



Unrestricted

London Airline Consultative Committee (LACC)

Spaces Victoria
25 Wilton Road
London
SW1V 1LW

Tel: +44 (0) 20 8757 3936

Email: lavers@iata.org



Heathrow AOC Limited
Room 2040-2042, D'Albiac House,
Cromer Road
Heathrow Airport
TW6 1SD

Tel: +44 (0) 20 8745 4242

Email: Gensec@aoc-lhr.co.uk

Civil Aviation Authority

Sent by email to: economicregulation@caa.co.uk

29th May 2026

Dear Rob,

Re: Response to Economic Regulation of Heathrow – CAP3232 H8 Initial Proposals

On behalf of the behalf of the London (Heathrow) Airline Consultative Committee (LACC) and the Heathrow Airline Operators Committee (AOC), please find attached the Airline Community's views on the CAA's H8 Initial Proposals for Heathrow Airport, published as CAP3232 on 31 March 2026.

The response is informed by the substantive engagement that has taken place through the Constructive Engagement (CE) process, in both multi-lateral and bi-lateral sessions, including the four rounds of CE that concluded in April 2026 and reflects the positions developed by airlines and their advisers over the course of the H8 review.

It should be read alongside the referenced materials within as well as views and evidence shared throughout our ongoing engagement.

Individual airlines, groups and alliances may make their own submissions detailing their specific views on the CAA's proposals.

With thanks to your and the wider team for the engagement to date and the opportunity to comment on the CAA's proposals. We look forward to that continued engagement on the matters and asks raised within and welcome the opportunity to discuss further upon the CAA's review.

Yours sincerely,

Simon Laver

London (Heathrow) Airline Consultative Committee

HEADLINE POSITIONS

- **Heathrow represents a critical piece of national infrastructure and an effective monopoly airport.** It therefore requires robust economic regulation to ensure that charges are efficient, service quality meets consumer expectations and investment delivers value for money. However, consumers at Heathrow continue to experience poor value for money. Passengers face the highest airport charges at a major airport globally, while service quality outcomes remain inconsistent and, in key areas, below expectations. This in turn impacts affordability, connectivity and consumer choice which the CAA must use as assessment criteria for the level of charges at H8.
- **The Airline Community broadly welcomes the strategic intent of the H8 Initial Proposals**, and particularly their focus on resilience, and underscores their importance in delivering efficient costs for the consumer in line with the CAA's statutory duties. The CAA has also reached several outcomes the Airline Community supports: the rejection of changes to the single till, a wider ORC scope, and an unaffordable capital portfolio, together with the bulk of HAL's technology and resilience overlays.
- **The Initial Proposals do not always reach the right outcome.** At each point where the evidence supports a stronger position, the CAA has resolved uncertainty in HAL's favour, with generous allowances that are not reflective of efficient costs.
- **HAL remains over-rewarded.** On the cost of capital, the concern is both calibration and method: the CAA's beta estimation approach is materially flawed and the proposal to allow HAL's actual cost of debt would harm the consumer. The CAA overstates the efficient return for HAL by around 120 basis points and overcompensates HAL by more than £1.2 billion over H8, equivalent to around £3.02 per passenger from the WACC alone. In fact, the CAA's regulatory package offers several layers of protection to HAL against multiple sources of risk, and a lower point estimate in the WACC range is therefore justified.
- **Several building blocks require a stronger challenge.** The opex catch-up efficiency challenge of 4% is not consistent with Heathrow's position near the bottom of a 43-airport comparator set; the evidence supports at least 9%. Similar conservatism applies to the passenger forecast, including the shock factor, and commercial revenues assessment.
- **The Airline Community supports the CAA's proposed capex envelope of £5.8 billion** as a credible and deliverable midpoint and asks the CAA to hold firm on that figure at Final Proposals. True prioritisation within the envelope is only possible with a binding cap and a structured, governance-backed exercise within it.
- **H7 demonstrated deep structural weaknesses in both capital governance and the ORC framework, and a step change is required at H8.** On capital, this means CAA-directed independent assurance and licence-backed consequences for governance failures. On ORCs, it means airline agreement rights before material above-inflation increases in airline-funded categories can be passed through.
- **The Airline Community supports the targeted evolution of the MTI framework, and particularly the introduction of a financial incentive on departing baggage performance.** However, this measure needs to be materially tightened to capture recurrent major outages in Heathrow's systems that have harmed consumers and incentivise performance. We will work constructively with the CAA on the detailed calibration of this and the broader package of proposals contained within.
- **The TRS mechanism ought to be recalibrated** to prevent HAL from passing onto consumers the cost of its own failure to deliver the required level of capacity to meet demand.
- **H8 cannot be read in isolation.** HAL's Business Plan as submitted already implied a real charge increase of up to 47% by 2031, before expansion-related costs, and the CAA's "outturn" framing takes no account of parallel workstreams affecting the same consumers. On the Airline Community's evidence-based package, **the average H8 charge should be £24.48 per passenger (2024 CPIH), against the CAA's £28.80.**

Executive Summary

Background and Context

This response sets out the Airline Community's views on the CAA's H8 Initial Proposals for Heathrow Airport, published as CAP3232 on 31 March 2026. It reflects the positions developed by airlines and their advisers across the H8 review, informed by the substantive engagement that has taken place through the Constructive Engagement (CE) process, in both multi-lateral and bi-lateral sessions.

The Airline Community welcomes the strategic intent of the Initial Proposals and the substantial methodological improvements the CAA has made, including the use of independent econometric benchmarking, the bottom-up scrutiny of opex and commercial revenues, the development of an independent passenger forecast, and the CAA's direct ownership of CE Round 4. Its response falls into three broad categories: areas where it supports both the CAA's intent and the outcome reached; areas where it supports the CAA's approach but considers that the outcome does not yet follow from it; and areas where it considers the CAA's methodology to be flawed.

In the first category, the CAA has reached outcomes the Airline Community supports. The capex envelope is a credible attempt to balance investment need against affordability and represents a significant and necessary correction to HAL's submitted plan. The CAA has rejected changes to the single till, rejected the expansion of ORC scope, and rejected the bulk of HAL's technology, resilience and digital overlays. It has also introduced a financial incentive on departing baggage and declined HAL's proposal to double the value of service quality bonuses. The Airline Community welcomes each of these positions and asks the CAA to hold to them at Final Proposals.

In the second category, the CAA has adopted the right approach but has not applied it in a way that reflects the weight of the evidence, resulting in proposed allowances that do not reflect efficient costs for the consumer. We strongly support the CAA's methodology on opex, which delivers on the CAA's commitments for H8 and constitutes an improvement on H7. However, the opex assessment produces a catch-up efficiency challenge of 4%, which is not consistent with Heathrow's ranking near the bottom of a 43-airport comparator set, nor with the bottom-up evidence the CAA itself has assembled; the evidence supports a challenge of at least 9%. The passenger forecast does not fully reflect the latest outturn evidence or the practical scope for seat-factor optimisation and applies a shock factor that risks duplicating the proposed Traffic Risk Sharing mechanism. The commercial revenue assessment remains cautious in several respects. In each case the framework is sound, and the remedy is to apply it more fully rather than to change it.

In the third category, the concern is with the method itself. This is clearest on the cost of capital, where the methodology the CAA has used to give effect to them is materially flawed. It gives excessive weight to unstable long-window beta estimates, relies on market-cap weighting that is not robust, and applies the CAA's own risk adjustments inconsistently, recognising the risk reduction from Traffic Risk Sharing while declining to make comparable adjustments for capacity constraint and the single till. In addition, the proposal to allow an actual cost of debt has lacked transparency, creates perverse financing incentives, and will lead to higher costs for consumers for decades including for expansion. The CAA's analysis is internally inconsistent, is premised on factual errors and non-transparent information, diverges from its own precedent and fails to reflect airport-specific evidence. It further creates regulatory unpredictability by relying on approaches, data and assumptions that are not applied coherently and do not reflect HAL's actual risk profile. The result overstates the efficient return for HAL by around 120 basis points, which implies overcompensation of more than £1.2 billion over H8, equivalent to an overcharge on the consumer of around £3.02 per passenger from the WACC alone. This would be against the CAA's statutory duties to protect the consumer and ensure efficient costs. Our independent advice, including the independent academic experts, propose materially better alternatives and a consistent evidence-based approach to calculate the WACC more accurately and ensure efficient costs.

The combined effect of these issues falls on the charges passengers will ultimately face. **H8 does not exist in isolation.** The settlement interacts directly with the CAA's parallel proposals on early expansion costs, the wider regulatory model review (CAP3251), and HAL's own representations on capacity expansion, each of which affects the level of charge Heathrow passengers will face. H8 will not only set the baseline for these developments, but sits alongside Airline Community calls more widely for regulatory reform of Heathrow to address the current shortcomings of the highest charges of any global airport yet services that lag behind. HAL's Business Plan as submitted already implied a real charge increase of up to 47% by 2031, before any expansion-related costs, and the CAA has acknowledged that modernisation and expansion could more than double charges in real terms. In that context, the Initial Proposals' framing of an "outturn" charge level is misleading, because it does not reflect the costs of related decisions that will fall on the same consumers in the same period.

There is limited evidence that the CAA has assessed the impact on affordability and consumer choice, despite clear evidence that higher charges weaken connectivity and the CAA's own commitment to use affordability as an evaluation criterion for the regulatory models on expansion. Without a more explicit assessment of the cumulative impact of charges on affordability, connectivity and choice, there is a risk that the regulatory settlement will harm the consumer and weaken UK competitiveness. The CAA should present a top-down view of the combined charge impact across these workstreams before Final Proposals and confirm that the H8 settlement has been designed with that impact in view.

On the Airline Community's evidence-based package, the average H8 charge should be £24.48 per passenger (2024 CPIH), against the CAA's proposed £28.80, a reduction of 15% and a 9% decrease on the steady-state 2024 to 2026 average of £27.

Process

The integrity of the Final Proposals will depend in large part on the process the CAA adopts between now and then. Two issues are central:

First, the CAA must set a high evidential bar for information provided by HAL after the conclusion of Round 4. The Airline Community set out detailed concerns in its letter of 20 May 2026, including the specific safeguards the CAA should adopt. The Initial Proposals do not yet make clear how late material will be assessed, and the position taken at Final Proposals will determine whether H8 produces a well-evidenced outcome or one in which deficiencies in HAL's original submission can be remedied after the event. A failure to set a high bar would, in effect, move the goal posts. HAL would be allowed to develop its case after seeing both the CAA's reasoning and the Airline Community's response, in a position no other party can occupy, and having been assessed as submitting a low-quality Business Plan. The CAA should distinguish clearly between new information, which should have formed part of HAL's 11 July 2025 Business Plan or been provided during CE, and representations on the Initial Proposals themselves, which are a proper part of consultation. The two should not be treated as equivalent. This principle applies with equal force across opex, capex and the wider settlement.

Second, the CAA has set allowances using HAL information that airlines have not been permitted to interrogate, including HAL's actual cost of debt, its Fixed Asset Register, and the contractual terms of its electricity distribution contract. The Airline Community's letter of 8 May 2026 requested disclosure of the underlying data, subject to a confidentiality ring if needed, consistent with the practice of other UK economic regulators including Ofwat. That disclosure has not been made, despite a cost of debt impact of more than £1 per passenger and a depreciation allowance of several billion pounds set based on a register the CAA has confirmed it has not itself seen. The CAA should resolve this before Final Proposals. The Airline Community also places on record that HAL's 9 January 2026 out-of-process submission should have no bearing on the Initial Proposals or the Final Determination.

Critical asks of the CAA

The Airline Community's **most critical asks** of the CAA at Final Proposals are:

- i. **Assess affordability, consumer choice and the combined consumer impact.** Given the wider context, the CAA must **conduct an explicit assessment of the cumulative impact of charges on affordability, connectivity and choice. This requires** evaluating the overall charge impact for consumers across H8 and the parallel workstreams and ensure that the H8 settlement does not close the door on, or pre-empt, those wider developments.
- ii. **Hold firm on the capital envelope.** The CAA should maintain the £5.8 billion midpoint envelope, resist any expansion based on late submissions from HAL, set clear guardrails on the 5% uncertainty mechanism so that it does not operate as a de facto uplift, and require a structured prioritisation exercise within the fixed envelope, given regulatory effect through strengthened governance.
- iii. **Address the imbalance of risk and reward.** The CAA should reduce the WACC to 4.68% (real CPIH, pre-tax), correcting the methodological errors in its beta estimation and adjustment as well as the cost of debt. This is in line with the CAA's own precedent, regulatory precedent by other airport charges regulators and the independent (academic) advice we have procured. It should also assess the cumulative effect of the overlapping protections against multiple sources of risk that the financial framework provides to HAL, including Traffic Risk Sharing, the Asymmetric Risk Allowance, RAB indexation, pass-through mechanisms and the proposed actual cost of debt approach, and reflect those protections in a lower point estimate in the WACC range where they are retained.
- iv. **Implement targeted, licence-backed governance reform.** Capital and ORC governance require a step change, not additional reporting. The CAA should introduce CAA-directed independent assurance and enforceable, licence-backed consequences for governance failures in capex, and strengthen Condition C2 so that material above-inflation increases in airline-funded ORC categories require airline agreement rather than explanation after the event.
- v. **Correct the conservatism in the building-block assessments.** The CAA should address the shortcomings in the passenger forecast, opex and commercial revenue assessments, adopting a higher central passenger forecast, improved efficiency targets backed by the CAA consultants' evidence, and a more fully applied evidence-led approach to commercial revenues. Where HAL has not provided the information needed to justify its position, the CAA should not resolve that gap in HAL's favour.
- vi. **Tighten the proposed service quality incentives (MTIs):** The current calibration of MTIs is insufficient to address persistent underperformance by HAL. While we welcome the introduction of a financial rebate on the critical area of departing baggage, the proposed incentive will not capture the consumer detriment arising from major and recurring system outages at Heathrow over the past years. We welcome further engagement with the CAA on this key development, alongside addressing the further points raised that improve the overall framework in an appropriate manner, which includes the rejection of "eligibility criteria" for the reasons set out within.
- vii. **Set a high bar on process.** The CAA should confirm that HAL's 10 July 2025 Business Plan remains the primary benchmark, that post-Initial Proposals material will not be treated as equivalent to evidence submitted on time, that airlines will have a meaningful opportunity to test any new material, and that the BPI assessment will reflect both the low quality of HAL's plan and the shortcomings in its engagement during CE.

1. Introduction

This response sets out the Airline Community's views on the CAA's H8 Initial Proposals for Heathrow Airport, published as CAP3232 on 31 March 2026 (Referenced as CAP3232 throughout this document). This response is submitted ahead of the consultation deadline of 29 May 2026 on behalf of the London (Heathrow) Airline Consultative Committee (LACC) and the Heathrow Airline Operators Committee (AOC), and reflects the positions developed by airlines and their advisers over the course of the H8 review.

Individual airlines, groups and alliances may make their own submissions detailing their specific views on the CAA's proposals.

The response is informed by the substantive engagement that has taken place through the Constructive Engagement (CE) process, in both multi-lateral and bi-lateral sessions, including the four rounds of CE that concluded in April 2026. It should be read alongside the Airline Alternative Business Plan (ABP) submitted in October 2025, and the Airline Community's correspondence with the CAA during H8, including:

- the joint letter of 30 January 2026 on parallel workstreams and HAL's 9 January 2026 out-of-process submission;
- the letter of 8 May 2026 on the lack of disclosure of HAL's actual cost of debt and Fixed Asset Register; and
- the letter of 20 May 2026 on the acceptance of information after the conclusion of Round 4.

The concerns set out in those letters have not been resolved by the Initial Proposals and are restated where relevant in the chapters that follow.

H8 does not exist in isolation. The settlement interacts directly with the CAA's parallel proposals on early expansion costs, the wider regulatory model review (CAP3251), and HAL's representations on capacity expansion, each of which will affect the level of charge that Heathrow passengers ultimately face. The Initial Proposals should be read, and Final Proposals should be reached, with the combined consumer impact in view.

The response is structured by building block, following the order of the CAA's Initial Proposals:

- the **Overall Regulatory Framework**, including the CAA's approach to H8, the Business Plan Incentive, and the single till;
- **Passenger forecasts**;
- **Operating expenditure**;
- **Other Regulated Charges**;
- **Commercial revenues**;
- **Capital expenditure**;
- **Service quality, resilience and incentives**; and
- **Capex governance and incentives**.

Where issues cut across building blocks, notably the treatment of post-Round 4 information, the disclosure of HAL information used in setting H8 allowances, and the interaction between H8 and related workstreams, they are addressed in the relevant chapter and cross-referenced.



The response is also supplemented, and hereby incorporates, several independent reports related to the WACC and Financial Framework and Passenger Forecasting, as well as the presentation on Capital Governance as detailed further in the relevant sections.

The Airline Community has also updated the figures underpinning the Airline Business Plan, based on the latest information and positions – the output of which produces a proposed profiled aeronautical charge for H8 of £24.48. Underlying details of which are set out in Appendix A and the associated Annex. For the avoidance of doubt the Airline Community do not support the front loading of charges.

The full list of Annexes which should be read alongside, and hereby incorporated in this response, are:

- Airline Alternative Business Plan: Model updated for Initial Proposals (2026)
- “Heathrow H8 CAA Round 4 Initial Proposals: Passenger Forecast Review for LACC (Final)” by Skylark Consulting Group, May 2026
- "Airline Community Capital Governance Proposal" to CAA, 20 May 2026.
- CEPA (2026): ‘H8 Initial Proposals – Response on financial issues’
- Prof D Robertson (2026): ‘Estimating beta’
- Prof R Mason (2026): ‘An independent Report on aspects of Heathrow’s asset beta’

2. Overall regulatory framework

Summary

The CAA's approach to H8: The Airline Community welcomes the substantial methodological improvements the CAA has applied at Initial Proposals, including the use of independent econometric benchmarking, systematic bottom-up scrutiny of opex and commercial revenues, the development of an independent passenger forecast, and the CAA's direct ownership of Round 4 of Constructive Engagement. There are, however, three outstanding process concerns: H8 has been assessed in isolation from parallel workstreams that have a direct bearing on the charges consumers will face; the CAA has used HAL information that airlines have been unable to interrogate, including HAL's actual cost of debt, Fixed Asset Register and the contractual terms of its electricity distribution contract; and errors across the cost of capital and financial framework that result in HAL being overcompensated for the risk that it bears. The CAA should provide a top-down assessment of the combined charge impact across H8 and the related workstreams before Final Proposals, and resolve the outstanding information-disclosure issues, by way of a confidentiality ring where required. The Airline Community also places on record that HAL's 9 January 2026 out-of-process submission should have no bearing on the Initial Proposals or the Final Determination.

Business Plan Incentive: The Airline Community supports the CAA's initial assessment that HAL's H8 Business Plan is a low-quality plan for the purposes of the BPI. The shortcomings the CAA has identified, in opex and commercial revenue granularity, the missing ORC cost breakdown, the weak consumer "golden thread", limited ambition, and shortcomings in third-party assurance, are material and should have material consequences, including a penalty commensurate with a low-quality plan and no bonus award. The poor quality of HAL's engagement during Constructive Engagement, including delayed, incomplete and insufficiently transparent responses to information requests, should also be reflected in the BPI assessment. The CAA should confirm at Final Proposals that the 10 July 2025 Business Plan remains the primary benchmark; that post-IP material will not be treated as equivalent to evidence submitted on time unless HAL can demonstrate it could not reasonably have been provided earlier; and that the BPI penalty reflects both the quality of HAL's submitted plan and the quality of HAL's engagement during CE.

Maintaining the single till: The CAA should unambiguously reaffirm the single till for H8 and decline to pursue any further work on alternative till structures or boundary adjustments for commercial property investment. The case for change has not been made, with HAL presenting poorly considered theoretical arguments for developing an alternative till structure and failing to demonstrate a practical constraint to the development of property projects. The CAA's IPs are broadly correct to reject changes to the till boundary, but they concede too much ground on the problem statement in a way that leaves the door open for HAL to return to this issue at Final Proposals. The Final Proposals should confirm that no adjustments to the till boundary for commercial property investment will be made during this price control period.

2.1 CAA's approach to H8 so far: welcome progress and outstanding concerns

The Airline Community welcomes the CAA's approach to H8 in several important respects. The application of independent econometric benchmarking and systematic bottom-up scrutiny to opex and commercial revenues, the development of an independent passenger forecast, and the CAA's ownership of Round 4 of Constructive Engagement are all significant improvements on previous reviews. They reflect feedback the Airline Community has provided consistently since the H7 lessons-learned review, and this response is written in a constructive spirit, engaging with the substance of the Initial Proposals building block by building block.

We are, however, disappointed that the CAA and its advisers do not appear to have engaged fully with the detail in the Airline Alternative Business Plan (ABP). Several specific questions and propositions raised by airlines (e.g. on capital prioritisation, individual opex cost lines, and commercial revenue methodology) do not appear to have been considered. We address those gaps in the relevant building block chapters of this response.

A more fundamental process concern is that the H8 assessment has, at least in part, been conducted in isolation from parallel workstreams that have a direct bearing on the overall level of charge Heathrow passengers will face. The Airline Community raised this in its letter to the CAA of 30 January 2026. HAL's Business Plan (as submitted) already implied a real charge increase of up to 47% by 2031. The H8 Initial Proposals, the CAA's proposals on early expansion costs, and the wider regulatory model review each affect that level, yet we have seen no evidence that the CAA has conducted a top-down assessment of the combined charge impact across those workstreams. The CAA should provide that assessment before Final Proposals and confirm that the H8 settlement has been designed with the cumulative charge impact on consumers fully in view.

A separate and equally serious process concern relates to information that HAL has provided to the CAA on a confidential basis. Across several building blocks, HAL has shared information with the CAA while claiming commercial sensitivity, and the CAA has accepted those claims without challenge and used the information to set allowances. In a few cases, the information does not appear to be genuinely sensitive in any commercial sense. The result is that the CAA has set allowances on the basis of evidence that airlines cannot access or test. This directly affects the evidential basis for the proposals and the Airline Community's ability to engage effectively with this consultation. The clearest examples of this are:

- HAL's cost of debt and Fixed Asset Register; and
- the contractual terms of its electricity distribution contract.

We address our substantive concerns on the approach taken to WACC and the Financial Framework in Section 10.

Finally, the Airline Community also places on record that, on 9 January 2026, HAL submitted material to the CAA that was outside the process established by the CAA's Method Statement and Business Plan Guidance. As set out in the Airline Community's letter of 30 January 2026, that submission was developed and submitted in a manner that sought to undermine the agreed process. Critically, it referenced information that airlines had repeatedly requested from HAL during Constructive Engagement but had been refused. HAL should not be permitted to benefit from its lack of transparency during CE by deploying withheld information outside the established process. That submission should have no bearing on the Initial Proposals or the Final Determination.

Concerns about the potential acceptance of new material submitted by HAL after the conclusion of Round 4 are addressed in full in the section below.

2.2 Business Plan Incentive (BPI)

The Airline Community supports the CAA's initial assessment that HAL's H8 Business Plan is a low-quality plan for the purposes of the BPI. We agree with the CAA's specific concerns, including the lack of granularity and consistency in opex and commercial revenue forecasts, the absence of the specified ORC cost breakdown, weaknesses in the consumer 'golden thread', limited ambition and coherence, and shortcomings in third-party assurance.

The shortcomings the CAA identified in its assessment are material and should have consequences, if the BPI is to remain credible. The BPI was introduced to incentivise HAL to submit a high-quality business plan that could be scrutinised effectively by the CAA, airlines and other stakeholders. As per the CAA's own assessment, HAL did not do so. Its plan did not provide a clear

and consistent link between consumer research, proposed outcomes, capital investment, opex, commercial revenues and service quality improvements. This weak 'golden thread' matters because HAL's proposed settlement depends on the proposition that materially higher charges and a substantial capital programme will deliver benefits for consumers. Where those linkages are unclear, the CAA cannot safely assume that the plan is coherent, efficient or consumer-led.

The quality of HAL's engagement with airlines also fell short of what the BPI framework and Constructive Engagement process were intended to secure. The Airline Community has consistently raised concerns that HAL did not provide timely, transparent or sufficiently detailed information across key building blocks.¹ In the Airline Alternative Business Plan, airlines explained that HAL's failure to share timely or detailed information prevented meaningful engagement on capital prioritisation, opex, commercial revenues and depreciation, and that incomplete or inconsistent data made it impossible to assess efficiency or value for money. Airlines also explained that persistent information gaps and lack of transparency forced them to develop their Alternative Business Plan without the level of detail needed to validate or benchmark HAL's assumptions.

The timing of HAL's responses is particularly important. In some cases, information requested by airlines during Constructive Engagement was either not provided, provided incompletely, refused,² or provided only after the Airline Alternative Business Plan had been submitted to the CAA.³ Information provided after that point could not inform the Airline Community's plan and was not exposed to the same scrutiny as material provided during the business planning process. The CAA's Summary recognises that airlines said limited transparency prevented them from fully assessing HAL's capital plan. That is not a peripheral process concern. It affected the evidential record available to the CAA and the ability of users to test HAL's proposed allowances.

The quality of evidence supporting key elements of HAL's Business Plan was also insufficient. This is evident across several building blocks. HAL did not provide the required granularity for opex and commercial revenues, as mandated by the CAA. Its ORC proposals lacked the specified cost breakdown. Its capex programme lacked a sufficiently clear link between expenditure, measurable outputs and consumer outcomes. Its proposed overlays and other cost increases were not consistently supported by robust evidence of need, additionality and efficiency. These gaps are precisely the type of failure the BPI was designed to address. **HAL should not benefit in its allowances from deficiencies in evidence that were within its control.**

The lack of ambition in HAL's plan is also apparent from the scale of the efficiency adjustment required by the CAA's own Initial Proposals. HAL submitted a plan that assumed no catch-up efficiency adjustment to its 2024 opex baseline. The CAA has rejected that position and applied a catch-up efficiency challenge, supported by independent top-down and bottom-up evidence. The Airline Community considers that the CAA's challenge remains too cautious, but the need for any material adjustment illustrates the weakness in HAL's submitted plan. A business plan that materially overstates the efficient cost base, and does not provide adequate evidence to justify that position, cannot reasonably be treated as ambitious.

The CAA should therefore be cautious about the volume of new material HAL has provided, and may continue to provide, after the initial Business Plan. The Airline Community recognises that the consultation process allows HAL to respond to the Initial Proposals, correct genuine errors and provide evidence on matters that have changed since July 2025. However, there is a clear distinction between responding to the CAA's reasoning and using the post-IP process to rebuild the evidential basis for a

¹ See: Airline Community letter to the CAA, 8 August 2025; Airline Community letter to the CAA, 30 January 2026; Airline Community letter to the CAA, 5 March 2026.

² See discussion above regarding the Fixed Asset Register and HAL's cost of debt.

³ A query in relation to HAL's commissioned benchmarking was responded to on 16 January 2026, three months after the finalisation of the ABP.

deficient business plan. The former is a proper part of consultation. The latter would undermine the purpose of the BPI.

That distinction should guide how the CAA treats post-IP information. **New evidence should not be treated as equivalent to material submitted on time unless HAL can explain why it could not reasonably have been provided with the July 2025 Business Plan, or during Constructive Engagement before the Airline Alternative Business Plan was submitted.** The CAA should also consider whether airlines have had a meaningful opportunity to review the material, whether it is independently assured, whether it is consistent with HAL's wider plan and whether it changes the CAA's assessment of the original submission rather than merely supplementing it after the event.

The Ofwat PR24 price review, and its treatment of Cost Adjustment Claims, provides a directly relevant precedent. Ofwat confirmed that companies would need to provide convincing evidence why new information or claims could not have been submitted as part of their original business plans, and identified three reasons why late claims are problematic: information asymmetry (companies will only submit new claims where those claims increase allowances); the inability of late material to face the same scrutiny as the original plan; and the need to keep draft determination responses focused. Each of those reasons applies with equal, if not greater, force in aviation, where the CAA's primary duty is to further the interests of users of air transport services and the Constructive Engagement process is the principal mechanism through which users exercise that role.

There is a specific risk the CAA should be alert to. Having seen the CAA's Initial Proposals and the methodology underlying them, HAL is now in a position to reverse-engineer submissions that appear to meet the CAA's framework without having been subjected to the scrutiny that framework was designed to apply. This could take the form of re-characterising projects to satisfy the need, additionality or efficiency tests, or restructuring cost narratives to align with the CAA's benchmarking methodology. The CAA should treat such representations with particular caution. A submission that arrives after HAL has seen both the Initial Proposals and the Airline Community's response is in a fundamentally different position from material submitted at the outset of the process and should be assessed accordingly.

This approach is necessary to preserve the integrity of the BPI. If HAL can remedy material deficiencies through late clarifications and supplementary submissions, the incentive fails precisely when it is most needed. It would also create an asymmetry between HAL and users: airlines had to develop their Alternative Business Plan with incomplete information, while HAL would be allowed to improve its position after seeing the CAA's Initial Proposals and the Airline Community's response. That would not be consistent with a fair or effective price review process.

A related point concerns the bonus side of the BPI. The Airline Community's position remains that producing a compliant, fit-for-purpose business plan is the baseline obligation of a regulated monopoly, not an exceptional achievement that warrants additional reward. The BPI bonus should be reserved for plans that demonstrate genuine above-and-beyond engagement and evidence quality throughout the CE process: plans that made the CAA's job easier, gave airlines meaningful material to engage with, and produced a well-evidenced and ambitious settlement without requiring the degree of independent scrutiny the CAA has had to apply in H8. That standard has clearly not been met here.

Requests for Final Proposals:

- HAL's 10 July 2025 Business Plan remains the primary benchmark for the BPI assessment;
- post-IP material will not be treated as equivalent to evidence submitted on time unless HAL explains why it could not reasonably have been provided earlier, and the CAA is satisfied that the evidence is balanced and clearly supports consumer outcomes rather than simply increasing HAL's allowances;

- airlines will have a meaningful opportunity to review and respond to any new material before the CAA places weight on it; and
- any BPI penalty will reflect both the quality of HAL's submitted plan and the practical consequences of HAL's delayed, incomplete and insufficiently transparent engagement during Constructive Engagement.

At this stage, the CAA's own assessment supports a penalty commensurate with a low-quality plan.

2.3 Maintaining the single till

The problem statement is not established

We are concerned that the IPs, while reaching the right overall conclusion with regards to the single till, accept elements of HAL's problem statement that are not supported by the evidence. Our position is that the evidence, looked at in full, does not support this problem statement at all.

The single till substantially de-risks commercial property investment for HAL. Construction costs enter the RAB, providing a guaranteed return on efficient investment regardless of revenue performance. In-period revenue risk is limited, and is reset at each price control review. The claim that the allowed WACC is insufficient to motivate property investment fails to account for this de-risking effect: HAL's property investments are structurally less risky than equivalent investments in the wider commercial property market, and the allowed WACC should already reflect the blended risk profile of HAL's activities. We present academic advice by Professor Robin Mason in our response on the WACC on how HAL's asset beta ought to be adjusted downwards to reflect this systematic de-risking effect.

The empirical record supports this advice. Airlines approved over £235 million of commercial property investment through the G3 process between 2023 and 2025, covering the Eastern Business Park, Compass Centre, and Poyle developments. Where limited investment has occurred, it reflects the normal commercial assessment of project merits, not a structural regulatory failure.

Steer's need assessment for H8 corroborates this conclusion. HAL's narrative is that commercial property projects cannot get through the regulatory process, but Steer's framework automatically treats post-G3 projects (i.e. those that have secured airline approval) as having a strong need case and includes them in the capex envelope without further scoring. The commercial and property business cases that score poorly are HAL's unapproved, pre-G3 submissions. They score weakly not because of a structural bias against commercial investment, but because HAL has not built robust consumer benefit cases for them. The governance framework is functioning as intended in so far as: projects with sound business cases proceed; projects without them do not. If HAL wishes to bring forward further commercial property investment in H8, the correct route is to develop stronger project-level cases and engage with airlines through the established process.

HAL's suggestion that it is unable to progress commercial projects with a long pay-back period is not reflected in reality

HAL has repeatedly asserted that it is unable to progress commercial property projects with long payback periods through the existing governance process. We disagree strongly with that characterisation. The constraint is not the governance framework; it is the quality and maturity of the proposals HAL has brought forward.

To date, HAL has not presented a commercial property business case through the G3 process that provides airlines with sufficient clarity to form a considered view. For airlines to support a long-lived commercial investment, they require a business case that sets out clearly the expected returns, the range of uncertainty around those returns, and the nature and scale of the risk to which the airline community would be exposed over the life of the asset. This is a reasonable and proportionate ask: under the single till, it is airlines and their passengers who bear the revenue risk associated with commercial property investment underperforming against forecast. The airline community is not in a

position to support proposals where that risk cannot be adequately understood or assessed. This point connects to our wider concerns regarding the capex governance process, which we address separately in this response.

HAL's characterisation of the five-year payback framing as a binding constraint conflates the CAA's commercial revenue forecasting methodology with a fixed investment test applied at G3. The G3 process does not operate on the basis of a payback period threshold. Airlines assess commercial property proposals on their merits, and have consistently supported projects where a credible business case has been made. The absence of airline support for HAL's pre-G3 commercial pipeline reflects the absence of such cases, not a systematic reluctance to engage with long-horizon investment.

More broadly, HAL should seriously consider alternative delivery models for commercial property development. Third-party concession arrangements, of the kind successfully deployed in the development of the T2 and T4 hotels with the Arora Group, offer a route to delivering projects that are in the long-term consumer interest while achieving effective risk transfer away from the airline community. Such models allow commercially specialist developers to assume development and revenue risk, with the benefits flowing to the till in the form of a transfer fee or ground rent. Furthermore, it allows for the prioritisation of capital on issues raised by HAL, airlines and consumers around resilience, capacity and operational performances. HAL has not adequately explored this route, and we would expect it to do so before asserting that viable commercial projects are failing to proceed.

Any adjustment to the boundary of the single till is likely to cause significant consumer harm

We note that the CAA has rejected any proposed adjustment to the boundary of the single till, and we support that outcome. For completeness, our key objections to any adjustment are:

- The creation of perverse incentives for HAL to understate projected returns on property investments as a means of moving assets outside the till, to prioritise off-RAB development over aeronautical investment, and to design infrastructure to maximise commercial returns at the expense of aeronautical efficiency. Importantly, any structural change would weaken the CAA's ability to monitor and control HAL's behaviour in exactly the areas where regulatory oversight is most important.
- Any adjustment to the boundary of the single till would, in practice, introduce hybrid till characteristics without the transparency and discipline of a properly constituted dual till. The regulatory and monitoring burden this would impose on the CAA is not proportionate to the hypothetical problem it purports to solve.

Airlines must be engaged on any future proposals

Notwithstanding our view that the case for change has not been made and should not be revisited, we recognise that HAL may seek to bring forward new or revised proposals on this issue ahead of Final Proposals. Should that occur, the CAA should ensure that airlines are engaged fully and at an early stage before any such proposals are assessed or given material weight.

It is not appropriate for such proposals to be assessed on the basis of submissions from HAL alone, and airlines must have a meaningful opportunity to review the evidence base, test HAL's assumptions, and provide their own assessment before the CAA forms a view. We would expect this engagement to take place through the established Constructive Engagement process, with sufficient time for airlines to commission independent analysis where necessary.



2.4 Requests for Final Proposals:

- The CAA should confirm clearly in its Final Proposals that the single till will be maintained unchanged for H8 and that no further work will be undertaken on adjustments to the till boundary for commercial property investment during this price control period.

3. Passenger Forecasts

Summary

The Airline Community welcomes the CAA's decision to develop an independent passenger forecast for H8, supported by Steer. We also agree that, given Heathrow's 480,000 ATM cap, a bottom-up supply-side approach is the right starting point. The CAA explains that Steer's bottom-up model forecasts passenger numbers using passenger ATMs, average seats per passenger ATM and load factor.

However, the CAA should revise its passenger forecast before Final Proposals. The IP forecast is conservative in several important respects. It does not fully reflect the latest evidence on passenger ATMs, understates the scope for seat-factor optimisation. It also applies a shock factor that has not delivered on its objective of improving the CAA's overall passenger forecasts and duplicates the Traffic Risk Sharing mechanism. We support the removal of the shock factor or, in the alternative, its recalculation.

3.1 The CAA should update the forecast to reflect the latest passenger ATM evidence

The Airline Community has commissioned a report from consultancy Skylark providing an independent assessment of the CAA's Initial Proposals relating to passenger forecasts, alongside Skylark's own independent passenger demand forecast. This report is attached as an annex to this response.

The CAA should rebase the H8 forecast using the latest actual passenger ATM data. Skylark identifies that Heathrow handled 477,883 ATMs in 2025, of which 475,596 were passenger ATMs. This is above Steer's 2025 starting figure of 473.7k passenger ATMs.

The 2025 outturn also already exceeds Steer's medium-term passenger ATM assumptions. Skylark's analysis shows that the 2025 passenger ATM figure is higher than Steer's forecast for 2031, and proposes that the forecast be revised to reflect the latest actual figure achieved with modest further growth over the period.

This is a reasonable adjustment. Heathrow is operating very close to its 480,000 ATM cap, and the CAA recognises that Steer's modelling is most sensitive to seats per aircraft and load factor once the ATM cap is binding. Where actual passenger ATMs are already above the modelled starting point, the CAA should not retain a lower baseline unless it has clear evidence that the 2025 outturn is not representative.

The CAA should also consider whether passenger ATMs can increase modestly as non-passenger movements decline. Skylark notes that non-passenger (primarily freighter) movements reduced by 380 flights in 2025 and considers that a further shift from freighter movements to passenger flights could reasonably occur over the medium term.

3.2 The CAA should place more weight on seat-factor optimisation

The main area where the CAA's forecast appears conservative is load factor. The CAA's IPs show that Steer's base case load factor reaches 81.5% in 2031, compared with 84.7% in the Airline Community's base forecast.

We do not consider that the CAA needs to make a major adjustment to Steer's aircraft-size assumption. Skylark's review finds that Steer's 2031 assumption of around 233 seats per passenger ATM is reasonable and broadly aligned with Skylark's own assessment. The key issue is therefore not the aircraft-size assumption, but the load-factor path.

There is evidence that a higher load-factor path is achievable, especially with the ongoing integration of artificial intelligence into airline revenue management processes. Skylark identifies a reasonable opportunity to increase load factors over H8, particularly on European flights, where 2025 load factors were materially below long-haul regions. It also notes that Heathrow's seat factor is low compared with benchmark European hub airports, which typically sit around 82% to 84%.

This is consistent with the Airline Community's earlier forecasting work. That work identified scope for reduced seasonality, stronger utilisation in weaker months, continued organic demand growth and further upgauging within the slot-constrained environment.

The CAA should therefore test a revised load-factor path that moves towards around 83% to 84% by 2031. Skylark's combined adjustment reaches 83.2% by 2031 and implies 92.2m passengers in 2031, compared with Steer's 90.2m. Over H8, this would increase cumulative unshocked passengers from 442.0m to 447.6m.

3.3 The CAA should remove the shock factor from the central forecast

The Airline Community does not agree that the CAA should apply a shock factor to the central passenger forecast used to set the H8 price control. The central forecast should represent the best estimate of expected passenger volumes. Downside outturn risk should then be managed through the Traffic Risk Sharing mechanism.

Applying a shock factor to the central forecast risks making passengers pre-fund events that may not occur. This is particularly problematic where the same forecast is then used as the baseline for traffic risk sharing. In effect, the approach reduces the denominator used to set charges and then applies a further mechanism to manage deviations from that reduced baseline.

Skylark's review supports this concern. It notes that the shock factor was intended to improve forecast accuracy, rather than provide compensation for risk. However, Skylark finds that, in Q6 and H7, traffic outperformed the regulatory forecast by around 5%, excluding the Covid period.

There is therefore no clear evidence that the shock factor has improved forecast accuracy in recent price controls. Skylark also concludes that it is not reasonable for the Traffic Risk Sharing mechanism to rely on a shocked passenger forecast where there is no direct interlink between the -0.84% shock factor and the TRS mechanism, other than using the shocked forecast as the TRS baseline.

The CAA should therefore use the unshocked P50 forecast as the central forecast for setting the price control and calibrating the TRS. If the CAA wishes to retain the shock factor for sensitivity analysis, it should present that separately and explain how it avoids double counting with TRS.

3.4 If the CAA retains a shock factor, it should revise the calculation

If the CAA decides to retain a shock factor, it should revisit the calculation before Final Proposals.

Skylark identifies that the shock factor includes the 1991 Desert Storm impact, despite the CAA having recognised that this event coincided with a fall in UK GDP. Skylark considers that this period should be treated as an economic shock event and excluded from a factor intended to capture asymmetric non-economic downside risks.

Skylark estimates that excluding the 1991 Desert Storm impact would reduce the shock factor from -0.84% to -0.6%. The CAA should also consider whether a time-weighted approach would be more appropriate, as older shock events that occurred 20 – 30 years ago may be less representative of the H8 period given the increasing improvements in airline operations, airport management, technology and resilience planning.

3.5 Requests for Final Proposals

For Final Proposals, the Airline Community asks the CAA to:

- update Steer’s forecast using full-year 2025 outturn data and the latest available 2026 evidence;
- rebase passenger ATMs to reflect the 2025 actual passenger ATM outturn;
- test the scope for modest growth in passenger ATMs from reduced freighter movements and lower cancellations;
- adopt, or at least test, a load-factor path that reaches around 83% to 84% by 2031;
- use the unshocked P50 forecast as the central forecast for setting the price control and calibrating TRS;
- if the shock factor is retained, recalculate it excluding or down-weighting older and potentially economic events, including the 1991 Desert Storm impact; and
- publish the final passenger ATM, aircraft-size and load-factor assumptions by region and year, so stakeholders can reconcile the final passenger forecast to the underlying drivers.

Overall, the CAA has adopted the right forecasting architecture, but has not yet applied it in a way that fully reflects the latest outturn evidence of the passenger ATMs achieved or the practical scope for further passenger growth through seat factor optimisation at a slot-constrained Heathrow. The Final Proposals should correct this by adopting a higher central passenger forecast and by avoiding duplication between the shock factor and TRS.

Supporting Annex

- “Heathrow H8 CAA Round 4 Initial Proposals: Passenger Forecast Review for LACC (Final)” by Skylark Consulting Group, May 2026

4. Operating Expenditure

Summary

The Airline Community broadly supports the CAA's approach to the H8 opex assessment. The application of top-down econometric benchmarking, systematic bottom-up scrutiny, and a clear willingness to reject unsupported cost additions are all significant improvements on previous reviews, and we welcome them. However, at each point where the evidence permitted a stronger challenge, the CAA has adopted the more cautious of the available positions, and the cumulative effect is an opex allowance that is materially too generous.

Heathrow is ranked near the bottom of a 43-airport comparator set, multiple independent lines of bottom-up evidence confirm the scale of its inefficiency, and yet the resulting catch-up adjustment is 4%. That outcome is not consistent with the weight of evidence the CAA itself has assembled. The Airline Community asks the CAA to correct this at Final Proposals, both by moving the efficiency challenge significantly closer to what the evidence supports and by applying the same rigour to individual cost lines where allowances have been set without adequate scrutiny.

4.1 The catch-up efficiency challenge understates the scale of Heathrow's inefficiency

The 4% catch-up adjustment is insufficient given Heathrow's benchmarking position

The CAA is right to reject HAL's position that its 2024 cost base requires no catch-up efficiency adjustment. The evidence that Heathrow's costs are materially above an efficient level is not in serious dispute: HAL's own adviser, KPMG, found that HAL's 2023 unit operating costs were between 6 and 13% above the efficiency frontier. Even that range, which CEPA's report for the Airline Community demonstrated was derived from conservative modelling assumptions that tend to understate Heathrow's inefficiency, implies a challenge significantly in excess of 4%.

The CAA's own top-down benchmarking confirms the picture. The CAA places Heathrow 39th of 43 airports in 2019 and 40th of 43 in 2022 and correctly identifies the upper quartile as the relevant efficiency frontier rather than the median position proposed by HAL. We support both of those methodological positions. However, a 4% catch-up adjustment is not consistent with a ranking near the bottom of a 43-airport comparator set. An airport at the 39th or 40th percentile is not close to the upper quartile, and the adjustment the CAA has applied does not reflect the implied gap.

We do not suggest that top-down benchmarking should mechanically determine the allowance. Used in isolation, it produces wide ranges that make a precise point estimate difficult to defend. The appropriate approach, as CEPA's report for the Airline Community recommended, is to triangulate between top-down benchmarking, bottom-up analysis of specific cost categories, and a critical assessment of HAL's recent cost performance. Across all three dimensions, the evidence points in the same direction. Europe Economics (EE) / York Aviation's (YE) own bottom-up analysis has identified efficiency opportunities in security staffing, contract retendering and IT, even before the overly generous interpretation of HAL's efficiency in other cost areas is considered. The CAA has assembled the evidence needed to justify a significantly stronger challenge.

The CAA should increase the catch-up efficiency challenge materially at Final Proposals. The Airline Community maintains that a challenge of at least 9% is required, and considers that a range of 9-12% would be better aligned with the evidence now available. That remains a conservative position: our application of the CAA's top-down benchmarking model to 2023 data implies an efficiency gap of

around 53-58%.⁴ While this figure should not be translated mechanically into the allowance, and is likely the result of a range of factors not only inefficiency⁵, it is plainly inconsistent with a catch-up adjustment of only 4%, particularly when read alongside the CAA's own bottom-up evidence of further efficiency opportunities.

Where the weight of the evidence – top-down, bottom-up, and from multiple independent sources – points consistently to a material efficiency gap, the CAA should not resolve that uncertainty in HAL's favour.

The CAA's bottom-up evidence has been applied with systematic caution

EE/YA's bottom-up analysis identifies evidence of potential inefficiencies across several cost categories but consistently resolves areas of uncertainty at the more cautious end of the available evidence range. The result is a bottom-up assessment that materially understates the efficiency gap the evidence supports. For example:

- In the analysis of **cleaning costs**, EE/YA acknowledges that floor area is the more appropriate cost driver for cleaning, but benchmarks on a per-passenger basis on the grounds that floor area data is not available for comparator airports.⁶ That methodological choice systematically flatters Heathrow. Operating near capacity, Heathrow has a high passenger count relative to its terminal floor space, meaning its per-passenger cleaning costs are compressed relative to what a floor-area comparison would show. The comparator set is also thin: only Dublin, Schiphol and ADP provide meaningful cleaning cost data.⁷ Most significantly, EE/YA notes that Dublin Airport's cleaning costs rose from 12 pence to 28 pence per passenger between 2019 and 2024, a near-150% increase in real terms, while acknowledging that "the reasons for this growth at Dublin are unclear." EE/YA nevertheless uses Dublin's unexplained cost surge as corroboration that Heathrow's own cost increase is consistent with industry trends. That reliance is not supportable. CEPA's 2022 report for the Irish Aviation Authority, prepared in connection with Dublin Airport's price determination, explicitly questioned whether Dublin's cleaning cost increases represented efficient expenditure. CEPA noted that the cost increases reflected non-competitively tendered supplier negotiations and catch-up spend following cleaning quality failures in summer 2022.⁸
- The treatment of **operational and non-operational staff costs** follows the same pattern. EE/YA found that both categories were approximately 32% above the adjusted H7 determination in 2024, despite HAL's passenger volumes being broadly consistent with H7 assumptions.⁹ Despite that variance, EE/YA applied only a 3.75% efficiency adjustment and characterised the position as showing "some indication of marginal inefficiency." A 32% divergence from the regulatory determination is not marginal by any reasonable standard. EE/YA acknowledges that data limitations prevented a more granular analysis, but that limitation does not justify a conclusion that resolves so firmly in HAL's favour. Where the

⁴ The Airline Community has raised a separate technical query with the CAA regarding the calculation of the efficiency gap in the top-down benchmarking. The concern is that the reported percentage gap appears to have been calculated as a ratio involving log differences rather than as a percentage difference in cost levels, which may understate the true implied gap once fitted log costs are converted back into levels. This is not the primary basis for the Airline Community's challenge to the 4% adjustment, but it provides a further reason for the CAA to satisfy itself that the top-down benchmarking does not understate the scale of HAL's inefficiency. A response to this query is awaited.

⁵ For example, it may reflect model error or characteristics of Heathrow that are unobservable and make it a higher cost airport to operate.

⁶ EE/YA report, Appendix 1, section A1.3.3

⁷ We also believe that EE/YA may have made an error in its interpretation of ADP data, using cleaning costs across the group but only dividing by the number of passengers at CDG airport.

⁸ CEPA, Dublin Airport Operating Expenditure: Bottom-up Efficiency Assessment, Report for the Commission for Aviation Regulation / Irish Aviation Authority, 2022 (final report).

⁹ EE/YA report, section 2.4.2 and Appendix 1, section A1.3.2

available data is insufficient to assess the full scale of inefficiency, the CAA should not treat that evidential gap as confirmation of efficiency. The cost trend relative to the H7 allowance, alongside the findings of EE/YA's benchmarking referenced in their conclusions, clearly indicates that Heathrow's recent expenditure levels should be subject to greater challenge and investigation. In this context, the emphasis should be on Heathrow providing a robust justification for increased expenditure, rather than the CAA having to rely on cautious conclusions of the appropriate efficiency adjustment because of data limitations.¹⁰

The cumulative effect of these choices is material. EE/YA's bottom-up analysis produces a baseline reduction of £10 million from HAL's 2024 outturn before adjusting for contractual and operational rigidities, and £64 million once those rigidities are included.¹¹ This is a much smaller efficiency gap than is implied by the top-down benchmarking. The gap between those two figures reflects a series of individual choices, each of which land in HAL's favour, that compound into an overall bottom-up assessment bearing little relationship to the scale of inefficiency the underlying evidence supports.

The efficiency benefits of Next Generation Security are not fully reflected in the allowance

The CAA's headline reduction of 11.9% to security staff costs overstates the actual efficiency challenge being applied. A significant part of that reduction reflects the reallocation of Vehicle Control Post costs following their outsourcing, with expenditure moved from the security staff line into other operational costs rather than removed from HAL's cost base. Once that reallocation is stripped out, the net efficiency adjustment applied to security staffing is approximately 8%, comprising a 5% baseline adjustment and a further 3.2% for expected CTix efficiency gains. That is a modest challenge given what EE/YA's own evidence shows.

On lane efficiency, EE/YA's benchmarking against four UK airports produces a raw inefficiency range of 13.3 to 40.4% on a one-hour peak basis.¹² EE/YA compresses this range substantially through two adjustments. It recasts the comparison on a three-hour basis on the grounds that Heathrow sustains peaks across multiple hours, reducing the range to 0–13.5%. It then excludes the comparator showing the highest inefficiency gap without compelling analytical justification. From the residual range, it adopts the lower end. Each of these choices is individually arguable; taken together, they produce a conclusion that sits at the floor of what the evidence supports rather than anywhere near its centre.

EE/YA also acknowledges that HAL systematically over-delivers against its queue time targets, earning bonuses in both 2024 and the first half of 2025.¹³ EE/YA characterises this as indicating "some level of inefficiency" in lane deployment, noting that HAL appears to open more lanes with more staff than are strictly required to meet its service standards. That observation is consistent with an inefficiency at the upper rather than lower end of the range. It does not inform the efficiency adjustment applied.

On CTix and NGS, EE/YA's 3.2% further efficiency reduction represents 40% of the low end of a range of 8–36% projected by other airports as CTix algorithms improve and staff and passengers become more familiar with the new process.¹⁴ There is no analysis of the efficiency gains from multiplexing or the introduction of data-driven passenger forecasting and workforce planning tools, which CEPA's report for the Airline Community identified as material sources of further efficiency gain.¹⁵ Nor has the assessment considered HAL's own business case for Next Generation Security, which over four

¹⁰ EE/YA state that the previous H7 allowance was set in a "relatively arbitrary manner", by averaging, or "smoothing", costs across 2017, 2018 and 2019, with the difference between that average and the 2019 outturn forming the proposed cost reduction. However, this approach is consistent with challenging an upward expenditure trend that Heathrow has not adequately explained - something the more cautious approach adopted by the CAA in its Initial Proposals for H8 risks failing to do.

¹¹ EE/YA report, Table 2.3

¹² EE/YA report, Appendix 1, section A1.3.1 and Table A1.3.3

¹³ EE/YA report, Appendix 1, section A1.3.1

¹⁴ EE/YA report, Appendix 1, section A1.3.1

¹⁵ CEPA opex review, October 2025, section 3

tranches, amount to significantly greater savings than is currently being assumed by the CAA. The 2024 baseline expenditure may also include one-off costs associated with the technology transition, which should fall away once the new technology is fully implemented and operating effectively, further increasing the risk that the CAA's analysis underestimates the scope for future cost reductions.

Given these factors, the CAA should explain why the assumed CTix saving is limited to the absolute floor of the available evidence and why further savings from multiplexing and algorithmic improvement have not been reflected in the forward allowance. The CAA should also confirm in its Final Proposals that any one-off costs associated with the technology transition will not be rolled forward into future allowances once the technology is fully implemented and operational.

The analysis was also constrained by HAL's failure to provide the roster data that EE/YA required to conduct a full bottom-up assessment. EE/YA explicitly states that its intended approach – building a resource plan from first principles for each screening area – was abandoned because HAL did not supply critical staffing information.¹⁶ The resulting analysis is necessarily less rigorous than EE/YA intended. That evidential gap should not be resolved in HAL's favour. Where HAL has not provided the information required to justify its cost base, the CAA should apply the efficiency challenge that the available evidence supports rather than making good HAL's deficiency by selecting conservative assumptions.

4.2 Individual cost line allowances have been accepted without adequate scrutiny

The 30% insurance uplift is not supported by independent evidence

The CAA has applied a 30% uplift to HAL's insurance baseline. That uplift is not supported by independent market evidence and should not be carried forward into Final Proposals without a proper evidential foundation.

The Airline Community is disappointed that the CAA and its advisers have not engaged with the analysis presented in CEPA's October 2025 report, which examined insurance market conditions in detail and reached conclusions materially at odds with the premise underlying the uplift. The position is also internally inconsistent with EE/YA's own assessment: EE/YA's RPE framework concludes that insurance fails on materiality (at 1.2% of total opex it falls well below the 5% threshold) and returns an overall "Fail" as a candidate for special price treatment.¹⁷ The CAA then applies a 30% baseline uplift through a different mechanism, without independent evidence to justify what its own advisers' framework does not support.

EE/YA's treatment of the insurance baseline is also methodologically weak. EE/YA states that it did not undertake an in-depth bottom-up analysis of insurance costs, and that it accepted, for now, HAL's premise that the 2024 premium level would no longer be achievable owing to tighter market conditions.¹⁸ Accepting a regulated company's forward-looking cost assertion at face value, without independent verification, is not a sufficient basis for a permanent uplift to the cost base.

The market evidence does not support HAL's narrative. Insurance markets are inherently cyclical, typically operating on two-to-four-year cycles. CEPA's October 2025 report notes that following a period of sustained cost increases between 2020 and 2024, current market indicators point clearly to a declining trend in insurance pricing.¹⁹ Marsh's Global Composite Rate Index, cited in CEPA's report, shows quarterly rate changes declining from plus 15% in Q2 2021 to minus 4% in Q2 2025, with the downward trajectory expected to continue through the H8 period. More recent evidence from Marsh continues to take the view that the insurance market is softening.²⁰ The premise that the hard market

¹⁶ EE/YA report, Appendix 1, section A1.3.1 and Table A1.3.2

¹⁷ EE/YA report, Table A4.2.5

¹⁸ EE/YA report, section 2.4

¹⁹ CEPA opex review, October 2025, section 5

²⁰ <https://www.marsh.com/en/services/international-placement-services/insights/uk-insurance-rates.html>



conditions of the early 2020s will persist throughout H8, justifying a permanent baseline uplift, is not consistent with the observed market data.

The CAA's reference to geopolitical risk as a driver of the uplift does not withstand scrutiny, and has not been supported by any evidence presented within the Initial Proposals. HAL has not explained why geopolitical risk would cause a sustained, Heathrow-specific premium, nor why an airport's property and liability insurance is particularly exposed to geopolitical events relative to other insured parties. A general reference to prevailing global conditions provides no basis for a permanent, airport-specific step-up in the cost base.

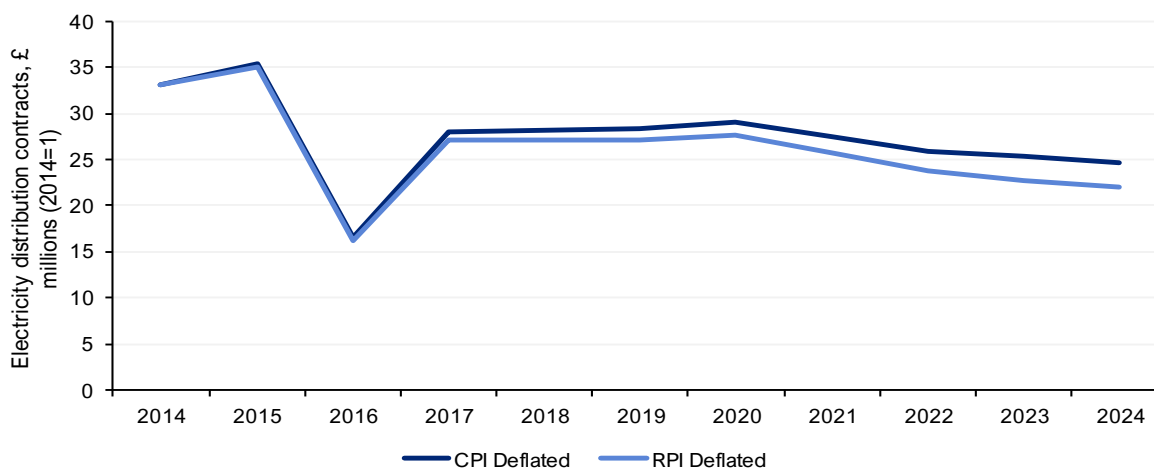
The electricity distribution contract should not be treated as an automatic RPI pass-through

The CAA has accepted RPI indexation for the electricity distribution contract based on HAL's own description of the contractual terms. That is not a sufficient basis for setting an efficient allowance, and the Airline Community is disappointed that the CAA does not appear to have engaged with the contrary evidence presented in CEPA's October 2025 report before reaching that conclusion.

EE/YA itself sets out three conditions that the CAA must verify before RPI indexation can be justified: that the contract is genuinely RPI-linked; that it will not expire or be renegotiated during H8; and that it represented an efficient arrangement when originally entered into.²¹ The Initial Proposals do not set out the CAA's assessment against any of these three conditions.

The failure to engage with these conditions is particularly concerning given CEPA's finding that HAL's actual electricity distribution charges have declined in real terms over recent years.²² That historical trend is directly inconsistent with automatic RPI escalation and indicates that factors beyond price (most likely volume or demand-related components) are materially influencing costs. CEPA's conclusion, on the same evidence, is that CPI rather than RPI is the appropriate indexation basis.

Figure 1: HAL's historical electricity distribution contract outturn costs, deflated using CPI vs RPI



Source: CEPA analysis of HAL Business Plan data

Utility costs

The Airline Community welcomes the proposed reduction in utilities costs in the CAA's Initial Proposals. While the reduction appears primarily to reflect savings associated with utility contracts

²¹ EE/YA report, section on RPI-linked contracts

²² CEPA opex review, October 2025, section 5

coming up for renewal during H8²³, the Airline Community believes there may also be scope for the CAA, in its Final Proposals, to consider whether a further challenge to Heathrow's utilities costs is justified through reductions in forecast consumption.

In its 2025 Sustainability Report, HAL reports a significant reduction in energy consumption related to "Fuel consumption utilities" of around 100 GWh between 2024 and 2025 as illustrated in the extract below.²⁴

Energy		Energy (MWh)			
		2019	2023	2024	2025
Scope 1	Fuel consumption utilities	134,289	176,633	230,790	104,366
	Operational vehicles and equipment	6,732	4,988	4,806	4,895
Scope 2	LPG for fire training	5	3	-	4
	Grid electricity consumption	283,229	271,080	272,103	273,266

Members of the Airline Community do not know what the driver of the recent reduction in fuel consumption is. It could be, among other things, due to reduced consumption, or the replacement of polluting energy to energy generated from renewable sources. If the reduction is from lower consumption or due to usage of more renewable energy generated at HAL (e.g. the ongoing installation of solar panels), then this could reduce HAL's utilities over H8.²⁵

The Airline Community believes it would be prudent for the CAA to undertake a more detailed review of Heathrow's forecast consumption assumptions for H8, including whether these forecasts fully reflect the impact of initiatives Heathrow expects to implement to reduce consumption. Where evidence suggests that further reductions may be achievable during H8, these could either be reflected through an adjustment to the utilities cost build-up or through the introduction of an improvement factor or efficiency stretch applied to the overall allowance.

The MTI rebate provision should not be embedded in the opex baseline

The Airline Community understands that HAL's 2024 opex includes a provision of approximately £15 million within the "Other opex" line item in respect of MTI rebates. If that provision is embedded in the baseline on which the H8 efficiency assessment is built, it will have the effect of inflating the starting point from which the catch-up efficiency challenge is calculated.

That treatment would be inappropriate in principle. An MTI rebate provision represents a cost that arises from HAL's failure to meet its service quality obligations – in effect, a cost of poor performance. Embedding it in the opex baseline and rolling it forward into H8 would mean that airlines and passengers are funding, through the regulated cost base, the consequences of HAL's own service failures. It would also reduce the apparent size of any efficiency adjustment required, since the baseline would be higher than the true underlying cost of efficient operations.

From a practical perspective, the Airline Community understands that although the provision was made in 2024, it ultimately proved unnecessary and was not paid in 2025. This provides further justification for the CAA ensuring, in its Final Proposals, the rebate is not embedded within the opex baseline.

²³ Due to differences in market prices and the price being paid by HAL as EE/YA conclude that Heathrow is currently paying above market unit rates for both gas and electricity which they believe is due to the timing when contracts were last let. See EE/YA report, A1.3.6 Summary.

²⁴ HAL Sustainability report 2025, page 97

²⁵ HAL's Sustainability report notes "We are taking steps to generate our own renewable power on site with a new rooftop photovoltaic solar installation in 2025 and more planned for 2026." In terms of energy efficiency HAL states "we are investing in projects to help us use power more efficiently through our energy demand management programme. In 2025, we rolled out more energy efficient LED lighting and began upgrading motors for baggage conveyors." Upgrading of motors for baggage conveyors is highlighted as a case study for how HAL expects to realise further energy savings going forward stating "[w]e plan to upgrade thousands more baggage conveyors, saving an estimated 9,627 MWh of energy per year and around £2 million in annual running costs." HAL Sustainability report 2025, page 28.

Business rates should be forecast net of capitalisation

The CAA should also confirm whether its H8 business rates allowance is stated on a basis that is consistent with HAL's historical opex. The Initial Proposals adopt HAL's December 2025 business rates forecast of £1,071 million and deduct only the £104 million H7 logged-up over-allowance, resulting in an H8 allowance of £967 million. It is unclear whether this forecast includes amounts that HAL expects to capitalise into capex and recover through the RAB, as it has done historically.

The Airline Community is concerned that, if a proportion of HAL's business rates expenditure has been capitalised, but the H8 forecast has been accepted before any equivalent capitalisation adjustment, the allowance may not be on a like-for-like basis. This would overstate the opex allowance and create a risk of double recovery if capitalised rates are also added to capex and the RAB. The CAA should confirm that the H8 opex allowance includes only the expensed element and that any amounts expected to be capitalised into the RAB have been excluded from the business rates allowance.

The MSCP4 overlay should net off operating cost savings during the closure period

The CAA has accepted an opex overlay of approximately £25 million in respect of the transitional costs that HAL expects to incur during the closure and redevelopment of the MSCP4 short-stay car park. The Airline Community does not in principle object to recognising genuine additional transitional costs, but questions whether the overlay has been correctly calculated.

During the closure period, HAL will no longer be required to operate and maintain the existing MSCP4 facility. Those activities carry their own operating and maintenance costs, and once the car park is decommissioned those costs will cease. A properly calculated overlay should reflect the net additional cost to HAL of the transitional period, not the gross additional expenditure without accounting for the costs that will simultaneously fall away.

4.3 HAL must not be permitted to remedy a weak business plan through late evidence

The CAA should maintain its rejection of HAL's technology, resilience and digital overlays

The CAA's rejection of the majority of HAL's technology, resilience and digital overlays is one of the strongest elements of the Initial Proposals, and the Airline Community strongly supports it. Despite HAL's proposed overlays being large, the quality of evidence submitted to justify the overlays was poor. The CAA was right to apply the need, additionality and efficiency tests rigorously, and it should maintain that rigour at Final Proposals.

HAL is expected to seek to revive some or all these overlays through representations. The Business Plan Incentive framework exists in part to address this situation. The CAA assessed HAL's business plan as low quality, meeting only three of seven criteria. A business plan that fails the CAA's own quality test should not be capable of being repaired through late submissions. The CAA should make clear that its assessment of the BPI will take into account whether HAL attempts to remedy known deficiencies in its business plan through late evidence, and that such evidence will not be accorded the same weight as material submitted on time and in proper form (see Section 2 for further discussion).

The burden of proof rests with HAL

A recurring theme across the opex assessment is the limited transparency of HAL's evidence base. The CAA itself records concerns about the absence of a bottom-up approach to cost forecasting, lack of transparency in underlying calculations, and delays in responding to information requests. These are not peripheral process concerns. They go to whether the CAA has the evidence it needs to set an efficient allowance.

The burden of proof must remain with HAL. Where HAL has not provided the information required to justify its cost base – whether on the catch-up efficiency challenge, individual cost line allowances, or overlay requests – the CAA should not resolve that evidential gap in HAL's favour.

This principle is particularly important when applied to new evidence submitted after the Initial Proposals. The CAA has both the right and the duty to consider representations, and the Airline Community does not dispute that. But there is a material difference between a representation that engages with the CAA's reasoning in the Initial Proposals and a submission that introduces new analysis, new cost data, or new business cases that were available to HAL but not included in its original business plan. The former is the proper purpose of the consultation process. The latter is an attempt to repair a weak business plan after the fact and should not be treated as equivalent.

When the CAA receives new evidence from HAL during this process, it should ask itself why that evidence was not available at the time of the business plan submission. If there is no satisfactory answer, the CAA should place limited weight on it. HAL's business plan was assessed as low quality precisely because it lacked the granularity and evidential foundation that a regulated company of its scale and resources should have been able to provide. Allowing HAL to remedy those failings through late submissions would undermine the purpose of the business plan process, create unfairness to the Airline Community which has engaged in good faith based on the materials submitted, and reduce the incentive for HAL to submit adequate evidence in future reviews.

The CAA should confirm in its Final Proposals that it will apply these principles consistently across all elements of the opex assessment, and that airlines will be given a meaningful opportunity to review, test and respond to any new evidence before the CAA places weight on it.

4.4 Cost allocation and governance

While we support retaining noise and vortex costs as opex, governance safeguards are required

The Airline Community did not include noise and vortex costs within its opex view in the Airline Business Plan. That exclusion did not reflect a view that opex treatment was inappropriate; it reflected the fact that HAL's proposal to reclassify these costs to capex placed the treatment question in active dispute, and the Airline Community lacked the historic expenditure data needed to form a considered position on the appropriate level of any opex allowance. The CAA has now resolved the treatment question in favour of opex, and the Airline Community supports that outcome.

The Airline Community's support for opex treatment is conditional on the following.

The allowance should be anchored to historic spend unless HAL can justify a higher level. The CAA's position of retaining the 2024 outturn of £10.6 million as the H8 starting point is well-founded, and the Airline Community supports it. Any upward adjustment should require HAL to provide a mature, project-level business case, grounded in the historic expenditure profile the Airline Community has requested from the CAA. Without that baseline, there is no evidential foundation on which to assess whether any higher figure reflects genuine additional need rather than scope creep or expansion-related activity dressed as BAU.

The allowance must not be used for expansion-related activities. Noise and vortex mitigation activity can serve different purposes: BAU management of the noise impact of a two-runway airport, and community preparedness in anticipation of a third runway. These are distinct. The H8 opex allowance should cover only the former. The CAA should require HAL to demonstrate that its proposed H8 noise and vortex programme is genuinely BAU in scope and does not anticipate expansion-related obligations, which should be funded through the expansion cost framework.

If HAL materially fails to deploy the allowance for its intended purpose, a clawback mechanism should apply. The Airline Community does not propose a detailed delivery framework for noise and vortex spending. However, if take-up of acoustic insulation schemes were to be significantly lower than forecast, or if vortex incidents were substantially less frequent, HAL should not simply retain the unspent funds. The CAA should confirm that a clawback mechanism would apply in circumstances of

material underspend, ensuring that consumers are not charged for noise mitigation activity that does not take place.

The Airline Community's support for opex treatment in H8 does not predetermine its position for expansion. If expansion generates a materially different and demonstrably lumpy expenditure profile – for example, a substantial programme of acoustic insulation for newly affected properties – there may be a case for capex treatment at that stage. The CAA should ensure explicit safeguards prevent HAL recovering the same costs twice: once through the H8 opex allowance and again through any future expansion cost framework.

Airlines need to have more confidence that HAL's business rates liabilities are being managed effectively

Business rates are one of the largest single cost lines in the H8 opex package, at £967 million over the control period net of the H7 logged-up adjustment. HAL's forecast for this cost line increased by £349 million between its July 2025 business plan and its December 2025 update, and the CAA accepted the revised figure without visible assessment of whether HAL had taken the steps available to it to limit that increase. There is no evidence in the Initial Proposals that HAL has engaged seriously with the Valuation Office Agency (VOA) to challenge or moderate its assessment.

That matters because the VOA has no incentive to volunteer that its own valuations are too high. The absence of a VOA challenge to its assessment is not evidence that HAL has negotiated to the best of its ability; it is simply the expected outcome when the assessed party has not pushed back. HAL, unlike an unregulated business, does not bear its own rates liability: the cost falls on airlines and passengers regardless of how actively HAL manages it. That misalignment means the regulatory framework needs to make HAL's engagement obligation explicit. HAL should be required to demonstrate serious and substantive engagement with the VOA on its assessment, and with central government on the policy levers that affect its total liability. It should report to airlines on what engagement has been undertaken, what has been achieved, and what further activity is planned.

The 2029 revaluation creates a specific and foreseeable risk within the H8 period. Given the trajectory of airport rateable values at recent revaluations, the direction is expected to be upward. The Airline Community's position is that any increase arising from the 2029 revaluation should only be recoverable in full if HAL can demonstrate that it engaged seriously with the revaluation process before the assessment was set. Where HAL cannot make that demonstration, it should absorb a proportion of the increase rather than passing it through unconditionally.

To achieve greater transparency and stronger governance of variations in business rates going forward, the Airline Community believes that a specific mechanism should be introduced as part of the H8 Final Proposals to manage potential cost variations. This would allow clear criteria to be applied before any increase in costs is passed through into airport charges, including demonstrating that HAL has taken all reasonable steps to mitigate the increase where possible. The CAA should set out this expectation clearly in its Final Proposals. The Airline Community would welcome further engagement with the CAA on how such a mechanism could be designed and implemented.

Airlines should not be assuming the risk of business rates increases that relate to the activities of non-airline tenants

The Airline Community also consider that the CAA should require HAL to provide greater transparency on how business rates are allocated between airline and non-airline activities.

The current evidence does not make clear whether non-airline tenants at Heathrow pay their own business rates directly, whether HAL pays these costs and recovers them contractually, or whether some costs remain within HAL's regulated business rates allowance. It is also unclear whether the treatment is consistent across different types of non-airline tenant, including retail, catering, lounges, hotels, car hire operators and other commercial occupiers.

As a matter of principle, airlines should not cross-subsidise non-airline commercial activity. Where business rates relate to premises or activity undertaken by non-airline tenants, those costs should be borne by the relevant occupiers or reflected in the commercial arrangements between HAL and those occupiers. They should not be recovered through airport charges paid by airlines and passengers.

The same principle applies to risk. Airlines should not bear the risk of increases in business rates where those increases relate to non-airline commercial premises or activities. If rateable values increase because of changes in the scale, value or profitability of non-aeronautical activity at Heathrow, the resulting cost should sit with the relevant non-airline users or with HAL through its commercial contracting choices.

We therefore consider that HAL should provide a clear reconciliation showing:

- which business rates are paid directly by separately rated non-airline occupiers;
- which business rates are paid by HAL and recharged to non-airline occupiers;
- which business rates are paid by HAL but not recharged to non-airline occupiers;
- how the treatment differs across retail, catering, lounge, hotel, car hire and other commercial tenants; and
- how this is reflected in the airport charge.

As a sense check, we see that approximately 17.7% of HAL's total revenues in 2024 related to retail, catering, bureaux de change, property and car rental activity. This suggests that around £170 million of the CAA's proposed H8 business rates allowance may be being recovered from airlines instead of non-airline tenants.

4..5 Requests for Final Proposals:

The Airline Community broadly supports the CAA's approach to the H8 opex assessment. However, at each point where the evidence permitted a stronger challenge in its Initial Proposals, the CAA has adopted the more cautious of the available positions, and the cumulative effect is an opex allowance that is materially too generous.

The Airline Community asks the CAA to correct this at Final Proposals, both by moving the efficiency challenge significantly closer to what the evidence supports and by applying the same rigour to individual cost lines where allowances have been set without adequate challenge.

In particular, the CAA should:

- Apply a catch-up efficiency adjustment of at least 9%, and potentially higher. A range of 9–12% is more consistent with the evidence available to the CAA.
- Revisit the conclusions reached in the CAA's and its consultants' bottom-up cost assessment, which in several areas appear overly cautious and often reflect limitations in HAL's submitted data and evidence. Where HAL has not provided sufficient information to justify its current or forecast cost base – whether in relation to catch-up efficiency, individual cost lines, or overlay requests – the CAA should not resolve that evidential gap in HAL's favour.
- Reconsider the proposed 30% uplift to insurance costs in the Initial Proposals, as this does not appear to be supported by market evidence.
- Review the proposal in the Initial Proposals to treat the electricity distribution contract as an automatic RPI pass-through, given the proposed regulatory treatment is not supported by the historical trend in this cost line.
- Undertake a more detailed review of HAL's forecast utilities consumption assumptions, including whether these forecasts fully reflect the impact of initiatives Heathrow expects to implement to reduce consumption during H8.



- Maintain the rejection of HAL's technology, resilience and digital overlays, and not allow HAL to remedy shortcomings in its business plan through the submission of additional information that should have been provided as part of the original plan.
- Ensure that the MTI rebate provision is not embedded within the opex baseline in the CAA's Final Proposals.
- Ensure that the proposed MSCP4 overlay appropriately nets off operating cost savings expected to arise during the closure period.
- Adopt the safeguards proposed by the Airline Community regarding the treatment of noise and vortex costs where these are treated as opex.
- Adopt the measures proposed by the Airline Community to more effectively manage the risks associated with business rates.

5. Other Regulated Charges

Summary

Without prejudice to the Airline Community's views on ORC effectiveness more generally, we welcome the decision to reject HAL's proposals to expand the ORC scope. When costs move from aeronautical charges into ORCs, the headline airport charge per passenger appears lower, but the total cost to airlines and ultimately consumers is unchanged: the effect is to transfer risk from HAL to its users and to remove the cost-efficiency incentive that would otherwise apply. The pattern of cost escalation in airline-funded ORC categories across H7, including PRM (unit costs **up 103%** since 2019), airside licences (**up 196%** since 2019) and staff ID (**up 73%** in 2026 alone), demonstrates the consequence and inadequacies of the current arrangements. Indeed, the current ORC framework is no longer effective, with governance having materially deteriorated into a pass-through mechanism that fails to deliver meaningful cost control, transparency or airline engagement.

The Airline Community's position is that ORC scope must remain tightly controlled, that the governance arrangements for existing ORCs must be substantially strengthened, and that several questions left open in the Initial Proposals must be resolved at Final Proposals. More broadly, the current framework – including the CAA's proposed licence modifications to Condition C2 must be strengthened to require airline agreement to material above-inflation increases in airline-only ORC categories. We ask for the reclassification of baggage systems and hold baggage screening as aeronautical charges; the withdrawal of the proposed MTI financial incentive on PRM satisfaction; and resolution of the H7 non-airline cost recovery reconciliation.

5.1 The CAA is right to reject the proposed scope expansions

The airline community supports the CAA's decisions to exclude business rates, CAA licence fees, and check-in/CUSS kiosks from the ORC framework. On each of these, the CAA has correctly identified that reclassification would reduce rather than improve incentives on HAL to manage costs efficiently.

On One Stop Security (OSS), we support the CAA's conclusion that further consideration is needed before OSS costs can appropriately be brought within the ORC framework. The trial was launched only in February 2025, the long-term policy position remains uncertain, and the future user base is not yet established. Including OSS in ORCs at this stage would risk crystallising a cost recovery mechanism before its design can be properly evaluated.

We ask the CAA to confirm in Final Proposals that any future inclusion of OSS would be subject to full consultation with the Airline Community and would need to meet the established ORC scope-decision principles.

5.2 The proposed governance modifications are insufficient to address ORC cost escalation

The challenges with the current ORC governance arrangements are structural with its effectiveness and overall engagement deteriorating over-time. Costs are recovered from users on a pass-through basis, which leaves HAL with no direct financial exposure to inefficiency, while the licence provides only for consultation and reporting, with no meaningful agreement rights for users. The combined effect is that HAL is reimbursed for what it spends and users have neither the information rights nor the consent mechanism needed to apply efficiency pressure. This structural weakness underlies the specific cost-escalation patterns set out below and explains why an enhanced reporting obligation will not, on its own, change HAL's behaviour.

There is clear evidence that HAL does not have adequate financial incentives to keep costs under control and efficient for those ORC cost categories that are wholly paid for or majority paid for by the

Airline Community. The ORC cost categories that are of specific concern are: Baggage; PRM; PCA; Staff ID; Airside Licences; and FEGP.

The CAA should strengthen incentives in these areas to protect the consumer from harm. This can be best achieved by instructing via the Licence, that for the above cost categories, any annual increase in real unit charges above 3% relative to the previous year must be agreed between the airlines and HAL through the ORC Price consultation process. Where agreement with the Airline Community is not reached, the corresponding charge increase should not be permitted.

The proposed Licence Condition C2.8, reproduced below for reference, requires only that HAL provides a statement explaining cost increases above inflation. It does not require agreement from users before those increases are implemented, and HAL is already largely providing equivalent information through the annual consultation process. The proposed condition therefore adds reporting without adding incentive. Because the annual process is purely consultative, HAL can implement above-inflation unit cost increases without airline agreement, and users have no means of halting a proposed increase to apply efficiency pressure for the following year.

The CAA should also make explicit the linkage between its opex efficiency challenge and ORC direct cost projections: where a stronger catch-up adjustment reduces the efficient opex baseline at Final Proposals, ORC allowances should reduce proportionally for categories where costs overlap. The CAA should further confirm that its ORC cost projection methodology precludes double recovery of costs already embedded in the aeronautical charges opex baseline.

Proposed new Licence Condition C2.8

“Where, in respect of any Regulatory Year, the change in the charge for any of the Specified Facilities compared with the charge for that Specified Facility in the preceding Regulatory Year is greater than the change in the average value of the Office for National Statistics monthly L522 Consumer Prices Index including owner occupiers’ housing costs between those same Regulatory Years, the Licensee shall provide to the CAA and to users of the Specified Facilities a statement. That statement shall be in a form, and to a sufficient degree of detail, to enable the CAA and users of the Specified Facilities to understand the detailed reasons for those increases, including details of the main reasons for any increase in the Licensee’s own costs.”

In Appendix B, we present evidence from the following case studies demonstrating the lack of effective incentives on HAL to keep these costs under control and efficient:

- i. Evidence that HAL views growth in ORCs as positive.
- ii. PRM unit cost escalation of 3x inflation since 2019.
- iii. Airside License costs of 10x those at Gatwick and up 32% in 2026.
- iv. Staff ID costs increased by 73% in 2026, driven by an IT project with no quantifiable business case.

5.3 Baggage and hold baggage screening should be reclassified as aeronautical charges

The Airline Community asks the CAA to reclassify baggage systems and hold baggage screening (HBS) as aeronautical charges in a fair, transparent and non-discriminatory manner at Final Proposals,

an ask that the CAA has not engaged with substantively in the Initial Proposals. Unlike several other airline-funded ORC categories, baggage and HBS costs were relatively well managed over H7, rising by approximately 10%, materially below economy-wide inflation, in part reflecting the contracting arrangements in which airlines were directly involved. The case for reclassification rests not on cost trajectory but on the structural misalignment that the current ORC treatment creates with the performance incentive framework the CAA proposes for H8. **Retaining baggage costs in ORCs creates a structural misalignment with the MTI framework.** The CAA proposes a financial incentive in the MTI scheme for the timely delivery of baggage in H8, reflecting its importance as a consumer priority. The Airline Community supports this. However, there is a fundamental inconsistency in having a financial performance incentive on a service whose costs are recovered outside the aeronautical charges framework through a pass-through mechanism. Under the current structure, any investment HAL makes to improve baggage performance is recovered from airlines via the ORC regardless of whether the investment is efficient or whether the performance improvement justifies the cost. HAL bears a penalty if performance falls below target but faces no financial discipline on the costs it incurs to meet that target. Reclassifying baggage costs as aeronautical charges would resolve this misalignment: costs and performance incentives would sit within the same regulatory settlement, and HAL would face appropriate financial consequences on both sides of its performance obligation.

HAL's objection does not withstand scrutiny. During the Constructive Engagement process and the subsequent bilateral discussions in May 2026, HAL's stated objection to reclassification was that different airlines use baggage systems differently, and that a single aeronautical charge would not reflect this variation fairly. This is a practical rather than a principled objection, and it has a practical answer. The user-pays principle is not an argument for retaining an arrangement that demonstrably fails to deliver cost efficiency: it is an argument for designing the replacement arrangement correctly.

The CAA's own analysis supports reclassification. During H7, ORC users "raised concerns about significant increases in ORC direct costs" and "questioned whether HAL faced sufficient incentives to control these costs given their pass-through treatment."²⁶ This is an accurate diagnosis of the problem. The proposed remedy, a new reporting obligation under Condition C2.8, addresses transparency but not incentives. If HAL is required to explain a cost increase after it has been incurred, the cost has already been passed through to airlines. The appropriate remedy for an incentive failure is to subject the relevant costs to a framework that contains genuine financial incentives, which is the aeronautical charges settlement. We ask the CAA to reach the conclusion that its own analysis implies.

5.4 The proposed MTI incentive on PRM satisfaction is duplicative and should not proceed

The CAA proposes to apply a financial incentive within the MTI scheme to HAL's PRM assistance satisfaction measure. The Airline Community does not support this proposal.

The PRM service is delivered by HAL's contracted service provider, ABM, under a commercial contract that already contains **significant financial rebates payable by ABM if it fails to meet its performance obligations – which are significantly tougher than the CAA is suggesting (see Appendix C).** The new contract, finalised after the H8 Business Plan was submitted, includes **material monthly financial rebates for non-compliance.** These contractual incentives are the appropriate mechanism for driving service quality in a contracted service: they are specific, measurable, and fall on the party in direct control of the outcome.

Introducing a new MTI financial incentive on PRM satisfaction would dilute the overall scheme without delivering additional consumer benefit. It would also create a risk of perverse incentives: if HAL can avoid a rebate on PRM satisfaction performance regardless of how it manages PRM costs, the incentive to control those costs is weakened. The appropriate focus for PRM incentives is the contract

²⁶ CAP 3232A Paragraph 7.15

arrangements and the ORC governance framework, not the MTI scheme. We ask the CAA to withdraw this proposal.

5.5 Non-airline cost recovery and the H7 reconciliation should be resolved in Final Proposals

The Grant Thornton review, published in June 2024, was unable to validate that HAL's ORC cost allocation methodology had allocated fixed costs between airline and non-airline users on a fair and reasonable basis. Following that review, HAL revised its estimate of non-airline ORC fixed costs from £18 million per annum to £8.1 million per annum (in 2020 CPI real prices), implying a potential over-recovery from non-airline users of approximately £3 million over the H7 period. The Airline Community welcomes the CAA's commitment to address this in Final Proposals and expects a concrete adjustment to be made, not merely a commitment to further consideration.

More broadly, the H7 licence included a user-pays principle intended to ensure that non-airline users of shared ORC facilities bear their share of the associated fixed costs through differentiated pricing. During the Constructive Engagement process, HAL indicated that its legal advisers consider differential pricing to be unachievable, despite this being an obligation within the existing licence. The CAA indicated that it had not received a formal legal challenge from HAL on this point. We ask the CAA to clarify in Final Proposals whether HAL is obligated to implement differential pricing and, if HAL maintains it cannot comply, to set out the consequences and any alternative arrangements that would prevent the associated costs from being borne by airlines.

5.6 Taxi Feeder Park

Subject to the appropriate revenues being applied within commercial revenues, estimated at circa **£3.5m (2024 CPI) p/annum**, the Airline Community are not opposed to moving taxi feeder park into aeronautical charges.

5.7 Requests for Final Proposals

The Airline Community asks the CAA to:

- Confirm in Final Proposals that any future inclusion of OSS or other new items within the ORC framework would require full consultation and assessment against the scope-decision principles.
- Make explicit the linkage between the opex efficiency challenge and ORC direct cost projections, and confirm that stronger opex efficiency in Final Proposals will reduce ORC allowances proportionally.
- Confirm that the ORC cost projection methodology precludes double recovery of costs already embedded in the opex baseline.
- Strengthen Condition C2 to require a HAL business case and airline agreement before material above-inflation cost increases are implemented for airline-only ORCs.
- Reclassify baggage systems and hold baggage screening as aeronautical charges in Final Proposals ,.
- Withdraw the proposed MTI financial incentive on PRM assistance satisfaction, on the basis that the new ABM contract already provides the appropriate financial incentives.
- Confirm a concrete adjustment to correct the over-recovery of non-airline ORC fixed costs during H7.



- Clarify HAL's obligation to implement differential pricing for non-airline ORC users and set out consequences if HAL maintains it cannot comply.

6. Commercial Revenues

Summary

The Airline Community broadly supports the CAA's approach to the H8 commercial revenue assessment. The CAA has applied materially greater scrutiny than in previous controls, identified specific opportunities to improve the 2024 baseline, and proposed an H8 allowance of £5.544 billion that is above HAL's own forecast and only modestly below the Airline Alternative Plan. That is a credible starting point.

However, the allowance remains too cautious in several important respects. The CAA has not fully reflected the evidence that HAL's 2024 commercial revenue baseline was under-optimised, including in retail and catering, POD parking and fast track. It also needs to ensure surface access and TDOC revenues are properly accounted for in the forecast. More broadly, the CAA should ensure that commercial revenue benefits from historic and planned capital investments are visible in the forecast, tracked through governance and reflected in airport charges.

The Airline Community therefore asks the CAA, at Final Proposals, to retain the evidence-led approach in the Initial Proposals but apply it more fully. Where HAL claims that lower revenues are efficient or that revenue benefits from investment are not achievable, it should evidence that position. Where the evidence instead points to under-optimisation, missing full-year revenue effects, over-removal of in-till revenues, or unrecognised capex benefits, the CAA should adjust the forecast so that efficient commercial revenues reduce airport charges through the single till.

6.1 The CAA's 2024 baseline understates efficient commercial revenues

The Airline Community supports the CAA's decision to adjust HAL's 2024 outturn commercial revenues before rolling them forward into H8. That is the correct regulatory starting point. The CAA's proposed 2.9% uplift to the 2024 baseline is therefore directionally right, but the evidence suggests that it remains too cautious.

This conclusion is supported by the CAA and EE/YA's own benchmarking evidence. As with opex, the top-down benchmarking appears to point to a material efficiency gap once the results are interpreted correctly. The Airline Community is concerned that the CAA has not fully reflected that evidence in its commercial revenue baseline. In particular, the apparent benchmarking issue identified in relation to opex should be reviewed for commercial revenues as well, because it may indicate that HAL is further from the efficient frontier than the Initial Proposals imply.

We observe that in several areas, the CAA appears either to have understated the efficient 2024 baseline or to have been overly cautious in adjusting for inefficiency within HAL's commercial revenue performance. In the following sections, we explain where the baseline should be revisited before Final Proposals.

Retail and catering provide the clearest evidence that HAL's 2024 baseline was under-optimised

The CAA is right to apply an uplift to HAL's 2024 retail and catering revenues. The evidence shows that HAL's 2024 performance did not reflect the level of revenue that an efficient airport operator should be expected to achieve. In particular, EE/YA identify underperformance in catering relative to comparator airports, and scope for improved retail performance through better product allocation, pricing and tenant strategy.

The Airline Community supports that adjustment. HAL may point to Heathrow's historic premium positioning, the loss of VAT-free shopping and passenger mix changes as reasons why pre-pandemic performance cannot be fully replicated. Those points are relevant, but they do not answer the CAA's

benchmarking evidence, which indicates scope for improvement even after allowing for the wider post-pandemic and Brexit-related environment.

Nevertheless, we consider the proposed adjustment should go further. For retail, the CAA appears to have selected the bottom of the benchmarked improvement range of 5.5-11.3%, without explaining why that point is appropriate. For catering, it identifies underperformance against comparators but assumes only half of the efficiency gap will be closed. More broadly, it is unclear why consumers are expected to bear the costs of HAL's inefficiency until existing concession contracts are due to expire, where that underperformance reflects product mix, concession strategy, pricing, or space allocation choices within HAL's control.²⁷

The CAA should therefore revisit the retail and catering baseline before Final Proposals. If it does not apply a further adjustment, it should explain why the remaining gap to efficient performance is not achievable during H8, rather than implicitly resolving that uncertainty in HAL's favour.

The CAA should revisit its treatment of POD car park revenues

The CAA should revisit the scope adjustment it has made for the T5 POD car park. We recognise the regulatory rationale for excluding the POD system from the single till, given the CAA's previous decision to exclude the associated capex from HAL's RAB. However, that does not mean that all revenues associated with the relevant car park should be removed from the commercial revenue forecast. The car park itself remains part of the RAB. Its underlying parking revenues should therefore remain within the single till, with only the incremental revenue attributable to the POD product excluded.

This appears to be the approach the CAA adopted in H7. In H7, the CAA assessed the POD adjustment on an incremental basis. It removed the efficient opex associated with the POD system and removed only the incremental revenue premium that POD parking was expected to earn above a comparable T5 parking product. That resulted in an annual commercial revenue adjustment of around £2.9m against opex of around £2.1m. By contrast, the H8 Initial Proposals remove around £2.7m of POD opex but £9.8m of POD commercial revenue. This implies that the CAA may have removed the full reported revenue from the car park product, rather than only the incremental premium attributable to the excluded POD system.

On a proportionate continuation of the H7 approach, applying the H7 revenue-to-opex relationship to the H8 POD opex figure of around £2.65m would imply a commercial revenue adjustment of around £3.7m, not £9.8m. The difference is material: around £6.1m per year, or around £31m over H8 before any further modelling effects.

The CAA should therefore require HAL to provide the supporting calculation for the £9.8m revenue adjustment. Unless HAL can demonstrate that the full £9.8m represents the relevant incremental revenue attributable to the excluded POD system, the CAA should reduce the adjustment so that only the incremental premium over a comparable T5 parking product is removed from the commercial revenue forecast.

The fast track baseline should capture the full-year effect of Heathrow's price increase

The CAA should revisit the service revenue baseline to ensure it captures the full-year effect of Heathrow's increase in fast track charges. The CAA recognises that HAL increased charges levied on airlines for fast-track departures security products shortly after the H7 process, with charges more than doubling in some cases, and that airlines raised concerns about those changes. It also stated in the H8 Method Statement that it would consider how estimates of single till revenue should reflect such developments.

²⁷ CAA, Constructive engagement for H8 - Round 4, Session 2: opex and commercial revenues, slide 30.

The CAA's commercial revenue baseline does not appear to reflect this issue adequately. EE/YA apply only a 1% uplift to fast track revenues, worth around £0.2m within the service revenue category. That adjustment is based on the view that Heathrow's high fast track prices may deter usage and that more competitive pricing could increase revenue. It does not appear to address a separate point: given Heathrow increased the charges levied on airlines during 2024, the 2024 outturn will only capture a part-year effect. Rolling forward that outturn without a full-year adjustment would understate efficient H8 revenues.

The baseline should therefore be adjusted to capture the full-year revenue effect of the 2024 price change, including any associated change in volumes from making fast track more widely available to the public. If HAL considers that the price increase reduced demand or that the full-year effect is not material, it should provide the supporting evidence.

In addition to the above, the Airline Community remain deeply concerned on fast track levies on consumers, as raised with the CAA in H7, and not least given its prominent offering as part of airline premium services. In line with wider comments on governance, obligations to 'consult' do not go far enough. Instead, given the increases, the CAA should apply a return mechanism to discourage poor behaviours and any unjustified gains.

The CAA should provide a category-level bridge from 2019 performance to the H8 baseline

The issues above point to a wider concern with the CAA's treatment of HAL's 2024 commercial revenue baseline. The CAA has made targeted adjustments to HAL's 2024 outturn, but it has not clearly explained how the resulting baseline compares with Heathrow's pre-pandemic commercial performance, instead, taking false comfort from the top-down benchmarking.

The CAA should therefore provide a category-level bridge from 2019 commercial revenue performance to its H8 baseline. That bridge should distinguish between factors outside HAL's control, such as the loss of VAT-free shopping and changes in passenger mix, and factors that reflect commercial management, pricing, product mix, concession strategy, space allocation, or the treatment of specific scope adjustments. Without that bridge, it is difficult to assess whether the lower real yields implied by the Initial Proposals reflect genuine structural change or whether they allow HAL to retain the benefit of underperformance in the baseline.

This should be a key cross-check before Final Proposals. If HAL or the CAA considers that particular 2019 revenue levels are no longer achievable, that should be evidenced at category level. Where the explanation is instead weaker product mix, delayed concession optimisation, incomplete recognition of price changes, or over-removal of in-till revenues, the CAA should adjust the 2024 baseline before rolling it forward into H8.

6.2 Surface access and TDOC should be assessed as an integrated revenue portfolio

Surface access revenues are not passive outputs of passenger volumes

The CAA has taken a sensible step in increasing surface access revenues relative to HAL. It applies a 1% per annum management stretch across all components of surface access and car parking revenue, whereas HAL applied that stretch only to short-stay car parking and car rental. It also indexes long-stay car parking revenue to CPI.²⁸ We support those positions. Surface access revenues depend on active pricing, yield management, capacity management and product design, not just passenger volumes.

The further point is that surface access should be modelled as a portfolio. Short-stay parking, long-stay parking, terminal drop-off, car rental, rail and off-airport products interact with one another. Demand can move between those products in response to price, capacity constraints, disruption, journey purpose and passenger mix. A forecast that assesses each product in isolation risks

²⁸ CAA, Constructive engagement for H8 - Round 4, Session 2: opex and commercial revenues, slide 19.

recognising downside in one category without recognising offsetting revenue or yield opportunities elsewhere.

This is particularly relevant to the MSCP4 closure. We understand why the CAA would allow for some negative revenue impact while car parking capacity is temporarily removed. The key question is the degree of displacement to other Heathrow products, including remaining car parks, TDOC, car rental, rail and other access channels. Where demand remains strong relative to available capacity, an efficient operator would be expected to mitigate the revenue impact through pricing, pre-booking, product allocation and operational management. Final Proposals should therefore require HAL to provide an integrated surface access model that distinguishes genuine lost demand from displaced demand within Heathrow's portfolio.

TDOC risk sharing should only be removed with a comprehensive commitment

The Airline Community understands the CAA's position that TDOC is now a more established revenue stream than it was at H7, and that the CAA may be prepared to remove the H7 risk-sharing mechanism if HAL gives a transparent and credible commitment to the level of TDOC charges over H8.²⁹

If HAL wishes TDOC to be removed from risk sharing, it should make a binding H8 licence backed commitment covering the base tariff and penalty charges.

In the event HAL is not willing to make such a commitment then, in line with the original intention of the scheme (as reflected in the CAA's "H7 Outstanding Issues" consultation), the CAA should be explicit that any over-recovery of revenues to the CAA's forecast is returned in full to users.

The TDOC revenue estimates need to include revenues from penalty charges

TDOC revenues are affected not only by the headline tariff, but also by penalty charge notices, which appears to have been inadvertently excluded from CAA's estimates.

The bottom-up TDOC calculation assumes a 96.5% on-time payment rate per vehicle, a vehicle-per-passenger rate of 0.71 and a £5.83 ex-VAT tariff. That implies that 3.5% of chargeable vehicle movements do not pay on time and would be subject to a penalty charge. It appears that the penalty charge revenue has been excluded from the TDOC forecasts despite making up a substantial proportion of HAL's outturn revenues.³⁰

Based on some simple assumptions, we estimate this to have resulted in a £40 million underestimate of HAL's revenues over H8. This needs correcting for Final Proposals.

6.3 Cargo, property and other revenues require targeted safeguards

Cargo revenues require a more explicit link between volumes, charges and yield

The CAA's cargo assessment improves on HAL's position in one important respect: it does not assume that non-scheduled cargo flights and other non-passenger flights fall to nil during H8. On that basis, the CAA's forecast is around £34 million above HAL's proposal.³¹ We support that correction.

The remaining issue is the yield assumption. The CAA assumes that ATM yields remain constant in real terms across H8, equal to the average revenue per movement observed in 2024, whereas HAL and airlines assumed real yield increases.³² If the maximum allowable yield and associated charge structures increase during H8, the CAA should explain why cargo yields would not also increase in real terms, or why any such increase is not recoverable in the cargo revenue forecast.

²⁹ CAA, Economic regulation of Heathrow Airport: H8 initial proposals - Summary, paragraph 43; CAA, Constructive engagement for H8 - Round 4, Session 2: opex and commercial revenues, slide 20.

³⁰ Heathrow (SP) Limited, Regulatory Accounts, Year ended 31 December 2025, page 8.

³¹ CAA, Constructive engagement for H8 - Round 4, Session 2: opex and commercial revenues, slide 21.

³² CAA, Constructive engagement for H8 - Round 4, Session 2: opex and commercial revenues, slide 21.

Other commercial revenue should not be assumed to fall away

The Airline Community supports the CAA's decision to include £38 million of other commercial revenue in H8. HAL and the Airline Alternative Plan both set this category to nil, but HAL's 2024 baseline included £7.3 million of advertising and low-materiality miscellaneous revenues, which the CAA has rolled forward through H8.³³ There is no clear basis for assuming that an existing revenue stream disappears simply because it is not one of the largest commercial categories.

The CAA should retain this allowance and test whether it should be increased where the evidence supports doing so. The same logic that applies to retail, catering and advertising concessions may also apply here: if contracts expire before or during H8, the benefit of retendering and stronger commercial management should be reflected in the forecast rather than retained as unmodelled upside.

6.4 Commercial revenue benefits from historic capital investment should be visible in the forecast

Airlines have repeatedly raised concerns that commercial investment business cases are not sufficiently transparent. HAL has not provided enough visibility on the scope, timing, revenue assumptions, downside risks or post-delivery performance of revenue-generating projects. This matters because airlines are asked to approve these investments through the capex governance process, while airlines and passengers bear the risk if the commercial revenue benefits do not materialise through the single till.

This issue is not new. Airlines have been asking for clearer tracking of commercial investment benefits throughout H7 capital discussions and the H8 process. For any project that relies on commercial revenue benefits to support its need case, HAL should provide a transparent benefits case at approval, including the expected revenue uplift, timing, key assumptions, downside sensitivities and how the benefits will be measured after delivery. Those assumptions should then be tracked against actual performance and reported to airlines and the CAA at later gateways and after project completion.

The CAA should address this directly in Final Proposals. It should check the quantum of commercial revenue stretch against the revenue benefits claimed in HAL's commercial investment business cases, including H7 carry-over projects and H8 projects that support retail, catering, surface access, property, digital and other commercial revenues. Where those business cases identify incremental revenue benefits, the CAA should either include those benefits in the H8 commercial revenue forecast or explain why they are not achievable, not sufficiently evidenced, or already captured elsewhere.

This is necessary to make the capex governance process credible for commercial investments. Airlines should not be asked to approve opaque revenue-generating projects, carry the downside risk alongside consumers through the single till, and then have no clear visibility of whether the benefits have been delivered or reflected in charges. Where HAL receives RAB-funded recovery for commercial investment, the associated revenue benefits should be transparent, tracked and reflected in the price control.

The commercial revenue forecast should be cross-checked against historic and planned capital expenditure. Where HAL has delivered commercial, terminal, surface access or passenger-facing investment during H7, the revenue benefit should either be visible in the 2024 baseline or explained. Similarly, where the H8 capex envelope includes projects that expand commercial capacity, improve passenger flows, reduce congestion or enhance retail and catering opportunities, the associated revenue benefit (in the same way this should also apply to opex efficiency commitments) should be reflected in the forecast rather than left as upside outside the price control.

³³ CAA, Constructive engagement for H8 - Round 4, Session 2: opex and commercial revenues, slide 20.

6.5 Requests for Final Proposals

The Airline Community asks the CAA to retain the constructive direction of the Initial Proposals, while strengthening both the evidential basis and the level of stretch in the commercial revenue forecast at Final Proposals. In particular, the CAA should:

- **Revisit the 2024 commercial revenue baseline**, including the interpretation of the top-down benchmarking evidence, and provide a category-level bridge from 2019 performance to the H8 baseline.
- **Increase or justify the retail and catering baseline adjustment**, recognising that the CAA's current adjustment appears cautious.
- **Correct specific baseline treatments before roll-forward**, including the T5 POD car park and fast track. For POD parking, the CAA should ensure that only the incremental premium attributable to the excluded POD system is removed from the forecast, while underlying revenues from the in-till car park remain within commercial revenues. For fast track, the CAA should ensure the baseline captures the full-year effect of Heathrow's 2024 increase in charges to airlines.
- **Ensure surface access and TDOC revenues are fully captured**. For car parking, this means ensuring higher yields from the temporary closure of MSCP4 are fully captured, while for TDOC, this means including revenues from penalty charges.
- **Should the CAA retain TDOC risk sharing, unless HAL makes a licence backed binding and comprehensive H8 commitment**, then 100% of exceeded revenues above the CAA forecast should be recoverable.
- **Revisit cargo, property and other commercial revenue assumptions**, where further evidence is needed. This should include a clearer link between cargo volumes, charges and yield; a property revenue bridge based on efficient occupancy, lease, rent review and market rent assumptions within the single till; and retention of the £38 million other commercial revenue allowance, with further upside tested where supported by evidence.
- **Cross-check the commercial revenue forecast against revenue benefits from historic and planned capex**. Where HAL's business cases identify incremental commercial revenue benefits, the CAA should either include those benefits in the H8 forecast or explain why they are not achievable, insufficiently evidenced, or already captured elsewhere. HAL should also be required to track revenue benefits after delivery and report actual performance to airlines and the CAA.

7. Capital Expenditure

Summary

The Airline Community welcomes the CAA's approach to setting a needs-based capex envelope for H8, including its use of Steer's assessment methodology and the application of a 20% need case score threshold. The reduction from HAL's submitted plan of approximately £9.5 billion to a proposed mid-point of £5.8 billion (2024 CPI) is a significant and necessary correction, and is broadly consistent with the Airline Community's own position of £5.5 billion, set out in the ABP submitted in October 2025. We welcome this outcome.

However, the Airline Community has material concerns about three related issues: the risk that the envelope is expanded through late or post-IPs submissions from HAL; the adequacy of the governance framework for ensuring that consumer and airline priorities are delivered within it; and the structural weakness of a prioritisation process that is, under the current framework, non-binding on HAL. We set out our specific asks of the CAA below.

7.1 The CAA must hold firm on the size of the capex envelope

The Airline Community's ABP envelope of £5.5 billion was derived through a three-step assessment: (i) a bottom-up review of project need and criticality, organised around the categories of Mandatory/High Risk, Resilience and Capacity, Customer Basics, and Operational Efficiencies; (ii) historical context drawing on Q6 and H7 allowances; and (iii) an assessment of charge impact and deliverability (see ABP, slide 13). This exercise was conducted independently of the CAA's own assessment, and the close convergence between the two outcomes provides meaningful corroboration that the IPs envelope is set at an appropriate level.

The CAA must hold firm on this envelope in Final Proposals. HAL is not incentivised under the current framework to prioritise efficiency. Underspend flows back to consumers only with a lag and subject to reconciliation, while HAL retains broad discretion over what is built within the envelope. Without a firm ex-ante constraint, that asymmetry is not corrected by in-period governance. A robust envelope is therefore a precondition for effective prioritisation, not an alternative to it.

The 5% capex uncertainty mechanism must not function as a de facto uplift. It is a buffer for genuinely unforeseen circumstances arising within the approved portfolio, not a route for reinstating projects that failed the needs assessment at IPs stage. Given the approach taken by HAL in H7 where the 5% was "allocated" from the start, and an "over-booking" process layered on top, the CAA should set clear guardrails on the conditions under which the mechanism can be invoked, and should resist any attempt by HAL to use the reopener process to recover projects that were properly excluded on needs-case grounds.

The Airline Community is also sceptical that a materially higher envelope would be deliverable in practice. Steer's analysis for the IPs establishes a historical deliverability range of £4.2 billion to £7.5 billion (2024 CPI), based on HAL's capex performance over the past 25 years. The CAA's own assessment notes that delivering above the lower bound of that range comes with increasing delivery constraints, and that achieving the upper bound would require the right resources and planning in place and a relatively unconstrained supply chain (IPs, paragraphs 6.77 to 6.79). At £5.8 billion, the IPs mid-point sits meaningfully above HAL's historical business-as-usual delivery rate, and already represents a sizeable 29 per cent increase on H7 outturn with similar requirements in supporting a two-runway airport. The Airline Community notes that, unlike the construction of T5 and T2, the H8 portfolio does not benefit from the physical ringfencing of a discrete major programme: works will be dispersed across a live operational airport, subject to interface constraints, supply chain pressures, and the parallel demands of expansion planning. The claim that a still larger envelope would be

deliverable is not credible on the evidence, and the CAA should treat any such representation from HAL with appropriate scepticism.

7.2 HAL must not be permitted to expand the envelope through late evidence

Since the publication of the IPs, HAL has shared a substantial volume of new project-level information that airlines have had no meaningful opportunity to assess or engage with through the CE process. This information should have been included in the Business Plan submission of July 2025. Its late emergence is consistent with the pattern the Airline Community identified and documented throughout CE Rounds 3 and 4: HAL's repeated failure to share timely, detailed information prevented airlines from completing the prioritisation task envisaged by the CAA's needs-based framework (ABP, slide 12).

As set out in Section 2 of this response, the principle that HAL should not be permitted to remedy a weak business plan through late evidence submissions applies with equal force to capex as it does to opex. To incorporate late project submissions into the Final Proposals envelope would create a perverse incentive: HAL would learn that the strategic withholding of project information, followed by post-IPs disclosure, is an effective mechanism for recovering scope that would not have survived the needs assessment had it been submitted on time. At this stage, the appropriate response is for the CAA to hold the envelope as set in the IPs, and for the fuller information now available to be used in a structured prioritisation exercise within that fixed envelope.

7.3 The prioritisation exercise was incomplete and is non-binding: the CAA must act

The Airline Community was unable to complete a project-level prioritisation exercise during CE. As set out in the ABP (slide 12, October 2025), this was a direct consequence of HAL's failure to provide sufficient scope, cost, and benefit information to enable meaningful engagement. It was not a failure of airline participation. Despite repeated requests throughout CE Rounds 3 and 4, HAL did not provide the level of project-level detail needed for the Airline Community to engage substantively with individual programmes or undertake the cross-programme assessment the CAA's framework contemplated.

Even where airlines were able to form a view, any expression of priority or support is non-binding under the current governance framework. HAL is not required to deliver projects that airlines have endorsed, and experience under H7 demonstrates that projects the Airline Community does not support can and do progress once the envelope is set. This structural weakness means that prioritisation exercises conducted during CE provide no enforceable protection for consumers.

The appropriate sequencing is therefore as follows: the CAA fixes the envelope firmly in Final Proposals; HAL and airlines then undertake a structured prioritisation exercise within that envelope, drawing on the fuller project-level information that HAL has belatedly made available; and the outcome of that exercise is given regulatory effect through strengthened governance arrangements including ongoing prioritisation, as set out in Section 2. The Airline Community stands ready to engage in that exercise on that basis.

7.4 The Airline Community's capital priorities remain as set out in the ABP

The Airline Community's capital priorities, set out in the ABP in October 2025 and unchanged since, are organised around five themes: Resilience; Infrastructure and Capacity; Sustainability; Affordability; and Consumer (ABP, slide 14). These themes reflect a consistent position developed and shared with HAL and the CAA throughout the CE process. The Airline Community notes that listing these priority areas does not constitute endorsement of specific projects. Scope, solutions, and cost for each project will need to be fully evaluated and endorsed through the capital governance process.

The Airline Community endorses the CAA's framing of resilience as a cross-cutting investment priority. A stable, operationally reliable airport is the foundation on which growth, consumer outcomes, and efficient cost delivery all depend. Avoiding cancellations, missed bags, and disruption has direct

benefits for passengers and for the efficient use of constrained slot and infrastructure capacity. The Airline Community supports resilience-focused investment with targeted improvements to customer experience, subject to a comprehensive needs assessment and, scope and costs being demonstrated to be efficient and deliverable through the governance process.

Expansion-related costs must remain outside the H8 envelope. Allowing expansion-related investment to be absorbed into the BAU portfolio would distort the prioritisation of the core H8 programme and crowd out consumer-facing investment that passengers and airlines need in the current regulatory period.

7.5 Requests for Final Proposals

The Airline Community asks the CAA to:

- Hold firm on the midpoint capex envelope of £5.8 billion in Final Proposals and resist any expansion based on late submissions from HAL.
- Set clear guardrails on the use of the 5% capex uncertainty mechanism to prevent its use as a de facto envelope uplift.
- Require HAL and airlines to undertake a structured prioritisation exercise within the fixed envelope before Final Proposals, drawing on the fuller project-level information now available, with structural improvements on the process for on-going re-prioritisation (as set out in Section 9).
- Define a prioritised portfolio or priority categories in Final Proposals to give effect to the outcome of that exercise.
- Confirm that expansion-related costs remain outside the H8 envelope.

8. Service Quality, Resilience and Incentives

Summary

The Airline Community note the continuation of the Outcome Based Regulation (OBR) framework and the role of the Measures, Targets and Incentives (MTI) scheme in aligning airport performance with consumer priorities. Several decisions in the Initial Proposals are welcome, particularly the introduction of a financial incentive on departing baggage performance, the rejection of HAL's proposed doubling of bonuses, and the retention of monthly security measurement during the H8 transition.

The Airline Community has, however, significant concerns with several elements of the proposed framework: the introduction of a financial incentive on PRM satisfaction within MTI, which duplicates existing contractual incentives and is structurally inappropriate given PRM's status as a pass-through ORC; the absence of a backstop in the departing baggage measure to capture the recurrent major outages occurring over the past few years, thereby failing to fully address one of the material resilience issues being experienced by airlines and ultimately consumers; the calibration of PCA availability, which should be increased to 99% with a serviceability definition; and the open questions on eligibility criteria, automated security measurement and the calibration of bonuses, where further work is needed before Final Proposals.

The Airline Community asks the CAA to strengthen the MTI framework to reflect the concerns raised, preserve clear accountability with HAL as the regulated entity, and resolve the outstanding measure-specific points consistent with the consumer-priority objectives that the OBR framework is designed to serve.

8.1 Baggage

Departing baggage systems

The Airline Community strongly supports the proposal to introduce a financial incentive for the timely delivery of departing baggage. Baggage disruption is a key driver of consumer harm in view of ongoing and recurrent major outages at Heathrow, and as covered at length, a fundamental gap in the current framework. Tightening incentives in this area is consistent with the broader objective of improving operational resilience at Heathrow. The Airline Community proposed this measure during H7, and the material baggage system issues experienced in the period since reinforce the case for it. Baggage system failures represent one of the most material operational failures at Heathrow, and the consequences of poor performance, including disruption handling, manual recovery, customer claims, additional resourcing and reputational damage, sit disproportionately with airlines despite many root causes arising from HAL-controlled systems, infrastructure and operational processes. This was most recently evidence in the well reported failing in Terminal 5 in May 2026 which highlighted the magnitude these impacts have, despite the 99% system reliability publicly confirmed by HAL³⁴.

The measure should be calibrated against the timely delivery of baggage to the makeup area (laterals) no later than 20 minutes prior to departure, consistent with the CAA's Initial Proposals. It should apply consistently across terminals and cover both originating and transfer baggage, supported by transparent root-cause attribution that distinguishes between failures arising from HAL and those attributable to airlines or handlers. This attribution is essential to ensure that the regime drives the correct operational behaviours, investment decisions and accountability.

Alongside the primary measure, the regime must include a backstop to capture the major and recurrent baggage system outages by Heathrow that harm the consumer, and therefore to incentivise

³⁴ <https://travelweekly.co.uk/news/ba-asks-heathrow-for-10m-after-baggage-system-breakdowns>

performance. As demonstrated in the CAA's analysis shared during Round 4 of CE, a monthly average performance metrics risk at 98% timely delivery target will miss severe consumer harm during periods of major disruption, particularly where there are system resets, major belt outages or infrastructure failures. A complementary, threshold-based backstop, triggered by defined levels of missed bags resulting from HAL-controlled failures, would ensure that such events are explicitly recognised and that incentives are in place for HAL to focus on consistency.

The CAA has rejected the specific design the Airline Community proposed in CE, namely a fixed rebate per individual missed bag, on the grounds that it would act as a primary rather than a backstop measure and would leave no opportunity for HAL to out-perform³⁵. The Airline Community considers that the characterisation does not hold: the 98% delivery target is the primary measure, and the proposed per-bag rebate would only operate in tail-risk conditions where HAL-controlled systems have failed at scale. Nonetheless, we welcome the CAA's commitment to undertake further analysis of the sensitivity of the timely delivery measure to significant baggage outages³⁶, not least given HAL's own admission that the systems operate at 99% resilience. We will engage actively on the calibration of an alternative backstop design, once more recent performance data has been provided by HAL. The objective should be a measure that captures the consumer harm of a system-level outage in real time, rather than allowing such an outage to be hidden within an average monthly performance figure stating that the 98% target has been met (as the CAA's own analysis shared during CE demonstrated)³⁷. We can envisage alternative structures for how the backstop can be applied, for instance a structure whereby the monthly rebate allocated within the measure kicks in immediately upon the incidence of a major outage. Alternatively, we would urge the CAA to adopt a target of 99% to more effectively capture those major outages.

Implementation should not present material barriers. HAL already captures extensive baggage operational data and routinely reports disruption through existing processes, providing a sufficient basis for transparent monitoring, root-cause attribution and independent assurance. The calibration of this measure should also be considered alongside the Airline Community's rejection of the proposed airline eligibility criteria, set out below.

Baggage arrivals

Whilst the airline community recognise the importance of baggage reclaim the proposal fails to evidence how this would materially improve the baggage experience for customers or a systemic issue to resolve. Airlines are already incentivised through customer satisfaction and subject to competitive pressures, as covered further under Eligibility Criteria. Furthermore, being the final stage before leaving the airport, waiting times can be subjective and will in part be determined by the speed or otherwise of other elements of the process, particularly border control.

8.2 Persons with Reduced Mobility (PRM)

Whilst reiterating our agreement on the importance of quality provision of assisted travel, the Airline Community does not support the proposed financial incentive on PRM assistance satisfaction within the MTI scheme. The substantive case is set out in section 5.4 and is not repeated here. In summary, PRM is delivered by HAL's contracted service provider, ABM, under a contract whose **monthly financial rebates for non-compliance are materially tougher than the proposed MTI incentive**. PRM costs sit within Other Regulated Charges and are passed through to airlines, with the result that HAL is largely insulated from downside cost risk. Adding an MTI overlay duplicates the contractual incentive without strengthening it and creates a risk of two perverse outcomes: performance drift, because the cost of

³⁵ CAP 3232A Paragraph 3.72

³⁶ CAP 3232A Paragraph 3.73

³⁷ CAA Round 4 Presentation on MTIs, Slide 19 "MTI Scheme – Financial incentive for baggage"

underperformance is not meaningfully borne by HAL, or over-engineering of the service to avoid rebates or secure bonuses, with the cost of either outcome borne by users.

The CAA invokes its duty under the Equality Act 2010 as further support for a financial MTI incentive on PRM satisfaction³⁸. The Airline Community does not dispute the duty, but does not accept that it requires a financial MTI overlay. The duty is to advance equality of opportunity, which is met through the existing contractual service-level regime, the regulated ORC charging framework, and a transparent reporting and reputational measure. Adding a financial incentive on a pass-through ORC measure does not advance equality of opportunity; it shifts cost between users with the structural risks set out in section 5.4.

From an MTI-design perspective, the proposal also raises a line-of-sight concern. Attaching a financial incentive to a measure where HAL is neither in direct operational control nor the party bearing the contractual rebate weakens the link between consumer priorities, performance and HAL's accountability that the MTI framework is designed to maintain. The CAA's transparency and consumer-confidence objectives can be achieved more proportionately through enhanced reporting, benchmarking and reputational levers, which draw on the same underlying performance data without the structural issues identified above. If the CAA nonetheless proceeds with a financial incentive on the PRM satisfaction measure (measured against a QSM survey score target of 4.00), it should confirm what assurance arrangements it will put in place to address the perverse-incentive risks set out in section 5.4, and how the additional measure will be accommodated within the existing rebate cap.

8.3 Security

The Airline Community supports the CAA's decision to retain the existing monthly security measurement framework for H8. As discussed during Constructive Engagement, the Airline Community maintains its in-principle support for transition to daily, per-passenger measurement as the end-state. At this stage, however, the risks of unintended consequences from premature change outweigh the benefits, particularly given the scale of change delivered through H7 and the ongoing rollout of Next Generation Security. The CAA has rightly identified that the combined package of changes proposed by HAL, across metric design, targets and incentives, risks weakening rather than strengthening the overall performance challenge. Retaining the existing monthly framework provides a stable, well-understood baseline that preserves the strength of current incentives while avoiding disruption during a period of operational transition.

The position is reinforced by HAL's revisions to its earlier proposal. The Airline Community's earlier support for HAL's proposed introduction of a 25-minute daily backstop was on the basis that it represented a proportionate and practical interim step, consistent with the "continuous improvement" philosophy underpinning the OBR framework. HAL's subsequent departure from that proposed approach materially alters the balance of the proposal and undermines the basis on which airline support was originally provided.

The Airline Community agrees with the CAA that automated queue measurement represents a step-change in capability, with the potential to deliver true per-passenger, real-time performance monitoring. This is the appropriate long-term solution and aligns with the CAA's objective of strengthening outcome-based regulation and transparency. Considering the scale of investment already committed, the appropriate regulatory mechanism at this stage is a licence condition, consistent with the approach taken in Q6, mandating transition to automated measurement within defined timelines. This would ensure clear accountability and delivery focus while retaining flexibility to adjust implementation where justified through Constructive Engagement.

³⁸ CAP 3232A Paragraph 3.75



The Airline Community notes the CAA's view that a 25-minute daily backstop "appears limited" in light of consistent NGS bonus performance³⁹. The strength of recent bonus performance is itself partly a function of the alleviations applied during NGS rollout, and the Airline Community does not consider that the case for a backstop is weakened by performance under conditions in which the headline measure was not fully operational. The Airline Community will engage further on the design and threshold of a daily backstop, including considering the introduction of automated queue measurement during H8.

8.4 Pre-Conditioned Air (PCA)

The Airline Community continues to propose that the PCA availability target be increased from 98% to 99% from the start of H8, and that a serviceability definition be incorporated into the measure. The CAA has not adopted either at Initial Proposals, but has stated it will engage further on the scope and definition of the measure ahead of Final Proposals⁴⁰. The Airline Community asks the CAA to confirm both at Final Proposals.

Performance over the last six months has consistently exceeded 99% across all three terminals, including for new units introduced in March 2025.

The data is set out below.

	PCA availability	T2	T3	T5
2025	October	99.99%	100.00%	100.00%
	November	99.97%	100.00%	100.00%
	December	99.98%	100.00%	100.00%
2026	January	99.96%	100.00%	100.00%
	February	99.99%	100.00%	100.00%
	March	99.76%	100.00%	100.00%

Source: HAL monthly MTI performance reports.

The case for 99% is reinforced by the characteristics of the new units. They have strong manufacturer performance guarantees and a modular design that allows continued operation with one module down, which was a key reason for HAL Engineering's selection. The business case presented to airlines for the new units expressly emphasised the need for high reliability to meet MTI targets. The new units are also a central element of the carbon reduction programme at Heathrow: without available, fit-for-purpose PCA, airlines must run APUs, generating unnecessary emissions. By contrast, a 98% target would permit up to ten hours of downtime per unit per month, which in typical operating-hour windows equates to approximately two days of lost PCA operation per unit per month, an outcome that is not acceptable from either a consumer or a carbon perspective.

The Airline Community also asks the CAA to incorporate a serviceability definition into the availability measure. The current licence definition states that infrastructure should be "*serviceable and available to use*"⁴¹. For jetties, lifts and escalators, serviceability is straightforward to define. PCA is the exception: in the past, PCA units at Heathrow have been counted as available when producing some cooling air but not at the flow rates or temperatures required to function as intended. The new PCA units report flow rates and temperatures, and these data should be incorporated into the availability measure. Any unit that is not delivering the flow rate and temperature committed to by the manufacturer should be counted as not available. The hoses used to transfer PCA air to the aircraft

³⁹ CAP 3232A Paragraph 3.67

⁴⁰ CAP 3232A Paragraph 3.89

⁴¹ F.17, Table 1 Financial Measures (Terminals), H7 Licence

should also be monitored as part of the same package, as they are expensive components funded by airlines through the upgrade programme; a hose with cumulative hole area exceeding 100 cm² should be regarded as unserviceable. The Airline Community has argued for the inclusion of a serviceability definition consistently since the H7 OBR Mid-Term Review. The CAA's note⁴² that the current licence definition specifies "the percentage of time serviceable and available for use" reinforces, rather than weakens, the case: serviceability is already in the licence; what is missing is operational measurement against the manufacturer specification.

8.5 Rebates and bonuses

The Airline Community welcomes the CAA's rejection of HAL's proposal to double the maximum bonus incentive from 1.44% to 2.85% of airport charges revenues, and supports the retention of both the 7% rebate cap and the 1.44% bonus cap⁴³. The CAA's reasoning aligns directly with the empirical evidence: since the introduction of the MTI scheme, "HAL has earned more in bonuses than it has paid in rebates"⁴⁴. The Airline Community has consistently expressed its in-principle opposition to bonuses, which the CAA has acknowledged⁴⁵. If anything, the historical performance data supports a downward recalibration of bonus rates within the existing 1.44% cap, not the expansion HAL proposed.

The Airline Community agrees with the CAA's rejection, and underlying rationale, of HAL's proposed new bonuses. The basis for the CAA's continuing consideration of an "overall satisfaction" bonus is, however, less clear: the Initial Proposals state only that it would reflect "HAL's overall performance and resilience across both measures with financial and reputational incentives",⁴⁶ without further substantive justification. Such a measure would be a composite of measures that already attract incentives, raising a real risk of double-counting and of bonus payments being earned through outcomes already paid for elsewhere in the regime. The Airline Community sees merit in the underlying NPS-based approach but raised substantive concerns about the structure of any overall satisfaction measure during the H7 mid-term review, which remain relevant here.

If the CAA is minded to introduce an overall satisfaction measure, it should clearly set out the criteria against which it would be assessed, including how double-counting with already-incentivised measures will be avoided.

The Airline Community also asks the CAA to confirm that bonus payments will not apply where an alleviation or exclusion is in place for the relevant measure, or where a disruption event with a material impact on performance has occurred. The case for this is established on the evidence: during H7, HAL earned multiple bonus payments for security queue performance during periods when significant alleviations were in place for the installation of new equipment under the Next Generation Security programme⁴⁷. Bonuses earned in those circumstances reflect the operating conditions of the alleviation, not genuine out-performance, and should not have been payable.

The Airline Community confirms its support for the application of bonus incentives to the staff search and control post measures, consistent with the agreement reached with HAL during Constructive Engagement and reflected in the CAA's Initial Proposals⁴⁸. The Airline Community also continues to propose a bonus incentive for the check-in infrastructure availability measure, on which the CAA has not yet been persuaded.⁴⁹

⁴² CAP 3232A Paragraph 3.89

⁴³ CAP 3232A Paragraph 3.57

⁴⁴ CAP 3232A Paragraph 3.56

⁴⁵ CAP 3232A Paragraph 3.57

⁴⁶ CAP 3232A Paragraph 3.79

⁴⁷ CAP 3232A Paragraph 3.38

⁴⁸ CAP 3232A Paragraph 3.81

⁴⁹ CAP 3232A Paragraph 3.89

8.6 Eligibility criteria

The Airline Community's strong and consistent position is that the MTI regime must remain focused on HAL, as the regulated entity, and on the aspects of performance within HAL's reasonable control.

The CAA has signalled openness to HAL's eligibility criteria, particularly in support of consumer-priority measures such as timely delivery of baggage and central security queues. The CAA has, however, expressed scepticism on the case for eligibility criteria attached to PRM assistance pre-notification, and noted that the materiality of the impact on overall performance of the proposals more broadly is "unclear". The Airline Community considers that, on the evidence, the case for eligibility criteria is not made out in any of the proposed measures, and that the CAA's expressed scepticism on PRM pre-notification should be extended to the wider proposal.⁵⁰

This principle is fundamental to effective economic regulation and is aligned with the design of the OBR framework, which distinguishes clearly between areas where HAL is directly accountable and those where it plays a coordinating or influencing role.

The introduction of airline eligibility criteria would represent a material departure from this principle. By conditioning the availability of rebates on the performance of airlines or ground handlers, the proposal would inappropriately transfer regulatory risk from HAL to third parties, weaken accountability, and create ambiguity as to where responsibility for delivery ultimately sits. Three further considerations reinforce the objection. First, the proposal is misaligned with regulatory principles: the MTI regime is designed to incentivise HAL, and introducing eligibility criteria would dilute that focus. Second, it would encroach into competitive activities, since airline and ground-handling services operate in competitive markets and are already subject to strong operational, commercial and reputational incentives; overlaying regulatory mechanisms in these areas risks distorting competition and blurring accountability across the airport ecosystem. Third, there is limited evidence of incremental consumer benefit: airlines already face direct financial, operational and reputational consequences for underperformance, for example in the case of mishandled baggage, meaning that additional regulatory constraints are unlikely to drive meaningful further improvement.

The existing OBR framework already provides appropriate mechanisms to reflect the multi-party nature of airport outcomes. Reputational incentives are deliberately applied in areas where outcomes are jointly delivered or not fully within HAL's control, such as punctuality, baggage misconnect rates and wider passenger experience measures. This ensures transparency of performance without inappropriately reallocating regulatory risk, and the CAA itself has acknowledged that these tools support a collaborative, system-wide approach to delivery. Airlines and HAL routinely work together through established operational forums, including operational readiness planning for peak periods and resilience improvement.

Airlines are, in any event, already strongly incentivised to perform. They incur direct financial costs through compensation, rehandling and disruption charges that materially exceed any potential rebate; operational inefficiencies reduce capacity utilisation and network performance; and customer outcomes directly affect brand reputation in a competitive market. These incentives are powerful and immediate. The introduction of airline eligibility criteria would therefore be neither necessary nor proportionate. The MTI focus should remain on HAL, supported by reputational measures and collaborative engagement for areas of shared responsibility.

⁵⁰ CAP 3232A Paragraphs 3.91-3.93

8.7 Other measures: TTS and Check-in infrastructure

Terminal 5 track transit system

The Airline Community agreed in principle during CE to a service day metric reflecting forecast passenger demand, subject to agreement on the number of cars making up the capacity of each train, and supported a backstop measure on two-train availability. The CAA is "minded to accept" the service day timetable change⁵¹ but has retained the existing 1-train and 2-train availability measures pending agreement, with an updated measure to be included in Final Proposals.

The Airline Community asks the CAA to confirm the updated measure at Final Proposals, subject to agreement on cars-per-train capacity, and to retain the 2-train availability measure as a 99% backstop alongside the new service day measure.

Check-in infrastructure

The Airline Community proposes three changes to the check-in infrastructure availability measure. First, the scope of the measure should be extended to include baggage input belts leading from self-service bag drops and check-in desks, and the availability of self-service kiosks and self-service bag drop units, all of which are integral to the check-in process and to operational resilience. Second, the availability target should be increased from 98% to 99%, consistent with the Airline Community's position at the H7 OBR Mid-Term Review. Third, a bonus incentive should be applied alongside the rebate, on the same basis as control posts and staff search, as the measure is critical to facilitating the consumer journey through the airport.

The CAA has indicated it will consider the scope and target changes⁵², but does not at this stage support the bonus incentive on the grounds that "the scope for out-performance is limited given that the target is set at 98%". The Airline Community notes that this reasoning does not hold once the target itself is increased to 99% with the expanded scope, and asks the CAA to confirm all three changes at Final Proposals.

8.8 Requests for Final Proposals

The Airline Community asks the CAA, at Final Proposals, to:

- **proceed with the proposed financial incentive on the timely delivery of departing baggage** to the makeup area no later than 20 minutes prior to departure, with consistent application across terminals, coverage of both originating and transfer baggage, and transparent root-cause attribution.
- The MTI ought to be tightened to capture the significant and recurrent major outages at Heathrow to incentivise performance and reduce ongoing consumer harm. The CAA should therefore **introduce a complementary, threshold-based backstop** within the departing baggage measure, triggered by defined levels of missed bags resulting from HAL-controlled failures, to capture major outages and material system failures;
- **retain the existing monthly security measurement framework for H8**, and introduce a licence condition, consistent with the approach taken in Q6, to mandate transition to automated, daily, per-passenger measurement within defined timelines;
- **increase the PCA availability target to 99% from the start of H8**, and incorporate a serviceability definition into the measure covering flow rates, temperatures and hose condition;

⁵¹ CAP 3232A Paragraph 3.82

⁵² CAP 3232A Paragraph 3.89



- **maintain the rejection of HAL's proposal to double the value of bonuses**, and recalibrate bonus levels downward where the evidence on the current bonus-to-rebate ratio supports this;
- if proceeding with an "overall satisfaction" bonus measure, **set out clear criteria** for its assessment and demonstrate how double-counting with already-incentivised measures will be avoided; and
- **reject the introduction of airline eligibility criteria within the MTI regime**, and continue to rely on reputational measures and collaborative engagement to address areas of shared responsibility.

9. Capex Governance and Incentives

Summary

Effective capital governance is fundamental to delivering value for consumers. The CAA's Initial Proposals rightly recognise the importance of incentives and governance, but consistent with calls for regulatory reforms to Heathrow, the experience shows that the existing framework has not operated as intended and requires targeted but material reform. Airlines have lacked timely, decision-grade information; assurance has focused on process conformance rather than value for money; and there have been few effective consequences where good-practice engagement has not been followed.

The Airline Community proposes a strengthening of the H8 framework around three interlinked principles: a strategy-led, transparently prioritised capital portfolio; genuinely independent, lifecycle-wide assurance; and decision-grade governance with clear accountability and enforceable consequences. Given the challenges and lack of meaningful recourse, the CAA should play a greater role, including on independent assurance, and confirm at Final Proposals that targeted licence-backed reforms will be introduced to ensure clear consequences where governance failures occur and the framework will remain flexible to allow for further changes arising from regulatory reform.

This section builds on several related ongoing engagements with the CAA, including the existing capital assurance arrangements, H8 Constructive Engagement, and the wider regulatory reform consultation (CAP3251), particularly the elements concerned with capital enhancements. The detailed framework proposals referenced below are set out in full in the Airline Community Capital Governance Proposal of 20 May 2026, which is included as a supporting annex to this response. We will continue to engage with the CAA on the specific issues and example governance and project failings.

9.1 The H7 framework has not operated as intended

The Airline Community considers that effective capital governance is fundamental to delivering value for consumers during H8. While the CAA's Initial Proposals recognise the importance of incentives and governance, the H7 experience demonstrates that the existing framework has not operated as intended in practice and requires targeted but material reform. The case is reinforced by the scale and ambition of the H8 capital programme: the capital envelope can only deliver value for consumers if the governance framework around it can test investment decisions, holding HAL accountable for delivery, and ensuring that benefits materialise as forecast.

Our experience is not of isolated issues nor limited to H7, but of systemic weaknesses in how governance functions. The framework contains several positive elements and principles, but its application has too often defaulted to process compliance rather than enabling transparent, evidence-based decision-making. Airlines have lacked consistent access to timely, decision-grade information and have not been able to exercise the role envisaged for them within the governance framework. This has been compounded by an absence of effective consequences where governance processes and good-practice engagement have not been followed, and by the fact that the framework remains controlled by HAL and structured around its delivery model. An independent assessment by Paul Mansell⁵³ identified systematic gaps against best practice and concluded that the issues observed reflect framework failures rather than isolated project problems, with direct consequences for cost escalation and project delay.

⁵³ <https://www.caa.co.uk/media/ivll1gtr/green-impact-heathrow-capex-governance-review-vpublic.pdf>

The H7 evidence, set out in full in the Airline Community Capital Governance Proposal of 20 May 2026, points to six recurring weaknesses:

1. The absence of a single, integrated portfolio view, limiting visibility of trade-offs and prioritisation;
2. An emphasis on the quantity rather than the quality of information;
3. Gateway processes, particularly G3, occurring too late to influence key decisions on scope, cost and solution design;
4. An assurance framework that is insufficiently independent, narrow in scope, and focused on compliance rather than value for money;
5. Delivery Obligations (DOs) that do not consistently align with operational outcomes or business case intent; and
6. A lack of enforceable consequences for governance failures, with airlines lacking the tools and levers to act effectively.

Three worked examples illustrate the practical effect of these weaknesses.

On **assurance effectiveness and escalation**, the H7 model has focused too heavily on process conformance and project controls, and has not adequately supported governance decision-making, issue escalation or portfolio monitoring. Without independent, decision-grade assurance early in the lifecycle, the scrutiny burden sits with airlines but without the tools or levers to consistently influence decisions, weakening confidence in value for money.

On the **Delivery Obligations regime**, the debate around T2 Airside Retail at Connections has exposed the tension between sliding-scale outputs and the airlines' view of operationally interdependent deliverables: under the current DO structure, partial delivery can still score, even where the components are operationally inseparable. Where DOs are not structured around functional outcomes, incentives weaken and the regime does not deliver the accountability the business case intended.

On **decision-grade evidence and accountability**, the Modernising Heathrow P4 close-out report is illustrative: it provides a structured narrative but does not establish a clear, decision-grade linkage between spend, delivered outputs and intended value, relying heavily on high-level activity listings. Where close-out evidence is not decision-grade, airlines cannot provide assurance on value for money or on cost treatment and transferability.

The cumulative effect is that governance exists but does not consistently function as an effective decision-making control. The consequence is reduced confidence in value for money and a risk that key investment decisions are shaped before meaningful external challenge can be brought to bear.

9.2 Design principles for H8

The Airline Community proposes a targeted strengthening of the H8 framework based on three core, interlinked principles:

1. **Prioritisation:** a strategy-led, transparently prioritised capital portfolio;
2. **Independent Assurance:** genuinely independent, lifecycle-wide, decision-grade assurance; and
3. **Decision-Grade Governance:** robust information, clear accountability and enforceable consequences.

Each principle applies across the full project lifecycle: Planning, Approval and Delivery, rather than concentrating scrutiny at gateways alone. Together they are intended to move the framework from process-driven governance to one that is outcomes-focused, evidence-based, and capable of delivering efficient capital investment. Each is developed below, alongside the parallel question of how the Delivery Obligations regime should be reformed. Consolidated asks of the CAA arising from each are set out at the end of the section.

Prioritisation and portfolio governance

A central weakness of H7 has been the absence of a single, integrated and prioritised portfolio view. Capital investment has not been demonstrably linked to strategy, nor have trade-offs been transparent nor made with airlines, rather presented as de facto. The result is that capex decisions have been shaped by HAL's internal sequencing rather than by an evidence-based prioritisation framework visible to and contestable by airlines. It should be noted that HAL's move to a programme-based approach for management of its capital portfolio has confused and reduced the effectiveness of capital governance.

For H8, capital investment must be managed through a single, integrated portfolio covering both current and forward-looking projects, updated regularly with the latest baselined status and forecasts. Investment decisions must be clearly linked to long-term strategy, with a transparent "golden thread" from strategy to portfolio to project to benefits. A formal project-level prioritisation framework should be applied with clear and transparent assessment criteria, including visibility of trade-offs and displacement effects. Prioritisation should operate continuously across the lifecycle, driving entry from G0 through to G3, and influencing sequencing, deferral and removal of projects.

Independent assurance

The current assurance model has not provided sufficiently robust, independent or decision-shaping challenge. Assurance has focused too heavily on process conformance rather than on testing whether investments are efficient or deliver value for money. Where airlines have been asked to engage with the outputs of the assurance process, those outputs have not provided the financial rigour or quantified evidence required to support informed decision-making.

For H8, assurance must be multi-layered in that it addresses a breadth of issues covering portfolio, need, scope, proposed solution, cost, delivery approach, procurement and the underlying business case, with external benchmarking where appropriate. It must provide timely, independent expert challenge and produce decision-grade, actionable outputs with quantified costs and benefits. Committed benefits should be tracked at project level and reported through the project and asset lifecycle.

The assurance function should be CAA-directed rather than HAL-controlled to ensure that scrutiny does not rest with airlines alone but is supported by independent, expert capability.

Decision-grade governance, transparency and accountability

Effective governance requires high-quality, timely and transparent information, alongside clear accountability and consequences. Under H7, business cases have not consistently been decision-grade, there has been weak traceability between spend, outputs and outcomes, and airlines have lacked the information required to act as informed decision-makers.

For H8, governance must ensure that business cases are standalone and decision-grade, with full lifecycle costs, risks, benefits and sensitivities, and with mandatory accountability for performance. There must be clear traceability between approved spend, delivered outputs and realised outcomes, demonstrated through enhanced reporting across project and asset life. Procurement strategies, contract terms, risks, assumptions and exclusions must be visible and assured, with competitive procurement as the default. And there must be ongoing performance and benefits-realisation reporting against G3 commitments.

9.3 Reform of the Delivery Obligations regime

The Airline Community supports the principle of DOs but considers that the current regime has not consistently delivered effective incentives. DOs are not always aligned to operationally meaningful outcomes; disaggregated outputs risk allowing partial delivery to be treated as success, as illustrated by the T2 Airside Retail at Connections debate; and the interaction between DOs, risk allocation and change control is not always aligned with business case intent. Given the relatively late introduction in H7, a mid-H8, end-to-end review of the regime is required, applying tighter rules consistent with the DO Handbook, including explicit consideration of the independence of outputs and the use of pass/fail criteria where scope cannot be meaningfully scaled, and strengthening the independent validation of DO structures. The reformed regime should align with the "fair bet" principle and ensure clear RAB consequences where delivery falls materially short of business case intent.

9.4 Underpinning Requirements

A consistent theme from H7 is that airlines lack the authority or enforcement levers to ensure that governance operates effectively. In practice, the only meaningful lever available to airlines is the refusal of G3 approval, which is a blunt instrument applied late in the lifecycle and inadequate to the range of governance issues that arise across planning, approval and delivery. Airlines should be recognised as informed decision-makers, supported by independent assurance and robust evidence, rather than positioned as substitute regulators. In order to support the effectiveness of the above reforms the Airline Community also considers the need for:

9.4.1 Role of the CAA

Alongside a greater ownership of the independent assurance function, the CAA must play a more direct and active role in capital governance; from setting the overall envelope, supporting a clear resetting of the capital governance framework, through to the ongoing monitoring of its effectiveness.

9.4.2 Licence backed Governance

Governance reforms are backed by licence condition that addresses the current shortfall in Condition F where HAL's compliance to governance is implied, rather than explicit. Closing this gap will ensure greater protection and incentive on HAL and provide greater weight to the underlying Protocols and Handbooks on which the governance and engagement framework is built upon.

9.5 Alignment with wider regulatory reform

The Airline Community notes the CAA's consultation on broader regulatory reform (CAP3251), and in particular the Model 1a principles which identify the need for a step-change in governance, scrutiny and accountability, including earlier and more transparent engagement, stronger independent challenge of cost, scope and procurement, improved information quality, clearer delivery accountability, and more consumer-focused investment outcomes. The Airline Community supports the CAA's recognition on the need for capital reform and these proposals supports that direction of travel. The principles set out above are designed to be implementable within H8 immediately, and to remain flexible to incorporate further reforms as they emerge during the price control period.

9.6 Requests for Final Proposals

The Airline Community asks the CAA, at Final Proposals, to:

- require HAL to provide and maintain a single, integrated, baselined and prioritised portfolio view, covering both current and forward-looking projects, with formal airline endorsement at portfolio and project level;
- mandate a formal prioritisation framework with transparent criteria, including visibility of trade-offs and displacement effects;



- establish and oversee a CAA-directed independent assurance function with a broader remit than current arrangements, producing financially rigorous, decision-grade outputs across planning, approval and delivery;
- mandate minimum information standards for business cases and reporting, including independent procurement assurance and audit for material projects;
- require ongoing benefits tracking and mandatory performance reporting against G3 commitments throughout the project and asset lifecycle;
- conduct a mid-H8, end-to-end review of the Delivery Obligations regime, strengthening it to focus on outcomes and accountability, including the use of pass/fail criteria where appropriate, and to ensure alignment with the "fair bet" principle;
- develop enhanced, licence-backed material consequences for HAL governance failures; and
- ensure that the H8 framework remains flexible to incorporate wider regulatory reform, including the CAP3251 Model 1a principles, during the control period.

These reforms would move the H8 framework from one in which governance exists as process to one in which it functions as an effective decision-making control.

Supporting annex

"Airline Community Capital Governance Proposal" to CAA, 20 May 2026.

10. WACC and Financial framework

Summary

The CAA's H8 Initial Proposals will overcompensate HAL relative to the risk it bears. This is most evident in the proposed WACC of 5.87% pre-tax CPIH-real, which the community contests. The CAA's estimate is materially above the level supported by CEPA's analysis and the independent academic advice commissioned by the Airline Community (4.68% pre-tax CPIH-real) and would over-remunerate HAL by more than £1.2 billion beyond what required to finance the airport efficiently. This will lead to excess returns and higher charges for the consumer contrary to the CAA's statutory duties to protect consumers and ensure efficiency.

The independent analysis shows that the CAA has applied the principles of stability and predictability inconsistently, and has applied UKRN guidance both inconsistently and incompletely, while diverging from its previous decisions for HAL and NERL. The CAA has rejected more robust, better-evidenced approaches without sufficient justification or credible alternatives. The CAA's assessment is internally inconsistent, relies on factual errors and non-transparent information, fails to take proper account of airport-specific evidence and relevant precedent from other airport regulators. It disregards the views of its own advisers and introduces policy changes that will harm the consumer without adequate justification. It also applies its chosen approaches inconsistently both within and across different parameters. In particular, the academics find that the CAA used unstable, inconsistent and inefficient beta estimates that contain embedded volatility and that are not aligned with the regulatory horizon. This is combined with the CAA's failure to adjust for HAL's lower systematic risk as a capacity-constrained single-till hub relative to diversified and less constrained comparator airport groups. **All three reports propose materially better and evidence-based alternatives to improve the CAA's estimation of HAL's WACC in a targeted, predictable and disciplined manner.** CEPA's and Professor Mason's approaches yield the same result, demonstrating that the CAA is overestimating the beta by around 20%, inflating charges by £1.30. We urge the CAA to take those recommendations into account in the setting of the WACC to improve its methodology.

We also challenge the CAA's proposal to allow an actual cost of debt for HAL, as opposed to a notional one, despite its acknowledgment that this would weaken financing incentives and risk increasing costs for consumers. This policy choice by the CAA alone could increase costs by up to £2 per passenger. It could also risk longer-term ramifications ahead of expansion by embedding an expectation that future debt costs will be passed through to consumers.

Our concerns are also accentuated by the wider financial framework, which provides HAL with several overlapping protections against multiple sources of risk on traffic, financing, inflation and investment risk. Unless these protections are reduced, the CAA should aim lower in the WACC range to avoid consumers paying for risks that HAL does not bear. Indeed, an allowed return above efficient levels, combined with this overly protective framework, creates perverse incentives for HAL to expand the RAB irrespective of consumer value.

10.1 The CAA must urgently revisit the H8 approach to address clear errors

The CAA has made errors across the cost of capital and financial framework that result in HAL being overcompensated for the risk that it bears. These errors are summarised under four categories below, in relation to methodology, evidence, transparency and framework design.

The Airline Community agrees with the principles adopted by the CAA in relation to the cost of capital in its Initial Proposals (as discussed in the CEPA response to the H8 Initial Proposals for IATA). However, the CAA has not applied these principles appropriately, resulting in excessive subjectivity,

inconsistency and factual inaccuracies, while failing to adopt materially better alternatives that would ensure efficient costs, avoid overcompensating HAL, and protect consumers. These issues are expanded on in the subsections which follow.

Methodological errors

The Airline Community commissioned CEPA to review the CAA's Initial Proposals⁵⁴. CEPA's response demonstrates that the CAA's WACC methodology is materially flawed and, as a result, produces an overstated allowed return for HAL. On the cost of equity alone:

- The CAA's empirical beta estimate gives excessive weight to long-window OLS estimates that are unstable, affected by atypical observations and poorly aligned with the H8 regulatory horizon. This approach is fundamentally at odds with the CAA's H7 methodology to control for one-off shocks that are unlikely to be repeated, where OLS provides those data points significant weight.
- The CAA is wrong to rely on market-cap weighted comparator betas where market capitalisation is affected by capital structure and by the wider activities of diversified airport groups.
- The CAA applies its own beta-adjustment logic inconsistently. It recognises that Traffic Risk Sharing reduces HAL's risk but fails to apply equivalent downward adjustments for other Heathrow-specific risk reductions, including capacity constraint and single till regulation.

This produces an asset beta that is too high and does not reflect the materially better evidence-based alternatives identified by CEPA and the independent academic advice.

The Airline Community also highlights that the CAA has used inconsistent cut-off dates across the cost of capital, uses a cut-off date that is significantly dated and avoids addressing issues around shock events, and has not referenced the pre-tax WACC in the H8 IPs at all, despite this being the basis for the allowed return⁵⁵.

Policy consistency errors

The CAA has not applied its own regulatory principles consistently across H8 or relative to previous decisions for HAL and NERL. It relies on a 'regulatory stability and predictability' argument to retain a 60% notional gearing assumption (despite this last being properly assessed prior to the Global Financial Crisis) but then departs from previous policy by proposing an actual cost of debt approach without adequate justification.

The CAA and FTI reports on the cost of capital discuss consistency with UK Regulators Network (UKRN) guidance, but miss an important facet of that guidance – that HAL's specific circumstances as a single capacity-constrained airport need to be considered, rather than applying a 'one size fits all' approach with sector-wide water or energy networks. This creates significant issues around incentives and the level of compensation provided.

The same inconsistency appears in the CAA's approach to judgement. The CAA is willing to quantify the beta impact of Traffic Risk Sharing (a position that the Airline Community support), but rejects comparable adjustments for capacity constraint and single till on the basis that they are complex (despite the CAA having previously made risk adjustments with comparable evidence). That distinction is not defensible. Complexity is not a reason to ignore a material risk difference where the CAA already

⁵⁴ CEPA (2026): 'H8 Initial Proposals – Response on financial issues' – attached as an appendix to this response.

⁵⁵ The CAA present the lower vanilla WACC in Section 3 whenever a figure is presented.

accepts the direction of the effect, has quantified an effect before, and where an adjustment would give a materially better answer.

Evidential errors

The CAA's proposals rest on factual and evidential errors. The clearest example is capacity constraints. The CAA is wrong to treat Heathrow's comparator airports as similarly constrained to Heathrow: the available runway capacity evidence shows that Heathrow operates at or close to its declared limits for much of the day, while Madrid, Barcelona and Paris CDG operate materially below their declared runway limits. This matters because the CAA uses its incorrect view of comparator capacity constraints to justify not applying a downward beta adjustment for Heathrow's lower traffic risk.

The CAA also uses comparator airport betas that it considers are not statistically robust to reject higher traffic volatility airports leading to higher betas in the airport groups. The CAA should properly evidence any assumptions, such as the assumed end date of the COVID pandemic or length of investor horizon.

Transparency errors

There are several issues around transparency that cause detriment to the process and consequently consumers. A clear example is on depreciation, where the CAA describes using the Fixed Asset Register to set depreciation allowances as both transparent and understood by stakeholders. However, the CAA confirmed that it has itself not had sight of the Fixed Asset Register, let alone shared this with stakeholders – despite it being directly used to set multi £bn allowances.

The CAA, despite repeated requests over many months from the Airline Community, have not shared any information on HAL's actual debt portfolio. The CAA has switched to reflecting HAL's actual debt costs to set the embedded cost of debt, yet not provided the underlying evidence to do so. We have submitted a letter to the CAA on these factors.

These are not minor process concerns. They prevent effective engagement and undermine the evidential basis for the CAA's proposals. A further example would be that the CAA has not considered historical tax costs in setting a pre-tax WACC and has assumed that a 25% rate is applicable without looking at relevant evidence.

Framework design errors

The H8 financial framework is poorly calibrated because it gives HAL several overlapping protections without reducing the allowed return accordingly. HAL benefits from traffic risk protections through the Traffic Risks Sharing mechanism, the passenger shock factor and the asymmetric risk allowance; financing protections through the proposed actual cost of debt allowance; inflation protections through RAB indexation; and further protections through pass-through mechanisms and uncertainty allowances for several key cost items.

The CAA has not properly assessed the cumulative effect of these protections on HAL's true risk exposure. As a result, the package compensates HAL for risks that have already been reduced, mitigated or transferred to users. If the CAA retains these protections, they should be properly calibrated, and the CAA must reflect the protections through a lower WACC estimate.

Financeability and affordability should be considered beyond the five-year H8 window for the CAA to properly discharge its duties to consumers. The short-term approach does not allow the CAA to properly assess trade-offs and consider the impact of policy today on consumers tomorrow.

The CAA Initial Proposals framework does not properly support financial resilience, leading to risk being imposed on consumers from HAL's choices on gearing. The CAA is less active on financial resilience than Ofgem and Ofwat, despite considering that Heathrow is riskier than regulated energy and water networks. This must be addressed to mitigate potential risks to resilience and financeability.

The CAA should consider Group (i.e. Heathrow Finance) Regulatory Asset Ratio (RAR) because it reflects the debt burden economically serviced from regulated airport cashflows. For a regulator assessing financeability, equity risk, distribution pressures and incentives, this is the relevant ratio, not Heathrow SP's Class A gearing. At the end of December 2025, Heathrow report the Group RAR as 82.9%. We consider that the actual business contains only around one-third of the equity that would be assumed under an appropriate notional capital structure.⁵⁶ The erosion of the equity buffer risks causing direct consumer detriment if HAL does not retain sufficient resilience to withstand the risks it faces as a regulated business. The CAA's policy choices that reduce this risk via higher allowances causes consumer detriment via a different channel.

10.2 The CAA overstates the efficient cost of capital for Heathrow

The CAA's proposed H8 weighted average cost of capital (WACC) overcompensates HAL relative to the risk it bears. The proposed pre-tax real CPIH WACC of 5.87% exceeds the level required to finance HAL efficiently, and would result in material detriment to airport users.

The Airline Community propose a H8 pre-tax real WACC estimate of 4.68%, c.120 basis points below the CAA's estimate. Applying this lower WACC would reduce charges by £3.02 per passenger. On this basis, we consider that the CAA's proposed £6.5bn allowance for HAL's H8 financing costs is overstated by more than £1.2bn.

The Airline Community position on the cost of capital has been informed by three independent consultancy reports from CEPA, Professor Robin Mason and Professor Donald Robertson⁵⁷.

The authors of these reports are experts in the cost of capital and have a long track record of working on behalf of regulatory bodies.

- All three advisers worked on behalf of Ofwat, the water regulator, for the PR24 regulatory determinations and CMA appeals.
- CEPA has recently worked on cost of capital studies for Ofgem, Ofcom the Northern Ireland Utility Regulator, government departments and multiple international regulators.
- Professors Mason and Robertson have worked on expert reports on behalf of the UKRN.
- Professor Mason is a current decision-making member of the Competition Appeal Tribunal (CAT) and served on the Competition Commission (CC) / CMA for eight years, alongside other roles at economic regulators.
- Professor Robertson is Professor of Econometrics at the University of Cambridge.

For the asset beta – representing the level of systematic risk faced by HAL – both Professor Mason and CEPA estimate an asset beta of 0.42, compared to the 0.50 in the H8 IPs⁵⁸. This suggests that the CAA may be overestimating the beta risk faced by HAL by 20%.

The difference in the beta parameter alone is worth 0.50% on the pre-tax WACC, resulting in c.£550m in higher revenues and £1.26/pax higher charges.

The Airline Community considers that the CAA has made factual errors in parts of its assessment, applied principles inconsistently and rejected materially better-evidenced approaches without sufficient

⁵⁶ HAL's actual structure means that for every £100 of RAB, there is £82.90 of debt and £17.10 of equity. This compares to the CAA's notionally geared structure that assumes £40 of equity. We support a 50% notionally geared structure, i.e. £50 of equity.

⁵⁷ The CEPA report covers the cost of capital in full; the reports from academic advisers are limited to beta.

⁵⁸ Professor Robertson's report focuses on process and critiques the CAA's approach, but does not independently estimate beta or the overall cost of capital.



justification. We consider that the CAA has been inconsistent within its H8 cost of capital assessment, and with its previous decisions for HAL and NERL.

The Airline Community's key concerns and proposed remedies to these issues are summarised below in relation to the cost of capital.

Issue	CAA proposal	Airline Community Concern	Recommended remedy
Empirical beta	2yr and 10yr unadjusted OLS using simple and market-cap weighted estimates	Gives too much weight to unstable long-window estimates that fail to control for shock effects Market-cap weighting of beta is not robust	Use evidence-weighted estimate of 0.53, using shorter window OLS and robust regression techniques Remove market-cap weighting
Relative Risk	No adjustment	Fails to reflect capacity constraint, traffic volatility of wider group and single till	Apply a downwards adjustment to beta
Traffic Risk Sharing adjustment	Apply downwards adjustment	Method to apply downwards adjustment creates upward bias	Use CEPA recommended calculation approach
Cost of Debt	Heathrow's actual embedded debt cost estimated	Weak incentives, low transparency and risk of upwardly biased assumptions on debt	Use notional debt allowance as first-best approach Make changes proposed by CEPA if retain actual debt approach and reduce WACC to reflect lower risk
Gearing	Use 60% based on previous decisions	High relative to listed comparators, inconsistent with other regulators and passes on risk from Heathrow's financing choices to users	Reduce notional gearing to 50%
WACC point estimate	Provisionally use mid-point	Does not suitably capture wider risk protections when assessed alongside beta	Use lower point in the range if protections are retained

10.3 The CAA's financial framework provides significant and overlapping risk protections to HAL that are inconsistent with the level of allowed return

On the financial framework, the compensation provided to Heathrow is higher than the level of risk it faces. The CAA rolls forward the H7 determination without providing sufficient scrutiny of several inputs and failing to gather / utilise information that would be required for it to suitably discharge its duties.

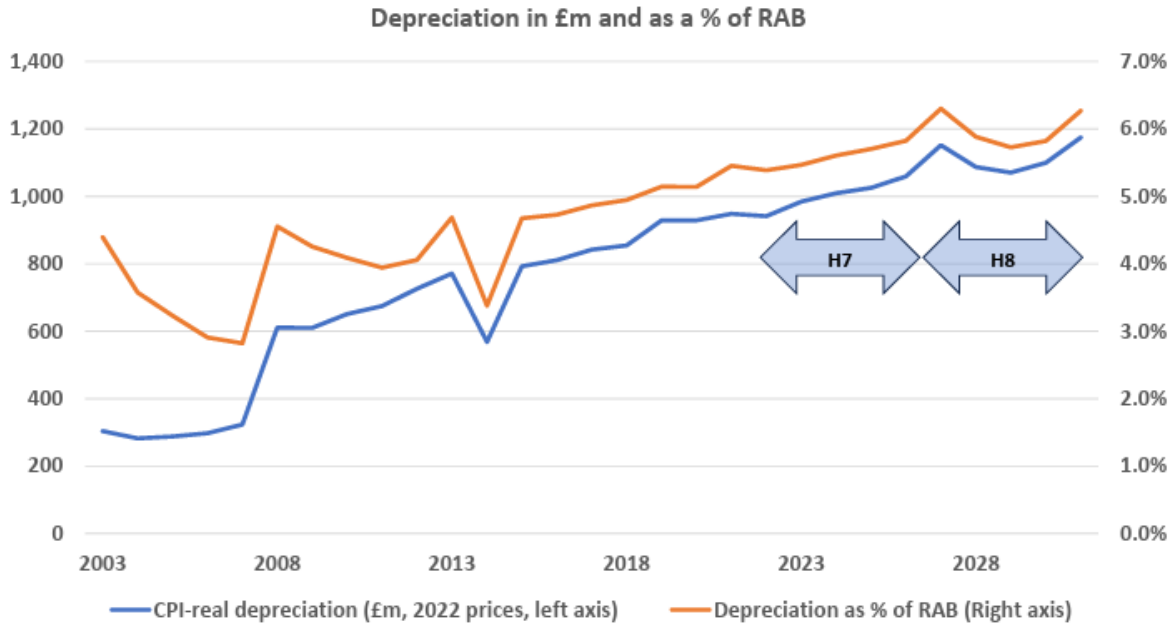
Depreciation

The CAA states (paragraph 10.30) that using Heathrow's Fixed Asset Register is "logical, transparent, understood by stakeholders and produces a stable profile", and therefore remains an appropriate basis for determining the allowance for regulatory depreciation.

However, the Airline Community has requested information on the Fixed Asset Register since publication of the Heathrow Business Plan in summer 2025, and these requests have been rejected by both Heathrow and the CAA. In this context, the CAA's assertion that the approach is "transparent" and "understood by stakeholders" is factually incorrect.



The higher “run-off” rate applied over the last two decades has also resulted in higher depreciation charges. Figure 10.1 from the CAA’s Initial Proposals, reproduced below, illustrates this trend.



Source: CAA H8 Initial Proposals

Higher depreciation charges would be driven by either: (i) a greater share of shorter-life assets within the overall asset mix; or (ii) shorter assumed technical asset lives for each category of RAB asset. Because the Airline Community has not been provided with sight of the Fixed Asset Register, it is not possible to determine which of these two factors is driving the higher depreciation charge:

- If the driver is a greater share of shorter-life assets within the asset mix, the relatively linear upward trend does not appear consistent with normal investment cycles, where a greater degree of cyclicity in depreciation levels would typically be expected.
- If the driver is shorter assumed technical lives for individual assets, the CAA should properly scrutinise why this is the case and whether Heathrow is managing its assets efficiently.

The Airline Community understands that the CAA has neither requested nor reviewed Heathrow’s Fixed Asset Register. The CAA therefore cannot have undertaken sufficient assurance of the proposed depreciation charge. Audit processes are primarily focused on backward-looking financial reporting, whereas these depreciation allowances are being set on a forward-looking basis. As such, the CAA cannot adequately discharge its regulatory duties by relying solely on the work of auditors or accountants.

The CAA’s rationale for presenting alternative run-off rates of 5% and 7% is also unclear. The presentation appears to imply that depreciation per passenger per unit of RAB is the relevant metric, and that the 5% and 7% rates represent appropriate reference points. However, the effective H8 run-off rate is around 6%, and the CAA appears to derive comfort simply from the fact that a 5% rate would produce lower depreciation charges, while a 7% rate would produce higher charges. For such an important component of the price control framework, the CAA’s proposals require a much more substantive justification.

Taxation

The Airline Community expressed our view at H7 that the CAA should review Heathrow’s effective tax rate to satisfy itself that setting a notional pre-tax allowance is appropriate. This is particularly important

now that the CAA uses Heathrow's actual cost of debt directly and does not control for the level of gearing, for which the overall Heathrow group, rather than only the narrowly regulated entity, is relevant. The CAA has not presented evidence that it has done this, despite changes in expenditure and depreciation over time.

The CAA indicates (paragraph 10.47) that 'if stakeholders provide evidence to suggest that an alternative approach is appropriate, we will consider these representations ahead of our Final Proposals.'

This statement does not provide a balanced assessment, as airline stakeholders do not have sight of Heathrow's tax information and therefore cannot provide such evidence. Given that requests for information on actual debt costs and the Fixed Asset Register have been rejected, the Airline Community consider it unlikely that transparent information would be made available to stakeholders.

We disagree with the notion that this task should fall on the Airline Community, rather than the CAA properly discharging its duties.

Inflation indexation⁵⁹

The Airline Community welcome the CAA's proposals (paragraph 10.80) to potentially incorporate a fixed indexation approach to setting a real cost of capital and indexing the RAB (on nominal fixed rate debt). This approach would properly address the issues highlighted with respect to 'inflation leverage' effects and windfall gains in a way that a medium-term forecast approach clearly does not. The CEPA report discusses two major problems with the current approach and one that uses a medium-term forecast approach; i) expected inflation is difficult to estimate reliably, and ii) outturn inflation can depart materially from expectations. The proposed fixed indexation approach addresses both with no impact on H8 charges and should be adopted by the CAA.

Traffic Risk Sharing mechanism

The Airline Community welcomes the reduction in beta from the TRS mechanism, given that it clearly allocates risk away from Heathrow and onto consumers.

The CAA discusses (paragraph 10.93) the risk of the 'TRS overlapping with existing traffic risk policies designed to deal with less extreme traffic deviations' if the outer band were reduced to 5%. Overlap is a critical point, including using a shocked passenger forecast as the basis for the TRS mechanism and multiple protections being offered to HAL. This supports our view that the shock factor ought to be withdrawn. The TRS should lead to a greater reduction in the WACC as it will kick in "one way" in H8 due to the capacity constraints, and therefore benefit HAL more than consumers.

The Airline Community have material concerns around the moral hazard risks created by de-risking Heathrow through the TRS mechanism, as currently calibrated. Parts of the H8 investment programme are necessary to deliver H8 traffic, including terminal occupancy work ('Aligning Growth and Demand') that is due to be delivered in 2028 and is expected to deliver a 3.5 million annual passenger capacity increase. Consultations began in 2023, but the latest consultation was delayed further in late April 2026. It is critical that Heathrow does not benefit from delaying investment, including through any change to passenger forecasts and the CAA needs to devise suitable treatment within the TRS to mitigate this moral hazard risk.

Asymmetric Risk Allowance (ARA)

The ARA provides Heathrow with £122m (nominal) of additional revenues over H8. The ARA is calibrated using a series of assumptions in relation to the frequency of any pandemic event, the impact

⁵⁹ We have previously set out why the Airline Community considered CPI to be preferable to CPIH. We do not repeat those arguments, but continue to hold that position.

on passenger numbers, elasticities and the cost of capital. The results are therefore highly sensitive to inputs, which themselves are largely subjective.

At Q6, the CAA considered that the shock factor adjustment to passenger forecasts controlled for asymmetry of risk in volume forecasts, even in the absence of a TRS mechanism.

In H7, the CAA introduced the TRS mechanism, including compensation of 105% of revenues outside the threshold bound, and added the ARA, while retaining the shock factor. This represented a significant change with additional layers of risk protections for Heathrow, with risks allocated to users.

Heathrow is implicitly compensated by an additional £124m (nominal) of additional revenues over H8 due to the shock factor, based on Initial Proposals. The Airline Community considers that a shock factor is sufficient to address any asymmetry without applying a further revenue uplift to Heathrow. It is unclear how the CAA has suitably controlled for this additional shock factor compensation when estimating the ARA.

If the CAA considers that there is no overlap and there remains a shortfall, we would welcome the CAA indicating the potential 'outside threshold' factor (currently 105%) that would create equivalence with a zero ARA outcome.

Financeability and Affordability

The CAA's analysis indicates that, in expectation, the notional company easily meets all relevant financeability metrics under the CAA's H8 Initial Proposals. This implies that there is room to reduce the level of compensation from the Initial Proposals without being constrained excessively by financeability.

Any financial metrics should take into account Heathrow's 'Excellent' business risk profile and the protections seen through being a regulated infrastructure provider.

The Airline Community has highlighted that we consider that the level of debt in the Heathrow structure is too high and that this informs the CAA selecting a level of notional gearing that is also too high. This leads to weaker financial ratios and places risk from Heathrow's choice of capital structure onto consumers. Credit rating agencies have been explicit around concerns on the level of debt in Heathrow's structure; for example, S&P (2026)⁶⁰ state:

"We think that the scale of the planned investments would likely add debt to Heathrow's already indebted capital structure, thus impacting the company's ability to sustain FFO to senior debt above 8% and FFO to debt above 6% from 2029, when the third runway works are expected to begin."

The Airline Community is concerned that the CAA has not assessed financeability or affordability beyond the H8 period. This creates a risk that future controls may introduce non-NPV neutral adjustments on financeability grounds, despite the possibility that changes to H8 policy could already address those concerns.

10.4 Requests for Final Proposals

The Airline Community asks the CAA, at Final Proposals, to:

Topic	We request that the CAA...
WACC	i) Reduce the (real CPIH pre-tax) cost of capital to 4.68%.
Depreciation	ii) Obtains Heathrow's Fixed Asset Register, alongside calculations for estimating H8 depreciation.

⁶⁰ S&P Global (2026): 'Heathrow 2025 Results Are Credit Supportive; Expansion And Regulations Will Shape Future Credit Quality'

	<p>iii) Shares the Fixed Asset Register (or sufficiently detailed evidence) with airlines and relevant stakeholders.</p> <p>iv) Reviews the drivers of increasing depreciation charges.</p>
Taxation	<p>v) Assesses and presents the effective tax rate paid by the HAL business.</p> <p>vi) Review whether this evidence supports use of a pre-tax WACC approach at H8.</p>
Inflation Indexation	<p>vii) Makes any provisional decision available ahead of Final Proposals (to give stakeholders sufficient time to respond to policy changes).</p> <p>viii) Adopts a 'fixed indexation' approach.</p>
Traffic Risk Sharing mechanism	<p>ix) Has the Traffic Risk Sharing mechanism start at a lower point to prevent HAL benefitting from its own failure to deliver the required level of capacity to meet demand.</p> <p>x) Continues to apply a reduction in the beta to reflect the reduction in risk from the Traffic Risk Sharing mechanism.</p>
Asymmetric Risk Allowance (ARA)	<p>xi) Removes compensation for the ARA, and if not, presents the equivalent sharing factor that would be required to remove the ARA.</p>
Financeability and Affordability	<p>xii) Models financeability and affordability out for four additional price controls under two scenarios: i) 'steady-state capex' run-rate, and ii) under the latest official projections of capacity expansion, to aid transparency for decision-makers and stakeholders.</p> <p>xiii) Reduces notional gearing in the WACC and for financial modelling.</p> <p>xiv) Adopts policies used by other economic regulators for improving financial resilience for HAL.</p>

Supporting annexes

- CEPA (2026): 'H8 Initial Proposals – Response on financial issues'
- D Robertson (2026): 'Estimating beta'
- R Mason (2026): 'An independent Report on aspects of Heathrow's asset beta'

Appendix A: Airline Business Plan Updated H8 Charges assessment compared to Initial Proposals

Underlying details within the response and associated Annex.

Supporting annexes

- Airline Alternative Business Plan: Model updated for Initial Proposals (2026)

2024 CPIH (except RAB figures)	2026	2027	2028	2029	2030	2031	Total	Average	vs CAA Total	vs CAA Average	Diff	Airline Source
WACC	4.68%	4.68%	4.68%	4.68%	4.68%	4.68%	4.68%	4.68%				
Passenger Volumes	86.8	88.2	89.5	90.9	92.2		447.6	89.5	438.3	5.87%	9.30	CEPA Report Skylark Report
Opening RAB - nominal	21,637	22,375	23,121	23,910	24,313							
Capex - real	1,307	1,303	1,329	992	900		5,831		5,831	1,166	0	CAA Initial Proposals 19 years (RAB remaining life)
Depreciation - real	(1,045)	(1,061)	(1,067)	(1,085)	(1,084)		(5,342)		(5,740)	(1,148)	398	
RAB Change - real	262	242	262	(93)	(184)		489					
Closing RAB nominal	22,375	23,121	23,910	24,313	24,613							CAA price cap model methodology, with airline assumptions on depreciation
Average RAB nominal	21,281	22,006	22,745	23,326	23,668							
Av RAB / CI RAB	95.1%	95.2%	95.1%	95.9%	96.2%							
Opex Costs	1,488	1,518	1,507	1,487	1,480		7,480	1,496	7,790	1,558	-309	Detailed Opex Assessment Removed
Allowance for Asymmetric Risk	0	0	0	0	0		0	0	107	21	-107	
Pension Deficit Charge	0	0	0	0	0		0	0	0	0	0	
Total Costs	1,488	1,518	1,507	1,487	1,480		7,480	1,496	7,897	1,579	-416	
Non-Aero Revenue (excl. ORCs)	(1,123)	(1,143)	(1,158)	(1,188)	(1,203)		(5,815)	(1,163)	(5,403)	(1,081)	-412	Detailed Com Rev & ORC Assessment
ORC (Revenue)	(123)	(123)	(123)	(123)	(122)		(614)	(123)	(1,289)	(258)	674	
Cargo Revenue	(19)	(19)	(18)	(17)	(17)		(90)	(18)	(90)	(18)	0	
Total Revenue	(1,265)	(1,285)	(1,299)	(1,328)	(1,342)		(6,519)	(1,304)	(6,781)	(1,356)	262	
NET Costs	223	233	208	159	138		961	192	1,115	223	-154	
Return on RAB	914	928	934	941	939		4,655	931	5,769	1,154	-1,114	
Total Aeronautical Revenues	2,181	2,222	2,209	2,185	2,161		10,958	2,192	12,625		-1,666	
Cost per Passenger (un-profiled)	24.39	25.13	25.19	24.68	24.04	23.44	24.48		28.80		-4.32	

APPENDIX B: ORC Governance Challenges Examples

Evidence Item 1: HAL trading statement for Q1 2026 demonstrating how HAL view growth in Other Regulated Charges as positive.



Positive start to the year but with an uncertain outlook ahead – 18.9 million passengers travelled through Heathrow in Q1 (+3.7% YoY). Following airspace closures in the Middle East, there was an increase in transfer passengers across Heathrow's network. While Heathrow has temporarily absorbed demand from elsewhere, passenger numbers for the rest of the year are likely to be impacted whilst there is significant uncertainty in the Middle East.

Recognised among the world's best for service – Passengers rated Heathrow as one of the best airports globally in the Skytrax Awards (up five places over last year), with the airport also named the world's best for retail and remaining Europe's most punctual major hub. We are also the world's only major hub to have fully rolled out next generation security scanners for all passengers allowing liquids and laptops to be left inside cabin baggage.

Global connectivity powering UK trade – As the world's most connected airport and the UK's gateway to growth, Heathrow continues to play a critical role in driving economic prosperity. More than a quarter of UK trade equivalent to £300 billion annually passes through Heathrow, and with Q1 2026 cargo volumes aligned to last year, Heathrow is supporting more businesses and exporters from across the country to reach customers in markets around the world.

Good value for passengers alongside continued investment – Heathrow is preparing to invest over £1.3 billion this year to improve passenger experience, including major upgrades to Terminal 4, replacing Terminal 5's passenger transit system with a new fleet to increase capacity and starting work on a new baggage system in Terminal 2. We are currently reviewing the CAA's initial proposal in detail to fully understand the implications for delivering the innovation, progress and improvements customers expect. As it stands, the CAA's proposal may force choices that create trade-offs for service and delay delivery.

Expansion essential to unlock growth and deliver for passengers – Heathrow is proudly celebrating its 80th anniversary this year, yet growth at the airport has been constrained for more than twenty years of its operating life. Expansion will unlock 50% more capacity, enabling more routes, greater competition and lower fares for passengers. Progress now depends on upcoming regulatory decisions from the CAA and the Government's draft Airports National Policy Statement in July, which are critical to maintaining investor confidence and keeping plans on track for planning permission by 2029, with the most imminent milestone being the CAA consulting on its short list of regulatory models for expansion in coming weeks.

Financial performance – In the first three months of 2026, revenue increased by 2.3% to £844 million, driven by higher passenger numbers, a favourable travel mix, continued expansion in premium services, increased food & beverage from higher traffic **in addition to growth in Other Regulated Charges**. These gains were partly impacted by reduced air traffic movements and lower noise charges due to quieter aircraft flown. Adjusted operating costs increased by 6.5%, reflecting higher people costs due to wages, national insurance and volume alongside greater IT investment and increased Passengers Requiring Support costs. While lower rates and utilities mitigated some of the cost pressures, adjusted EBITDA declined by 1.1% to £449 million.

Outlook – We have not updated our 2026 outlook yet, but we have seen some impact from recent Middle East disruption and are closely monitoring developments which will be reflected in our June 2026 Investor Report.

Evidence Item 2: PRM Unit Cost escalation since 2019 is 3 x greater than inflation.

Direct costs have increased from £23.8m in 2019 to £73.8m in 2025 for PRM services.

Unit costs per PRM passenger have also increased significantly:

PRM passenger no.s: **2019** = 1.5m, Cost/PRM passenger in 2019 = **£15.41**

PRM passenger no.s: 2025 = 2.35m, Cost/PRM passenger in 2025 = £31.40 (+103%)

In the same period CPI inflation has increased by 29.7% (source: Bank of England).

Units costs have risen 3x faster than inflation since 2019 and performance is largely the same. There has been a significant amount of discussion on these large cost increases and a new contract holder has been sourced by HAL (with involvement of the airline community, but crucially no airline community involvement was permitted by HAL in the contract negotiations). Despite these extensive discussions during consultations, costs have risen dramatically above inflation rates.

The airline community firmly believe that if its agreement had to be sought by HAL for any real unit price rise above 3% then costs would have been effectively managed and the consumer would have benefitted as a direct result.

[Redacted – Slides marked ‘Confidential’]

Evidence Item 3: Airside Licence costs are over 10x higher than Gatwick and increased by 32% in 2026.

Heathrow’s Airside Licence fee for 2026 is £6,837 per licence, in the same year Gatwick’s Airside Licence fee was £665 per licence.

Heathrow’s 2026 charges increased by 32% in 2026 and are 196% higher than 2019 charges (ie they have grown 6.5x faster than inflation).

The HAL explanation given for charges to increase by 32% in 2026 was as below:

- £322k increase in Heathrow staff costs driven by an additional 8.65 FTE to deliver greater airside driving standards, safety improvements, dedicated resources to delivering community-wide safety events, enhanced auditing of GOL and AOL holders, dedicated management of operators and investigations.
- £129k increase in operational costs, driven by additional Safety Week budget, external road traffic collision investigation expertise, additional safety promotion outside of Safety Weeks, covering reactive and digital communications and 2x additional vehicle leases.
- Addition of £172k training and testing costs, to support partial funding of a new driver and training management platform, Airside Safety Awareness Training (ASAT) hosting, airbridge training and licensing of operators, and introduction of supplementary hazard perception testing for 12,000 drivers to form part of ongoing testing and revalidation.

When the airline community pressed for further detail and evidence of the need for the increased safety focus and the expected benefits of the increased safety focus (ie improvements in incident rates etc) HAL provided no further information and confirmed the cost increase.

Evidence Item 4: Staff ID costs increased by 73% in 2026, driven by an IT project (Vetting Gateway) with no quantifiable business case.

The 2026 budgeted Staff ID Direct Costs are forecast to increase to £4.92m from £2.85m in 2025. (+73%). This was largely driving by the costs of introducing a new IT system – “Vetting Gateway”. HAL provided a qualitative explanation as to why the new system was needed but provided no quantitative benefits- despite the systems licence fees resulting in an addition £1m/yr in annual costs every year.

The airline community pressed hard for more evidence to support the purchase of the system but no further quantitative information has been shared by HAL:

This is very clear evidence that a lack of incentives on HAL to keep costs efficient results in large cost increases that have little or no benefits to the consumer.

Appendix C: PCA Working Group 27/11/2024 - slides supporting setting a 99% availability target

[Redacted ~ slides marked Confidential]