by the Baseline (2R+) in Figure 9. The very high charge of £114 per passenger surely is wholly unacceptable to Heathrow, airlines, passengers, CAA as Regulator and the DfT. The high charge was signposted in this paragraph 32 - Capacity Capital Cost per passenger referring to the 3R cost of £825 per passenger compared to Baseline (2R+) cost of £357 per passenger.

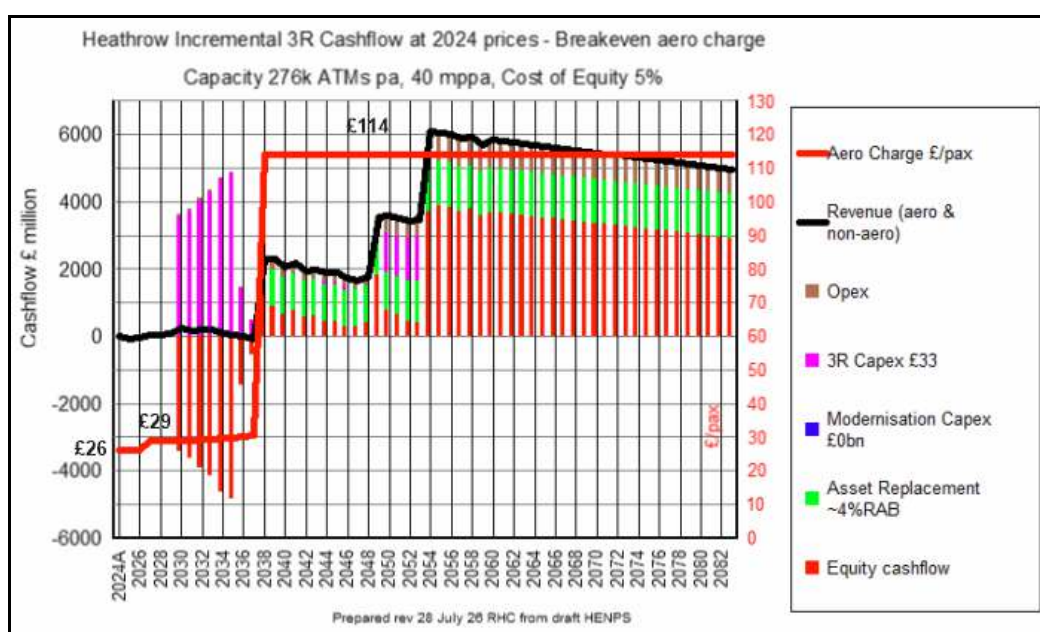


Figure 11 Aero charge £114 per passenger

43. The incremental 3R cashflow in Figure 12 is similar to Figure 11, except that the aero charge has been reduced to the charge of £31 per passenger applied in the Baseline (2R+) Scheme. Clearly, the incremental 3R Scheme cannot support itself without recourse to the income from all passengers. The incremental 3R Scheme has to rely on internally generated funds from existing activity and Baseline (2R+) Scheme or external funding for which the financial return

would be wholly inadequate This applies to HAL's proposal and to the HWL proposal which HWL claims to be less costly. To fall within the aero charge of £31 per passenger as estimated for the Baseline (2R+) Scheme, the capex for the 3rd runway and two associated terminals cannot exceed £8bn and pro rata Asset Replacement capex of £13bn over 45 years from first flight. This compares with HAL's £33bn for the 3R Scheme and £56bn for Asset Replacement. Clearly, such a reduction in capex is wholly unrealistic.

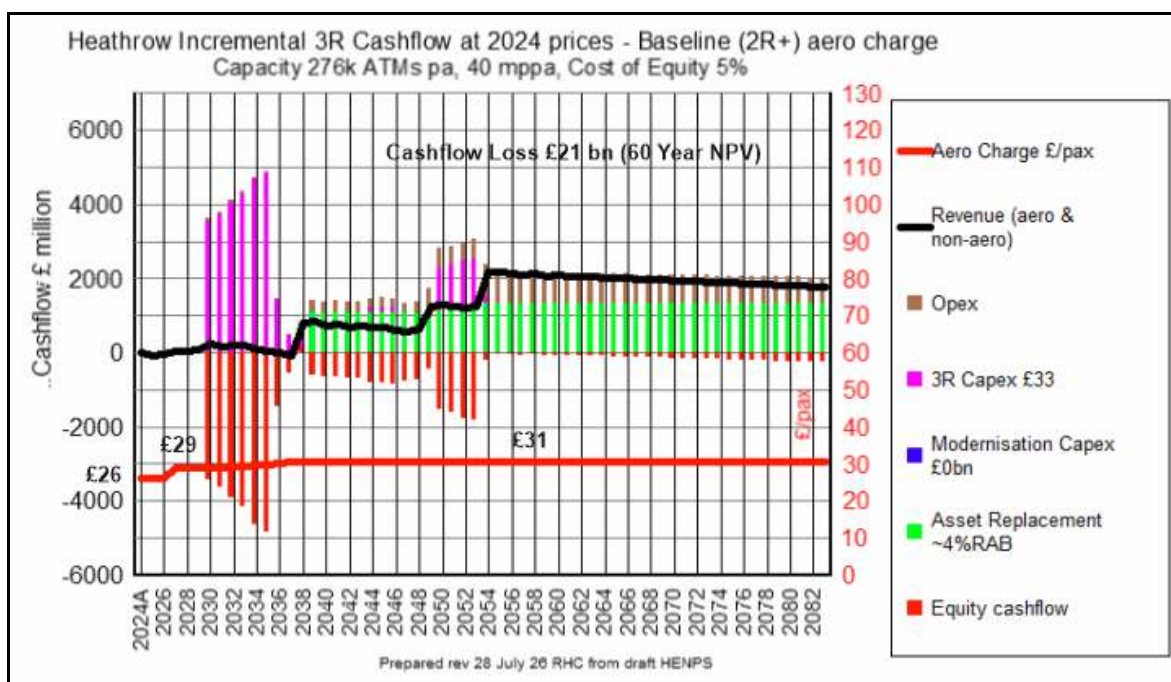


Figure 12 Aero charge £31 per passenger

44. Financability will depend very much on shareholders willingness to contribute new equity of £14bn. and banks and bond holders to provide new debt of £34bn. This would be one of the largest new bond issuances and almost certainly would have to be funded in part by overseas investors. It is difficult to imagine shareholders willing to invest as much as £14bn of new equity even allowing for continuation of dividends. **The financability issues need to be addressed fully by the draft HENPS and the CAA's Regulatory Framework.**

H. TAXATION AND COST TO THE TREASURY

45. Capital allowances provide only small relief in this case. More significantly, the substantial interest from 70% gearing of the £68bn RAB could reduce HAL's profits subject to tax by £2bn a year and the UK aviation sector is already one of the lowest taxed sectors of the UK economy. The interest tax relief boosts the equity return to the benefit of shareholders but at a cost to the public purse. Most of the shareholders are from overseas, so the investment is largely from overseas and the proceeds are largely returned overseas. The overseas shareholders may fund their UK investments with inter-company loans and seek tax relief on the interest thus adding further loss to Treasury tax receipts. Some overseas investors may seek to protect their balance sheets by the 3R project being ring-fenced and non-recourse but this would increase the cost of debt and add to the loss of tax receipts. Since the 3R Scheme is privately financed the Treasury is not technically at risk should Heathrow fail. But the joint agreements on surface access between public agencies (e.g. National Rail, National Highways) and Heathrow and/or private developers would likely expose the Treasury to guarantees if not cash that would have to be entered into the public accounts. **Tax and cost to the Treasury issues need to be fully addressed by the draft HENPS and the CAA's regulatory Framework.**

I. OTHER FINANCIAL ISSUES REQUIRING ATTENTION IN THE DRAFT HENPS AND CAA'S REGULATORY FRAMEWORK

46. It seems likely that an increase in aero charge of £20 per passenger will reduce demand. Also, there is a risk to demand from climate change Carbon Budgets. In RHC's view there is a considerable financial risk compounding the business risk in respect of Heathrow's development and operations. The DfT's flatlining of ticket prices in the draft HENPS does not seemingly recognise the high aero charge and the costs of surface access (see below).
47. Starting to pay an increased aero charge prior to first flight would reduce the charge over the longer term but arguably the airlines and pre-first flight passengers may object to pre-paying for benefits shared with others later.
48. Consideration is being given by the CAA to an allowance for DCO planning costs being eligible for inclusion in the aero charge. The costs might be say £750 million and it is difficult to justify such amount being treated as efficient spend when claimed by both HAL and HWL for their alternative 3R projects.

J. SURFACE ACCESS COSTS

49. Surface Access costs potentially are large, given a doubling of Terminating passengers in the 3R case and an increase of 60% in the Baseline (2R+) Scheme. In 2017 TfL said *"..we estimate the required mitigation to cost in the region of £20-£25bn. In order to achieve a sustainable mode-share and minimise adverse quality of life and health impacts, we suggest that a much greater level of funding than currently proposed is targeted towards public transport."* In today's prices this would be around £30bn to £38bn for surface access.
50. It is not clear who will ultimately bear the costs of the new capacity needed - Heathrow passengers, background passengers, government subsidies or a share between all three and to what extent the Heathrow passenger contribution will be captured via the CAA regulatory model and aero charge.
51. A major issue arises because we understand that the draft HENPS allows Heathrow Surface Access Strategy to be deferred for some considerable time and for commitments to funding being deferred until after the DCO decision and possibly not even treated as consent conditions. In RHC's view there is a large potential liability and great uncertainty as to who bears the liability risk - Heathrow and its passengers or the public at large.
52. Capital expenditure for re-configuring the M25 and local roads is included in the 3R Scheme's £21bn estimate by HAL (say 5bn (2024 prices)). But capital expenditure for wider developments to increase capacity and extend Heathrow's catchment area to the south and west of the country is not included and could amount to £15bn (2024 prices). This includes the Western Rail Access and Southern Rail Access Schemes and enhancements to the Elizabeth and Piccadilly Lines. But these schemes and enhancements would barely provide enough capacity for background growth and some Baseline (2R+) Scheme growth and a modal shift to public transport to reduce road congestion and pollution.
53. **Surface Access costs and their funding are poorly addressed by the draft HENPS and this needs to be remedied in the HENPS and taken on board in the CAA's Regulatory Framework.**

END