

13 August 2026

Civil Aviation Authority

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

Dear Sir/Madam,

The Qantas Group welcomes the opportunity to comment on the CAA's proposed next steps set out in Chapter 5 of CAP3286.

Qantas supports the direction the CAA has taken. We welcome the shift from assessing regulatory models individually to a more integrated framework encompassing governance, procurement, financing and direct competition.

The effectiveness of that framework should ultimately be assessed by its ability to promote efficient expenditure, attract capital at the lowest sustainable cost and protect consumers where effective competition is absent. These objectives are fundamental to maintaining affordability, as inefficient expenditure and financing arrangements ultimately translates into higher airport charges.

We consider this to be the right architecture, and our comments below are directed at implementation rather than at reopening the case for change or the evaluation criteria.

This letter is structured in two parts: the principles we consider should guide the September work plan, and the specific areas where we believe further analysis is required.

Part A: Principles for implementation

- 1. Cost discipline should be embedded at the point costs are incurred.** Most of the inefficient expenditure associated with development and expansion arises from decisions taken during design, procurement and delivery. Mechanisms that prevent inefficient expenditure upfront are worth more than mechanisms that identify it afterwards, which is why design optionality, competitive procurement and the governance package should be treated as complements rather than alternatives.
- 2. Competition should be the default where an asset can be specified and contracted.** Competitive delivery and operation should be assumed for expansion assets unless there is clear evidence that it would not serve consumers' interests, with HAL (Heathrow Airport Limited) required to justify any package of work it proposes to retain outside a competitive tender process.



3. **Returns should reflect risk actually retained.** The allowed return should compensate HAL for the risk it holds at the time the return is set, not for a risk profile that competitive delivery has since transferred to others.
4. **The same capital should not be remunerated twice.** Where a competitively tendered payment stream already carries the contractor's financing cost and margin, the regulatory treatment of that stream should not layer a further unadjusted return on the same capital.
5. **Regulatory boundaries should be defined by principle, in advance.** Where different categories of expenditure attract different allowed returns, the boundary between them determines value because it defines which return applies. It should be set by published, rules-based criteria before expenditure is committed, not resolved case by case afterwards.
6. **Financing certainty should enable efficiency, not substitute for it.** A longer-term framework for the cost of capital is worth pursuing because it can reduce the risk premium investors require over a multi-decade programme and so lower charges. That benefit only materialises alongside credible incentives on how efficiently costs are incurred.
7. **Regulatory oversight is the floor where competition is absent.** For the runways, core airfield infrastructure, shared systems and coordination functions HAL retains under monopoly conditions, regulatory oversight is the only source of discipline. It should be comprehensive, and it should not be mistaken for a substitute for structural reform.
8. **Reform should extend beyond expansion over time.** The concerns the CAA has identified are present at today's two-runway airport. The arrangements developed for expansion should be extended to business-as-usual capital expenditure as they mature.

The following issues illustrate where we consider these principles should be reflected in the detailed design of the framework.

Part B: Areas requiring further consideration

We support the four work areas as scoped. The following are the questions we consider



are not yet addressed within them, and which we would encourage the CAA to bring into the September work plan.

1.Competitive Procurement and Delivery

While we support the CAA's intention to further develop competitive procurement models, there are several implementation issues that we do not consider fully addressed in CAP3286 and which warrant further work as the framework is developed.

Selecting assets for competitive delivery

We support the CAA's intention to develop a framework for identifying which assets are suitable for competitive procurement. Competition should be the default assumption for expansion assets unless there is clear evidence that doing so would not serve consumers' interests.

In our view the test should be separability and contractability rather than scale or asset life. The relevant questions are whether scope, interfaces and performance can be specified tightly enough to contract and enforce, and whether a third party can operate the asset without compromising airfield safety and resilience. On that test, discrete infrastructure with definable interfaces is well suited to competitive design, build and operation, while assets integral to the operation of the airfield system are not. Materiality alone does not resolve the question either way. We would also encourage the CAA to distinguish between competitive procurement of design and build, and arrangements that place design, delivery and operation with the same party. The latter aligns whole-of-life incentives, because the party specifying the asset also bears the consequences of that specification. Both have a role, and the framework should be clear about which applies where.

Where competition extends beyond procurement and into third-party ownership or operation, additional financing and regulatory issues arise, which should be developed alongside the competition models rather than retrospectively.

2.Direct Competition

We support the CAA's proposal to develop arrangements for direct competition where a third party secures development consent for part or all of the expansion programme. However, for direct competition to be a credible option in practice, the framework must be capable of accommodating financing arrangements for parties other than HAL.

Financing arrangements for parties other than HAL



We support developing direct competition so that the framework is ready if a third party obtains development consent, and we agree this work should proceed in parallel with the planning process rather than after it. Regulatory uncertainty should not itself narrow the range of outcomes available through that process.

Two elements of that readiness work concern financing rather than operations.

- First, a party delivering and operating an asset under a long-term contract requires certainty of contract terms, duration matched to asset life, and indexation, in order to bid efficiently - the regulatory framework needs to support that.
- Second, an independent operator bearing demand and operational risk directly would require its own regulatory or concession framework, distinct from HAL's RAB.

Neither is addressed by a framework designed solely around HAL's balance sheet. If direct competition is to remain a credible option, these issues should be developed alongside the competition models rather than retrospectively.

3. Long-Term Financing Framework

Qantas supports a longer-term financing framework where it reduces regulatory uncertainty, lowers the cost of capital and supports affordability. However, financing certainty should support efficient investment, not shield inefficient expenditure. In our view, four issues warrant further consideration.

a) The interaction between competitive delivery and the allowed return

The CAA has said that competitive procurement should apply to a broader range of HAL's assets, with operational issues mitigated through effective contract management. In addition, the CAA has noted it will need to consider the appropriate allocation of revenue risks as these models are developed. Separately, the work on the longer-term framework is scoped around HAL's existing regulatory asset base and the method for estimating an expansion cost of capital. In our view these workstreams need to be connected.

As competitive delivery expands, a proportion of design, delivery and lifecycle risk is transferred from HAL to contracted parties. While HAL retains ownership, funding and residual delivery risks, the risk profile of its retained activities differs materially from one in which it delivers the programme itself. We encourage the CAA to make this explicit in the cost of capital methodology, so that the allowed return reflects the risks actually retained and can be reviewed as procurement



arrangements are finalised. This will help ensure consumers do not pay for risks that have been transferred through competitive delivery.

b) Regulatory treatment of contracted payment streams

Where an asset is delivered and operated under a competitively tendered long-term arrangement, contractor payments are typically structured to recover construction costs, financing costs and an agreed return over the life of the asset. The contractor's return is therefore already embedded in the payment stream, priced competitively at tender.

CAP3286 does not address how these arrangements should be treated for regulatory purposes. This matters because, without a clear approach, consumers could fund financing costs twice: once through the contracted payment stream and again through an unadjusted regulatory return. We would welcome the CAA addressing this issue as part of the financing framework to ensure the benefits of competitive delivery are reflected in lower charges.

c) The regulatory asset base boundary and allocation

Qantas can support in principle a separate expansion RAB, and we note the alternative of a cost of capital premium applied within a single RAB remains open. Under either approach, expansion and business-as-usual expenditure would attract different allowed returns while consumers continue to pay a single aeronautical charge. The allocation of expenditure between the two is therefore not visible in the price.

In our view the answer is not to abandon the separation but to define it properly: published allocation principles, settled before expenditure is committed; treatment of shared and enabling assets specified in advance; independent verification of allocation decisions; and reporting sufficient for users to see what has been attributed where. The Qantas Group would welcome the opportunity to contribute to the development of those principles.

d) Calibration of the cap and collar

We supported a cap and collar on returns in our response to CAP3251 and continue to do so. It is the mechanism that makes a long-dated fixed return practicable for both sides, and we welcome the CAA's intention to identify options that are credible and workable in practice.



The design question we would highlight is symmetry. A collar engages whenever outturn returns fall below the floor, and so is likely to have effect from early in the period. A cap only protects consumers if it is set at a level outturn can plausibly reach, and if the excess above it is actually returned to users through lower charges rather than deferred, offset against other allowances, or absorbed through adjustments to the asset base. We would encourage the CAA to test calibrations against modelled outturn scenarios and to specify the pass-through route explicitly, so that the mechanism does not operate in practice as one-directional protection.

4. Governance

We support the capital committee, independent assurance and the CAA retaining the final decision on RAB eligibility. These measures are particularly important for activities that remain outside competitive disciplines.

Two points on design warrant further consideration:

- First, assurance should be independent of HAL and engaged throughout project design and development rather than only after expenditure.
- Second, there should be a clear, timely escalation route to the CAA for material cost overruns, scope changes and departures from approved procurement strategy, with efficiency remaining a precondition of recovery.

Governance can improve transparency, accountability and scrutiny, but it should not be viewed as a substitute for competitive delivery. Where competition is not possible, governance is important and a regulatory backstop is critical. Where competition is viable, governance alone cannot replicate the cost and efficiency that competition creates.

Conclusion

Qantas supports the framework the CAA has set out and considers the four work areas in Chapter 5 to be the right ones. Competition should be used wherever feasible to discipline costs, and the allowed return should follow risk actually retained. The further analysis we suggest concerns the interaction between them: as competitive delivery broadens, the allowed return should follow the risk that is actually retained, contracted payment streams should not be remunerated twice, boundaries between differently remunerated categories of expenditure should be defined by criteria and principles in advance, and the cap and collar should be calibrated so that consumers share in the benefits.



We would welcome the opportunity to discuss these matters with the CAA as the September work plan is developed, including the opportunity to contribute to any workshops or bilateral engagement on the procurement selection framework and the financing workstream.

Yours faithfully,

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Qantas Group

