FUNDAMENTAL REFORM OF ECONOMIC REGULATION AT HEATHROW

HEATHROW REIMAGINED
A Better Hub For Britain

Heathrow Reimagined response to the CAA's Spring 2026 Consultation (CAP3251)

VERSION FOR PUBLICATION

Submission to the Civil Aviation Authority is made jointly by Heathrow AOC, Arora Group, International Airlines Group, S.A., Swissport, and Virgin Atlantic.

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FOREWORD

The Spring 2026 Consultation is a welcome and important step forward. The CAA's decision to shortlist regulatory models that combine greater use of competition in the provision of airport operation services (AOS) and a step-change in capital governance is the right approach, reflecting the compelling case for change set out by the CAA.

The CAA's own analysis confirms that Heathrow is poor value for money. It charges users more than any major international hub airport in the world, for service quality that is materially below that of peer airports. Charges will continue to materially rise under HAL's expensive, inefficient and unaffordable plans for modernisation and capacity expansion. These outcomes follow directly from the failures of the current regulatory model, which creates harmful structural incentives for HAL, compounded by a framework that is ineffective at preventing HAL from acting on them.

The case for change is strong. The scale of consumer harm necessitates fundamental and structural reform.

We welcome the progress the CAA has made with the shortlist of regulatory models. However, there are four overarching considerations that must be factored into the CAA's ongoing review, and any final decision, in line with its statutory duties.

1. **Reforms are necessary even without capacity expansion**. The harm the CAA has identified exists in today's two-runway airport. Competition and governance solutions to remedy such harm cannot focus solely on capacity expansion or wholly new infrastructure. They must also address the consumer harm of today and, to do so, apply across the entire campus, benefiting all consumers and users. A regime that addresses failings only for capacity expansion would leave material consumer harm unaddressed and would be inconsistent with the CAA's primary duty.
2. **Terminal competition should involve all terminals, existing and new, competing directly against each other**. Competition between independent operators is the most effective remedy to the failures in the regulatory regime driving poor outcomes today. The CAA accepts that broader competition (i.e. structural changes) delivers greater consumer benefits. The only rational conclusion from that finding is that the scope of terminal competition must cover all terminals competing instead of constraining its application to expansion only. The exception would be where the short-term implementation costs outweigh the long-term dynamic efficiencies. This is not the case here. The CAA has the means and legal powers to act, including in a manner that fully respects regulatory certainty for HAL over the recovery of its historically incurred terminal costs. Claims about implementation challenges are overstated; Heathrow Reimagined would not advocate for competition models that have material risks of disruption or harm to passenger experience – to do so would risk unacceptable harm to our businesses.
3. **Affordability must sit at the centre of the CAA's assessment.** As the CAA has recognised, the capex plans developed by HAL would drive up charges, which are already at a level that has no precedent among peer airports, and are multiple times higher. A regulatory model that does not incentivise and deliver affordable charges, reflecting efficiently-incurred costs, cannot further the interests of users.
4. **The CAA should drop proposals related to longer-term price control commitments.** These changes will not resolve the underlying problems and risk further material harm to consumers.

This is a once-in-a-generation opportunity to fix the regulatory model at Heathrow for the long-term and establish the right foundation for capacity expansion. If the CAA is to meet its statutory duties, it must not stop short of the reforms that the evidence shows are urgently needed.

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A. EXECUTIVE SUMMARY

The case for change is compelling – urgent and fundamental reform is necessary

1. We welcome the CAA's finding that the case for change is strong.[1] However, as we set out in this submission,[2] the CAA nonetheless materially understates its strength and the urgency of fundamental reform. Heathrow Airport Limited (HAL) has entrenched substantial market power (SMP), and regulation is failing to sufficiently mitigate harmful structural incentives or constrain the exercise of its market power.

2. Charges far exceed those levied by Heathrow's peers despite its recognised underperformance on service. Passengers pay over £1 billion annually more than if Heathrow's charges matched those of European hub peers.[3] Value for money is unacceptably poor. HAL's plans for capacity expansion and modernisation are inefficient, unaffordable and would substantially increase the existing charges gap in the decades to come. This would be an unacceptable outcome for consumers, users, or UK PLC.

3. Today's poor outcomes are a result of HAL's harmful structural incentives, which the current regulatory regime has not sufficiently constrained. Inherent information asymmetries limit the ability of existing regulatory interventions – including capex governance, capex incentives, and service quality regimes – to effectively counter these incentives, and, as the case for change clearly demonstrates, they have failed to prevent substantial consumer harm. HAL has both the ability and incentive to circumvent these mechanisms and any incremental changes to them.

4. The magnitude of the failings over a prolonged period and the resulting consumer harm necessitates fundamental reform – it is the only rational and proportionate response consistent with the CAA's statutory duties. Incremental changes to the current model alone will not be enough to comprehensively address the harm identified. Nor would they represent the CAA discharging its statutory duties.[4]

The case for change relates to today's two-runway airport – reforms cannot focus solely on capacity expansion or wholly new major infrastructure

5. The necessary package of reforms must recognise that the harm set out in the case for change is not a 'tomorrow problem'. The failings of the current regulatory model exist at today's two-runway airport – the CAA's regulatory response must comprehensively remedy this. The failings of the past must not be repeated, but the CAA cannot focus solely on capacity expansion.

6. In assessing the different available remedies, the CAA is right to be guided by its statutory duties and not HAL's commercial incentives or the Government's preferred timeline for capacity expansion. We strongly support the CAA in rejecting HAL's self-serving framing of timeliness,

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[1] This submission, which is made jointly by Heathrow AOC, Arora Group, International Airlines Group, S.A., Swissport, and Virgin Atlantic, collectively 'Heathrow Reimagined', is in response to Civil Aviation Authority's ('CAA') CAP3251 document ("*Heathrow capacity expansion – consultation on a shortlist of regulatory models*") published on 15 May 2026 ('the Spring Consultation' or 'the Consultation'). This response builds on the views set out in Heathrow Reimagined's January 2026 response to the CAA's CAP3195 document ("*Working paper on regulatory models*") published in November 2025 ('the Working Paper') and Heathrow Reimagined's February 2025 submission to the CAA ("*Fundamental Reform of Heathrow: Securing the right long-term model for passengers, airlines and the UK economy*").

[2] The time available to stakeholders to respond to the Consultation was relatively short (just over 4 weeks). Given this, Heathrow Reimagined reserves the right to comment further on matters covered by the Consultation in the future. Furthermore, Heathrow Reimagined not commenting on any matter covered by the Consultation should not be taken as Heathrow Reimagined's agreement with the CAA's position on that point.

[3] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraph 7, link.

[4] We set out the CAA's statutory duties in detail in our February 2025 submission. Annex 1 of this submission sets out the CAA's legal powers to implement the necessary reforms set out in this submission.

financeability and deliverability as pass/fail criteria. That framing would prioritise speed over the effectiveness of the regulatory model at protecting the interests of consumers, contrary to the CAA's duties. Notwithstanding this, the fundamental reform required can be delivered in a way that supports efficient, financeable and timely expansion.

7. We support the CAA in its finding that affordability is a very important matter – indeed, it must be central to the CAA's evaluation framework. Ensuring regulation supports an affordable and efficient airport delivering value for money, as would be the case in a competitive market, must be at the heart of reform solutions. An inefficient and unaffordable expanded airport would not only compound consumer harm but also be economically damaging to the UK, resulting in de-hubbing, reduced choice, longer journey times and higher fares, thereby rendering capacity expansion inefficient and unsuccessful – it is incumbent on the CAA to use all legal and regulatory levers available to it to mitigate such outcomes.

We support the CAA shortlisting a package of reforms that target the drivers of poor outcomes

8. The drivers of today's poor outcomes are structural; HAL's harmful incentives, combined with a regulatory framework that is ineffective at preventing HAL from acting on them. Structural problems require structural solutions.

9. Competition, particularly direct competition, in the provision of airport operation services (AOS) must be the primary element of a comprehensive package of reforms also including enhanced capital governance. Effective competition can address HAL's harmful structural incentives at source, whereas regulation can only seek to mitigate their consequences. Measures to introduce effective competition as widely as possible should, therefore, always be viewed as the priority over regulation where there is a choice. While such measures can require more effort to implement, they are necessary and proportionate to more fully address the harm that consumers suffer and will deliver greater benefits over time.

10. The history of Heathrow's economic regulation is one of successive attempts to police HAL's SMP. For example, the CAA introduced Outcome Based Regulation in H7 having identified shortcomings in the previous service quality scheme; it introduced ex ante capex incentives to address inefficiency; it has relied on ex post capex reviews, the Independent Fund Surveyor and Constructive Engagement.[5] Each sought to partially mitigate the same underlying problem (that of incentives), and none have been effective in doing so.

11. The reason for this is that no regulatory mechanism, however well designed, can fully remove or constrain HAL's SMP and remove its structural incentives. The implication here is the same; reforms to deliver a step-change in the effectiveness of regulation, particularly capital governance, are necessary but not sufficient on their own - the CAA must now prioritise maximising the role of effective competitive processes and market structures to address the underlying harmful structural incentives at source. Such an approach would also align with its statutory duties, particularly in relation to the promotion of competition in the provision of AOS.

12. A narrower and more limited response would leave demonstrable consumer harm substantially unaddressed – it is hard to see how that could be reconciled with the CAA's duties, or the conclusions that the CAA has reached thus far, particularly when viable and proportionate remedies exist.

13. Comprehensively addressing the failings of the current regime, therefore, requires a package of mutually reinforcing reforms:

[5] CAA, CAP3195: Working paper on regulatory models, November 2025, paragraphs 2.62-2.66, link.

- **Direct terminal competition to reset HAL's incentives at source, wherever feasible**. Effective competition can remedy the structural incentives driving poor outcomes at source, and must be extended and intensified as broadly as possible across the airport – including enabling all terminals, existing and new, to compete directly with each other. This can be delivered through a more flexible application of Model 7b, enabling implementation via third party ownership or contractual separation under existing powers provided by CAA12.[6] Such an approach does <u>not</u> require HAL to divest ownership or lease out its terminals. **We therefore strongly support the CAA shortlisting Model 7b.** In the alternative, Model 8 would also be an effective route for existing terminals and therefore should be retained on the shortlist for further consideration.

- **Competition, based on design-build-operate with competitive procurement, for semi-separable assets, where direct competition is not feasible**. Where parts of the airport cannot be exposed to direct competition, design-build-operate with competitive procurement mechanisms can still harness competition-for-the-market to deliver more efficient infrastructure that better meets the needs of consumers. Model 5b therefore is the appropriate route only for semi-separable assets, where direct competition is genuinely not feasible. Model 5b drives less consumer benefit than direct competition (Model 7b) because HAL's structural incentives remain intact, as does its ability to influence outcomes, including through the governance of the procurement process. Nevertheless, Model 5b would provide material consumer benefits over the status quo. Model 4b is a procurement and governance reform. While we support its inclusion on the CAA's shortlist, it alone cannot deliver the reform required. **We therefore strongly support the CAA shortlisting Models 5b and 4b.** However, the CAA or its designated body should control the tender, not HAL.

- **Enhanced capital governance, resulting in a step-change in the effectiveness of regulation.** Strengthened regulation is complementary to the greater use of competition. Effective regulation is necessary where competition is not sufficient to eliminate SMP, but it is also important to ensure system-level coordination and coherence. The current capex governance regime, in particular, is ineffective. It does not cover all the necessary elements of the capital lifecycle, its processes and mechanisms are not set up for success, and it leaves too much control in the hands of a monopoly provider, enabling it to act on the perverse structural incentives in the regulatory regime. Major changes are needed to deliver a step-change in effectiveness, ensuring HAL is properly accountable and responsive to users and consumers. **We therefore strongly support the CAA shortlisting Models 1a, 2 and 4a** (although, as we set out further below, the CAA's proposals currently do not go far enough – the lack of airline veto rights is not viable).

14. The three elements outlined above work together. Where feasible, direct competition can reset incentives at source; competitive procurement captures efficiency where direct competition cannot reach; and reformed regulation complements competition and ensures system-level coordination and coherence. Only a package incorporating all three can comprehensively address the current failings.

15. None of this requires harming HAL's regulatory certainty over its ability to recover its historically incurred costs, including terminal costs. The reforms we support are directed at forward-looking incentives - the way decisions about future investment and operation are made. Reform of this kind strengthens, rather than weakens, the predictability of the regime: it replaces the recurring need for ever more intrusive regulatory intervention with a structure that aligns incentives from the outset.

[6] Civil Aviation Act 2012.

Direct competition must be prioritised wherever it is feasible

16. Within that package, structural remedies such as competition must be the primary intervention, with effective direct competition prioritised wherever it is feasible:

- It is the most effective way of resetting HAL's harmful structural incentives at source. Under it, the right to invest in and operate infrastructure is won by the operator that can best meet the needs of users at the lowest cost; operators cannot pass inefficiency to consumers – they keep the benefit of efficiency and bear the cost of inefficiency themselves. As the CAA notes, "*competition across the asset lifecycle could result in the creation of an efficient cost baseline, while costs associated with points of interface and outsourcing of operations can be managed through appropriate contractual provisions and governance*"; an experience demonstrated in comparable settings.[7]

- Greater use of direct terminal competition will provide richer terminal-level data for benchmarking.

- It also addresses a significant risk to expansion – reliance on a single, highly indebted operator to finance it – by allowing investment to draw on multiple balance sheets rather than a single source.[8] This could be done, for example, by using Model 7b to deliver capacity expansion to the maximum extent possible, including for existing terminals on a contractual basis, which will introduce genuine commercial discipline and accountability, something the status quo plainly lacks.

17. The scope of direct competition must be extended to include all terminals, existing and new, competing directly with each other. Competition between HAL (as the operator of all existing terminals) and new terminal operators would deliver benefits to consumers. But expanding the scope and intensifying terminal competition would maximise consumer benefits across the airport – it is a rational and proportionate response to the failings of the current regime and is consistent with the CAA's duties to all consumers of AOS at Heathrow.

Arguments against direct terminal competition do not stand up to scrutiny

18. Heathrow Reimagined would not advocate for competition models that have material risks of disruption or harm to passenger experience – to do so would risk unacceptable harm to our businesses.

19. Major international airports operate with the separation of airfield and terminal operations (e.g. JFK, Atlanta, LaGuardia, Munich) and show that separate operations can take place safely and efficiently, avoiding claimed 'fragmentation' issues. Unlike HAL, our members operate at these airports daily and understand the user, operational and safety experience first-hand, along with what drives good performance and passenger experience. We have lived experience of the major redevelopment of JFK and other major international airports where terminal operations are separate from airfield operations.

20. Furthermore, Heathrow already operates within a framework that accommodates multiple ownership and operating structures across the airport estate with very little coordination by HAL. Examples include cargo facilities located on airport property but owned and operated by third parties, maintenance hangars developed and operated by independent providers, hotels in the airport perimeter that are owned/managed by third-party operators, terminal facilities delivered through a variety of contractual and operational arrangements, and airfield operations directed by NATS. The governance challenge is therefore not a new one. Rather, it is an extension of arrangements that already exist across the airport campus today. The key requirement is ensuring

[7] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, Table 6.3, link.
[8] Centrus, Financeability assessment of regulatory models for Heathrow Airport, May 2026, link.

appropriate coordination, operational standards, safety oversight and infrastructure interfaces are maintained across all participants, regardless of ownership or operational structure.

21. There is no rational basis for not extending the scope of direct terminal competition to include existing terminals:

- **The CAA has the powers needed under CAA12 to implement contractual separation.** We set this out in more detail in Annex 1.
- **Broadening the scope and intensity of terminal competition need not delay or distract from capacity expansion.** The CAA could prioritise those reforms that are most critical to the timely delivery of capacity expansion while still advancing terminal competition in a timely manner, recognising the importance of terminal competition for existing terminals for addressing the significant consumer harm arising from the current model.
- **Indeed, fundamentally addressing the failings of the current regime such that stakeholders can have greater confidence in capex decisions is likely to support timely expansion.** Given the scale of capex required for capacity expansion and affordability concerns, the CAA must assume that any package of reforms that does not fundamentally address the harmful structural incentives, the strategic misalignment it drives between HAL and airlines and their consumers, and information asymmetries, will remain 'adversarial' and therefore likely to be subject to significant delays. Any assessment of delays and implementation must consider not just the time taken to implement reform, but how likely it is, once in place, to result in delays in delivery. Taking more time on the former is likely to reduce the latter.
- **Arguments regarding terminal operators acting in an anticompetitive manner should not be given weight.** Terminal operators will have a strong incentive to maximise their attractiveness to the broadest set of airlines possible to maximise the utilisation of their terminal and to support any growth ambitions they may have – this runs counter to any discrimination concerns. Residual concerns can be readily addressed through model design, including, where a new terminal operator is licensed, using tools that are standard in regulated infrastructure markets (e.g. application of non-discrimination requirements). In addition, all operators (whether or not separately licensed) would need to comply with relevant competition law requirements.

22. Further, the CAA and its advisers too readily accept HAL's claims around 'fragmentation' and other claimed operational consequences for capacity expansion and ongoing operations from greater competition:

- As set out above, we have no incentive to advocate for reforms that would result in material risks of operational disruption or other harm to passenger experience.
- HAL's coordination role is significantly overstated. Terminals, in particular, are separable. Heathrow already operates as a multi-operator environment with hundreds of companies[9] (many of whom are coordinated by airlines, not HAL).
- Direct competition would create incentives for operators to manage such risks. It would better align the incentives of operators across the airport with users.
- Where needed, the CAA and/or the new senior governance committee could oversee effective mechanisms and protocols to fill any coordination gaps, including potentially appointing a third-party specialist to support it (e.g. by acting as a specialist adjudicator). Such issues have been successfully addressed in other settings such as energy transmission networks – we see no reason why that cannot be the case at Heathrow too.

[9] Heathrow Airport Limited, Companies at Heathrow, retrieved June 2026, link.

- The ultimate objective of regulation is not operational or administrative simplicity – rather, it is furthering the interests of consumers, which means promoting efficient infrastructure, affordable and fair charges, service that meets the needs of users and value for money. The practical challenges of implementing direct competition are manageable, unlike the harm that stems from HAL's continued monopoly provision of all aspects of AOS under the status quo.

We welcome an overhaul of capital governance

23. The CAA's proposal for a new senior governance committee ('the Committee')[10] is welcome. It largely reflects the capital governance reforms that Heathrow Reimagined has called for, although the CAA should go further to ensure the reforms are as effective as possible.

24. Establishing an accountable and more effective model of capital governance across all stages of the capex lifecycle is a necessary (but, on its own, not sufficient) part of a comprehensive package of reforms. It is needed to transform investment rigour and create a culture of accountability, which will contribute to a more attractive and affordable airport for users.

25. Rigorous governance that covers the full capital and asset lifecycle, including planning, approval and performance, with accountability throughout, will drive greater transparency and commercial discipline to support decision-making where capital commitments are being made.

26. Such governance, in which stakeholders can have much greater confidence, will support timely and efficient capacity expansion. It will help avoid airlines being forced to delay or withhold capex approval at today's Gateway 3 because they lack confidence in HAL's capex proposals, a real and material risk under the current inadequate arrangements. Maintaining the status quo is not without significant risks to the capacity expansion timetable in its counterfactual.

27. However, the CAA's proposals do not go far enough in ensuring that effective oversight and accountability mechanisms are put in place:

    - The Committee must have the ability to properly scrutinise the long-term capital plans for the airport – getting the right long-term plans and sequencing in place is critical.
    - The Committee must also be able to refuse to approve capex plans to allow it to meaningfully control the risks faced by users, but also incentivise accountability by HAL earlier in the process.
    - There must be effective routes for the Committee to fast-track the escalation of issues to the CAA for resolution.
    - Finally, the CAA must ensure that any experts or assurance bodies that support the Committee are truly independent from HAL.

28. For a new governance model to be effective, it must replicate, to the fullest extent possible, the discipline that management and shareholders face in competitive markets. A clearly defined long-term capital plan and budget are required, with prioritisation of projects to achieve core objectives. There must be meaningful mechanisms to ensure that HAL's management and shareholders are held genuinely accountable for their decisions by bearing the consequences of inefficiency. In competitive markets, inefficiency results in management earning lower bonuses or dividends being reduced or stopped.

[10] In this response, 'the Committee' refers to the new senior governance committee proposed by the CAA under Model 1a. Heathrow Reimagined has previously set out detailed recommendations for the reform of capital governance, including the functions such a body should perform, referring to it as the Capital Investment Committee (CIC). We contrast our proposals for a step-change in effectiveness with HAL's proposals that would not address the failings in today's governance and would not result in genuine independent assurance.

Model 3 does not support the CAA in meeting its primary duty to consumers – it should be dropped from the shortlist

29. Unlike the comprehensive package of reforms outlined by Heathrow Reimagined, the long-term regulatory models described by the CAA would not address the fundamental failings of the current regulatory framework, particularly around cost discipline, incentives for efficiency, and protection of consumers from excessive charges. Indeed, there is a material risk that the proposed changes could weaken accountability and worsen consumer outcomes over time. It should not be shortlisted.

30. The CAA has not properly articulated the problem that Model 3 is intended to solve. There is no evidence that expansion under a five-year regulatory commitment is not financeable. Indeed, there is a greater risk of the CAA overstating the efficient cost of finance and providing excessive protection to investors. Without a clear problem to solve, there is no rationale to progress with Model 3.

31. Long-term regulatory commitments shift risk away from HAL and its investors and towards consumers where they lock in assumptions about future demand, costs, or financing conditions. Given the material uncertainty around these inputs, such commitments risk exposing consumers to forecast error and implementation risk through higher allowed revenues, while fettering the CAA's discretion to intervene as circumstances change.

The CAA must seize this once-in-a-generation opportunity to comprehensively fix the regulatory model across the airport to the benefit of all users

32. This review provides a once-in-a-generation opportunity to fix the broken regulatory model at Heathrow.

33. The CAA's Consultation is a welcome acknowledgement of the need for reform, and a step in the right direction in establishing the package of comprehensive reforms needed to address the underlying issues today and to establish the right regulatory foundation for the future of the airport, enabling successful expansion.

34. The CAA must continue to seize that opportunity. Heathrow Reimagined will continue to support it to do so.

B. THE CASE FOR CHANGE

Key points

The case for change is strong - fundamental reform is necessary to comprehensively address the structural drivers of consumer harm. Regulation has failed to remedy the poor consumer outcomes arising from HAL's SMP – charges are high, value for money is unacceptably poor, and the regulatory regime has failed to replicate outcomes that would arise in a competitive market.

Heathrow already has the highest airport charges amongst its peers and delivers service quality that is materially below them. The CAA is right to recognise that Heathrow Airport Limited's (HAL) **plans for capacity expansion and modernisation would mean that the charges gap will increase substantially** in the decades to come.

The case for change has been identified in relation to outcomes at today's two-runway airport; it is consequently essential that reform is not only focused on capacity expansion or wholly new major infrastructure. Failure to comprehensively address the root causes of consumer harm that apply across all aspects of AOS at Heathrow today cannot be reconciled with the CAA's statutory duties. The package of reforms must recognise that the consumer harm set out in the case for change is not a 'tomorrow problem'. While the failings of the past must not be repeated, the CAA must also address today's consumer harm.

The root cause is HAL's harmful structural incentives, compounded by an ineffective regulatory regime. HAL's SMP gives it both the ability and incentive to act against consumers' interests. The current regulatory model reinforces those incentives, and the CAA's existing remedies have not been sufficient to prevent it from acting on them. Successive attempts to amend the current regulatory model have tried and ultimately failed to mitigate those incentives and the consumer harm they cause.

Information and risk asymmetries limit what regulatory tools can achieve. The CAA's regulatory interventions to date, including establishing a capex governance framework, capex incentives, and service quality regimes, have failed to mitigate HAL's structural incentives and prevent substantial consumer harm. HAL retains the ability and incentives to exploit its information advantage over the CAA, while the asymmetric consequences of intervention constrain the CAA's enforcement powers in practice. Given the weight of evidence, it is clear that a new approach including structural remedies must be taken.

Heathrow Reimagined agrees with the CAA's overall case for change conclusions

35. Heathrow Reimagined agrees with the CAA that there is a "*strong case to revisit the current regulatory framework*", including "*considering models that would better use competitive forces to help protect consumers*".[11]

[11] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 1.14, link.

36. As we have set out in our February 2025, June 2025 and January 2026 submissions,[12] the evidence that the current regulatory model is failing consumers is overwhelming. Fundamental change to how the existing and future Heathrow is regulated is needed urgently.

37. Heathrow Reimagined supports the CAA in not providing further updates on the case for change in future documents or carrying out further substantive analysis of the underlying issues. However:

- for the reasons set out in this section, the CAA should recognise that, in practice, the case for change is stronger than that set out in the Consultation; and
- should the CAA receive new evidence that could result in it materially changing its assessment of the case for change, we would expect the CAA to make that evidence available to all stakeholders and provide sufficient opportunity for consideration and to comment.

The case for change clearly demonstrates that reform must not be focused solely on capacity expansion

38. The CAA's conclusion of the need for change at Heathrow is based on the poor performance and outcomes for consumers observed at today's airport. The need for fundamental reform is evident under the current model, regardless of capacity expansion. To address the poor outcomes delivered by Heathrow, regulatory reforms must apply to the whole airport and not solely capacity expansion assets.

39. The CAA recognises "*the gap in charges between HAL and comparators is likely to grow as a result of HAL's planned additional capital expenditure on expansion*".[13] The case for reform, therefore, becomes even stronger in the context of capacity expansion, where the consequences of weak incentives and poor delivery performance would be materially exacerbated. That does not, however, negate the urgent need for reform today.

40. There are significant advantages in applying a consistent regulatory approach across new and existing assets. A consistent framework would improve transparency, reduce regulatory complexity, and improve investor certainty, while ensuring the maximum possible benefit to consumers. This aligns with the CAA's own regulatory principles of 'transparency, accountability, proportionality and consistency' described in CAA12.[14]

The evidence is clear: Heathrow's charges are too high

41. Heathrow's charges have persistently and substantially exceeded those of other major international airports for many years. Passengers pay over £1 billion annually more than if Heathrow's charges matched those of European hub peers.[15]

42. The CAA acknowledges that charges could "*more than double in real terms, from the current levels of about £26 per passenger*" as a result of capacity expansion, even before redevelopment of the

[12] These submissions have included a broad range of analyses and evidence to assess the outcomes observed at Heathrow under the current regulatory model. Our February 2025 submission, for example, also included financial analysis beyond that relied on by the CAA in the Working Paper or Consultation including, for example, profitability analysis which showed that Heathrow's operating profit per passenger was significantly higher than comparator. Heathrow Reimagined, Fundamental Reform of Heathrow, February 2025, paragraph 205, link.
[13] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 1.12, link.
[14] Civil Aviation Act 2012.
[15] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraph 7, link.

Central Terminal Area which would be required regardless of whether expansion proceeds.[16] This would significantly increase the difference between charges at Heathrow and peer airports, many of which have recently completed major capex programmes. Annex 2 shows how charges at Heathrow could increase over the next 20 years.

43. The 'charge gap' identified by the CAA cannot be explained by differences in international construction costs or other reasons why Heathrow may face systematic cost disadvantages to its peers that are outside its control. Rather, it is the result of persistent and systematic capital inefficiency, as we discuss further below. The CAA concludes that "*capital costs have been the main driver of charge increases*" – we agree.[17]

44. The CAA is right to reject Heathrow's latest attempts to justify the large differences between its charges and those at other airports, including the latest analysis undertaken by KPMG, which continues to be highly selective and flawed. In particular, we agree with the CAA that:

- Different construction cost indices result in markedly different estimates of relative construction costs across countries, and that the charges analysis should not rely on only one index (e.g. Arcadis). As the CAA notes, there is no basis for preferring Arcadis over other indices.
- It should be highly sceptical of the adjustment applied by KPMG to estimate the impact of the removal of VAT shopping. As the CAA notes, the estimate provided by HAL is illustrative and unverified.
- It is inappropriate to adjust for operating restrictions at Heathrow. As we have previously set out, and as the CAA notes, Heathrow operates at very high levels of capacity utilisation.
- KPMG's adjustment for 'other revenue' is not appropriate as the basis for the adjustment is not valid.
- No adjustment should be made for claimed lower passenger numbers at Heathrow due to airline operating models. As noted previously, Heathrow is a highly utilised airport with high passenger numbers.
- No adjustment should be made for HAL's unsupported claims regarding depreciation profiles. HAL has not provided the underlying data or methodology to support this adjustment, and the CAA rightly concludes there is no basis to accept it.
- HAL has not presented evidence that demonstrates that claimed Government support has a material impact on charges.

45. However, while we agree with the CAA's overall conclusions on KPMG, there are material areas where the CAA cedes too much ground. In particular, we have significant concerns about the widebody aircraft adjustment, the partial inclusion of HAL's own unverified estimate of the VAT-free shopping impact, and the overall lack of transparency surrounding the analysis. These are set out in Annex 3.

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[16] The CAA's estimated doubling of charges is based on the upper end of Heathrow's proposed core expansion cost range of £33 – £52 billion. but excludes the £15 billion (2024 prices) Modernising Heathrow programme to replace end-of-life infrastructure in the Central Terminal Area (CTA), which would push charges up even further. The content in Annex 2 uses HAL's quoted £33 billion figure for its proposed core expansion cost range. CAA, CAP3238: Draft Decision on the regulatory treatment of early costs of capacity expansion at Heathrow airport, paragraph 2.68, April 2026, link.

[17] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 2.107, link.

Service quality is inadequate; value for money is unacceptably poor

46. While we agree with the CAA that there is a case for change with respect to service quality, we disagree that it is not as strong as the case for change for charges.

47. The CAA's conclusion that "*there is room for improvement in HAL's service quality performance*"[18] is a substantial understatement of the inadequacy of HAL's service quality performance and resilience.[19] Heathrow's charges far exceed its peers – it should not have service quality performance that lags behind the averages for all airports globally, all European airports, and large airports.[20] Heathrow represents unacceptably poor value for money and has done so persistently.

48. The CAA is right to place considerable weight on both the Skytrax and ACI ASQ data. Both are independent and commonly cited measures of service quality used across the industry to benchmark performance, as the CAA notes. HAL agrees, using ACI ASQ data for its own internal senior management compensation processes and ACI ASQ data to claim strong performance on service quality.[21]

49. The CAA is also correct to highlight HAL's poor service quality performance over time. Unlike many of its peers, HAL's service quality remains below its pre-pandemic level. As the CAA notes,[22] HAL's CAA Passenger Survey Passenger Experience NPS and its ACI ASQ score both remain below its scores for 2019.

50. In our experience, Heathrow's ageing and poorly designed infrastructure is a primary driver of operational inefficiencies, elevated costs, and reduced resilience across ground handling, passenger services, and cargo operations. Compared to international hubs, these structural limitations materially weaken performance, increase system-wide vulnerability to disruption, and hinder progress toward sustainability objectives. Heathrow's baggage infrastructure is ageing, fragmented, and insufficient for passenger transfers.[23] Ground handlers and airlines have repeatedly warned Heathrow and the CAA that these pressures are creating operational difficulties, but the airport has not taken meaningful action to address these problems.[24] Where HAL proposes to address such issues, they are high cost and far above industry benchmarks.[25]

51. Overall, there is a compelling case that service quality across the existing campus is well below what customers should expect from an airport with the highest charges in the world. One of the primary means by which this can be remedied is through a major programme of capex investment;

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[18] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 2.78, link.
[19] For example, the deferred renewal of multi-storey car park 4 (MSCP4) has left a key passenger-facing asset in a condition that amounts to managed decline. This is not an isolated case, and it is the predictable result of a regulatory model that rewards investment in new assets that grow the RAB while creating no meaningful incentive to maintain or renew existing ones. The CAA's assessment of the service quality case for change should have engaged with this evidence.
[20] As is shown by ACI's ASQ data. ACI, ASQ Barometer, 2025, link.
[21] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 2.73, link.
[22] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 2.68, link.
[23] At Terminal 2, for example, operations still rely on legacy systems supported by Terminal 1 baggage infrastructure dating from the 1990s. These systems are frequently overwhelmed, resulting in delays, reduced reliability, and an increased risk of baggage mishandling, meaning bags can be lost or misrouted. This shows up in the operating metrics. Heathrow's baggage connection percentage for 2025 was 98.8% (Heathrow Airport Limited, Annual Report, 2025, link). This implies 12 mishandled bags per 1,000 passengers. This compares unfavourably to efficient hubs such as Seoul Incheon International Airport, where operational data shows about 2 bags out of every 1 million are mishandled (ICAO, Baggage handling system optimization and automation, July 2024, link). Terminal 4 at Heathrow has faced ongoing baggage handling problems for several years.
[24] Emirates faced enforced capacity cuts from HAL in 2022 with only 36 hours' notice. Emirates claimed that Heathrow "*chose not to act, not to plan, not to invest*" and that they now faced an "*airmageddon*" situation due to Heathrow's "*incompetence and non-action.*" Emirates, Statement on operations at London Heathrow, July 2022, link. The AOC highlighted significant baggage system issues at Heathrow in its Response to CAA Outcome Based Regulation Mid-Term Review Final Proposals. August 2025, link. These baggage issues are still an issue today.
[25] See, for example, Oxford Global Projects, Heathrow benchmark report, November 2025, Section 7.2, link.

ensuring this is done as efficiently as possible to minimise further cost increases to consumers must be a priority – and requires fundamental reform.

The CAA understates the role of capex inefficiency in explaining the poor value for money

52. We agree with the CAA that capital costs have been the main driver of the substantial charge increases over time at Heathrow.[26] We also agree with the CAA that HAL's charges are significantly higher than other airports, and that this cannot be explained by higher service quality (because service quality is below the average in every comparator category).[27]

53. Given that: i) capital costs have been the main driver of substantial charge increases; ii) Heathrow has the highest charges in the world; and iii) service quality is inadequate, it logically follows that capital expenditure at Heathrow has been inefficient. The CAA's conclusions understate the role that persistent and systematic capex inefficiency has played in driving these increases and the gap between Heathrow and its peers. Capital inefficiency is the only credible explanation for the charges gap.

54. The conclusions from Oxford Global Projects' (OGP's)[28] benchmarking study, submitted to the CAA alongside our Working Paper response, provide robust and authoritative evidence of the persistent and systematic inefficiency in HAL's capex across a broad range of asset types. The CAA sets out that it has "*concerns*" about the conclusions that can be drawn from the OGP study, specifically in relation to the question of capex efficiency. We disagree with the CAA and refer the CAA to OGP's response to CAP3251.[29]

55. We agree with the CAA that evidence of projects being delivered on time and *on budget* does not provide meaningful evidence of historical capex efficiency.[30] As the CAA notes, projects delivered "*on budget*" may still reflect inefficiency where the original budget and timeline – set by HAL – was overly generous, or where there was inefficiency in design. For example, the original Terminal 2 programme was materially descoped to fit within the approved funding envelope and the Terminal 2 baggage system was deferred and has still not been delivered 12 years after the terminal opened. Total expenditure expected for the baggage programme alone is approaching £1 billion.[31]

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[26] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 2.15, link.
[27] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraphs 2.56 and 2.77, link.
[28] Oxford Global Projects was founded by Professor Bent Flyvbjerg and Alexander Budzier, PhD. They are the world's leading experts on megaproject management with the most-cited scholars on megaprojects worldwide and over 30 years advising government and business, including using the largest high-quality datasets on project performance in the world.
[29] See: letter from Oxford Global Projects to the CAA on 15 June 2026 regarding the CAA's comments in CAP3251 about OGP's 'Heathrow Benchmark Report'.
[30] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 2.101, link.
[31] Heathrow, Investment Delivery Report, December 2024, link.

Why consumer outcomes are poor and why the current model cannot constrain HAL's harmful structural incentives

The root causes

56. We set out in our response to the Working Paper that the CAA's failure to engage properly with the underlying causes of the poor outcomes was an important omission. The Consultation still does not properly engage with our diagnosis, despite acknowledging our concerns.[32]

57. Diagnosing the root causes of the poor outcomes at Heathrow is crucial to be able to design an effective set of reforms that comprehensively address the structural problems with the regulatory regime today. As we set out in our response to the Working Paper, focusing only on outcomes, or attempting to fix governance without addressing the underlying incentives, will result in poorly targeted interventions that treat symptoms rather than causes.

58. The poor outcomes observed at Heathrow result from i) poor incentives created by HAL's SMP, ii) poor incentives created by structural features of the current regulatory model, and iii) inherent limitations of the existing regime to address HAL's poor incentives. These mechanisms were set out in detail in our January 2026 response to the Working Paper, and are summarised below:

- **Monopoly power**: HAL's SMP over the provision of AOS at Heathrow gives it both the ability and the incentive to act in ways inconsistent with consumer interests in order to maximise shareholder returns. HAL is without the discipline of competition that would otherwise compel it to invest efficiently in service quality improvements in a manner that is responsive to the needs of users.

- **The underlying regulatory model**: The current regulatory model rewards inefficient capital spend rather than higher consumer value. Every pound on the RAB earns a regulated return that is recovered through charges, regardless of whether it efficiently delivers the consumer benefits it was meant to. These dynamics were recognised by the Competition Commission in the BAA market investigation.[33] Furthermore, inefficient spending drives further inefficiency; inefficient capex schemes are more likely to require future rectification or other spend than capex that was originally efficient and driven by the underlying value to users.

- **Limitations of the existing regime**: Successive attempts by the CAA – ex post capex reviews, ex ante capex incentives, the Service Quality Rebate and Bonus (SQRB) scheme and now Outcome Based Regulation (OBR) – have sought to mitigate HAL's response to these incentives and the poor consumer outcomes they drive. However, the case for change demonstrates that existing remedies have failed to deliver the intended outcomes. Such incremental changes cannot deliver the change needed to address the underlying harm – fundamental reform, including introducing structural remedies, is both necessary and proportionate to the nature and scale of consumer harm.

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[32] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 2.7, link.
[33] The Competition Commission observed that the RAB framework "*provides an incentive for BAA at each regulatory review to make the projected capital expenditure and operating expenditure as large as possible, and to understate the scope for efficiency savings, traffic growth and growth of other revenues, and subseque*ntly to outperform its projections." Competition Commission, BAA airports market investigation, March 2009, paragraphs 6.17-6.28, link.

Existing measures have not been sufficient

59. The current framework includes mechanisms designed to counter HAL's poor incentives, including OBR, ex ante capex incentives, and ex post reviews. However, the case for change demonstrates that these tools have been insufficient to constrain HAL's behaviour. The underlying reason is structural. For any regulatory mechanism to change HAL's behaviour, the incentive it creates - whether a bonus for efficiency, a penalty for inefficiency, or an ex post disallowance - must outweigh HAL's structural incentive to act against it. Information asymmetries, SMP, and HAL's control of governance processes all systematically shift that balance in HAL's favour. Successive attempts to design mechanisms powerful enough to overcome it have, somewhat inevitably, failed. This is the predictable consequence of a model that gives a monopoly provider too much control of its own accountability framework. It is a structural problem that cannot be resolved by incremental changes. A comprehensive package of reforms, with structural remedies as the primary focus, is now clearly required.

60. On service quality regulation:

- Service quality regimes can only incentivise measurable dimensions of service quality, and they sit within an information environment shaped by the regulated entity. They cannot replicate the prospective discipline of customer choice as exercised in competitive markets.
- The CAA introduced OBR in H7 having identified shortcomings in the previous scheme. OBR has now been in operation across the full period. On the evidence the CAA itself sets out,[34] HAL's 2025 ACI ASQ score (4.05) sits below the averages for global, large and European airports (4.35, 4.42 and 4.12, respectively), and its Skytrax ranking has recovered only to 16th from a pre-pandemic 8th. The CAA recognises that Heathrow's recovery since the pandemic "*appears to lag behind certain other airports*".[35]
- This suggests that the OBR regime (which has been operational since the pandemic) has not driven meaningful improvements to service quality at Heathrow. The persistent failure of such interventions is not coincidental, but the inevitable consequence of HAL's structural incentives.

61. On ex ante capex incentives:

- Effective calibration requires a credible baseline against which efficiency can be measured. That baseline depends on information on scope, design, sequencing, cost drivers and delivery risks, which is controlled by HAL.
- This is an inherent information asymmetry, and HAL has the ability and incentive to profit from it. HAL is best placed to define project need and cost but also has incentives to build in headroom to improve the chance of outperformance. This is a recognised limitation of single-operator regulation. We have previously set out specific examples, including the Terminal 2 baggage system and the Compass Centre acquisition, where HAL exploited limitations of the process, and consumers experienced poor outcomes as a result.[36]
- HAL has consistently failed to provide adequate information to the CAA and airlines during regulatory engagements, and there is no reason to suggest this will change. The CAA during the H7 Final Proposals found that "*Given the poor quality of the information that HAL provided at the time of our assessment, we considered that we had inadequate information to enable us to include estimates for several elements of HAL's capital plan at that time.*"[37] This illustrates

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[34] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraphs 2.74-2.78, link.
[35] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 1.12, link.
[36] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraph 65, link.
[37] CAA, H7 Final Proposals Section 2: Building Blocks, June 2022, paragraph 6.34, link.

the practical consequences of the information asymmetries that underlie the regulatory framework. An ex ante capex incentive regime cannot remove those asymmetries and, therefore, is limited in its effectiveness.

62. On ex post capex reviews:

- Past ex post reviews have not consistently identified material inefficiency.[38] That should not be read as evidence that the spend was efficient. The CAA's own observation in the same paragraph – that capital costs have been the principal driver of charge increases at an airport with the highest charges in the world – points in the other direction.

- Only £12.7 million of capex was disallowed in Q6 (the previous capex efficiency review).[39] This is only 0.3% of capital expenditure in that period.[40] It is not credible that inefficiency was limited to such a small share of capex expenditure.

- The scope of ex post capex reviews is also limited to the delivery of capex and does not consider design efficiency or outcomes. We accept that this is even harder to review ex post due to greater information asymmetries. This reinforces the need for competitive pressure to incentivise design efficiency in the first place.

- The ex post capex efficiency mechanism has been ineffective because the CAA is required to identify, evidence and enforce inefficient conduct from an asymmetric information position. That is an inherently difficult task, and one that no amount of further calibration can fully resolve. Findings from Arcadis' Q6 capex review suggest this is the case.[41] Arcadis identified "*potential inefficiencies*" in the capex expenditure associated with the T3 Integrated Baggage and T5 Western Baggage projects but concluded that there was "*insufficient evidence*" to determine that the projects were inefficient.

- The CAA is aware of this asymmetry and the limitations of ex post capex reviews. The H7 Final Proposals found that ex post reviews to determine efficiency are challenging because of *"the passing of time since the projects under review completed which are exacerbated in the case of long-running projects"* and *"the inevitable asymmetry of information between the regulated company and regulator."*[42]

- The CAA's interpretation of its financeability duty creates a further practical constraint. HAL's gearing is materially above the 60% notional capital structure, meaning that significant disallowances from strict enforcement could have implications for HAL's ability to meet its debt obligations. This implies that, through high gearing, HAL can effectively prevent the CAA from enforcing regulatory penalties that are sufficiently large to outweigh HAL's gains from spending inefficiently.

63. On cost of capital:

- The CAA notes that the strength of HAL's incentive to grow the RAB depends, in part, on whether the allowed return systematically exceeds HAL's cost of capital.[43]

- However, WACC allowances are fixed for five-year periods, so maintaining full alignment with volatile capital markets is impossible. Regulators typically set allowed returns slightly above central cost-of-capital estimates, either implicitly or explicitly, to reflect the asymmetric

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[38] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 2.81, link.
[39] Arcadis, Heathrow Q6 capex efficiency review, September 2020, link.
[40] Based on £12.7 million disallowed (Arcadis review) out of £4.4 billion of RAB additions according to Heathrow (SP) Limited Regulatory Accounts, 2014 – 2020.
[41] Arcadis, Heathrow Q6 capex efficiency review, September 2020, link.
[42] H7 Final Proposals Section 2: Building Blocks, 2023, paragraph 7.22, link.
[43] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 2.12, link.

consequences of setting them too low, as set out in our February 2025 submission.[44] This was recognised by the CMA in its March 2026 PR24 water redeterminations, which concluded that "*a modest degree of aiming up can overall benefit customers.*"[45]

- That calibration sustains a steady incentive to grow the RAB regardless of incremental consumer value. HAL's sustained efforts to expand the scope of its capital programmes, including in H8, are consistent with that incentive.

The way forward

64. The Working Paper recognised that "*well-functioning competition can be more effective than regulation in furthering the interests of consumers*" and that, even for natural monopolies, "*a blend of regulation and competition may be better at protecting consumers than regulation alone*".[46] We strongly agree, as set out in our January 2026 response. While regulation seeks to replicate the incentive effects and outcomes of a competitive market, actual competition provides a direct disciplining mechanism by linking operators' returns to their ability to improve consumer outcomes and attract marginal demand.

65. Harnessing structural remedies to promote competition, particularly direct competition, to reset HAL's incentives where feasible, complemented by a step-change in regulatory effectiveness, is essential to enabling the CAA to meet its statutory duties. The CAA's regulatory interventions have failed to mitigate HAL's structural incentives, and effective competition is the only way to address the harmful structural incentives at source. In competitive markets, operators must reveal efficient costs and deliver service quality to win and retain business, and asset owners bear the cost of inefficient investment rather than passing it on to consumers. Competition therefore better aligns the interests of consumers and providers.

66. The strength of the case for change and the persistent failure of numerous previous regulatory interventions, and the CAA's own logical implication that inefficient capital spending is the primary driver of poor outcomes for consumers, provide a rational and proportionate case for structural remedies. Competition is required across the whole campus to the maximum extent possible.

67. As we explain further in the remainder of this submission, we therefore strongly support the CAA continuing to pursue a package of reforms that combines:

    - Direct terminal competition to reset HAL's incentives at source, wherever feasible.
    - Competition, based on design-build-operate with competitive procurement, for semi-separable assets, where direct competition is not feasible.
    - Enhanced capital governance, resulting in a step-change in the effectiveness of regulation.

68. These are targeted and proportionate responses to the failings the CAA has identified. They are also mutually reinforcing. Together, they represent the most credible route to a regulatory model that enables the CAA to discharge its statutory duties across the existing estate and capacity expansion assets.

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[44] Heathrow Reimagined, Fundamental Reform of Heathrow, February 2025, paragraph 134, link.
[45] CMA, Water PR24 References – Final Determinations Volume 4: Allowed return Chapter 7, 2026, paragraph 7.799, link.
[46] CAA, CAP3195: Working paper on regulatory models, November 2025, paragraph 1.7, link.

69. The rest of this submission is structured as follows:

- **The framework for assessment** (**Section C**). We set out the statutory duties that must guide the CAA's assessment, why HAL's proposed pass/fail criteria should continue to be rejected, our concern that the CAA's proposed criteria risk placing too much weight on short-term delivery, and why affordability must be an explicit evaluation element.
- **Competition models (Section D)**. We explain why we strongly support the inclusion of Models 4b, 5b and 7b. We also explain why direct terminal competition must extend to existing terminals using a contractual separation mechanism as part of Model 7b, and why Model 8 should also be shortlisted.
- **Variations of the current regulatory framework (Section E)**. We set out why we agree that Models 1a, 2 and 4a should be shortlisted as the regulatory and governance element of the package. The CAA's proposal for the Committee is welcome and reflects the broad direction of the capital governance reforms that Heathrow Reimagined has called for in previous submissions, but we also set out further enhancements that the CAA must take forward to ensure that the reforms are effective in addressing today's failings.
- **The long-term regulatory framework for expansion (Section F)**. We explain why Model 3 should not be shortlisted.
- **New frameworks for setting airport charges (Section G)**. We set out why we agree that Models 9a, 9b and 9c should not be shortlisted.

C. FRAMEWORK FOR EVALUATION

Key points

The CAA must continue to assess potential remedies by reference to its statutory duties, rather than HAL's commercial preferences or political timelines. The CAA is right to reject HAL's proposal to treat timeliness, financeability and deliverability as pass/fail criteria. Such an approach would risk prioritising speed over the effectiveness of the regulatory model in protecting consumers. The CAA's primary duty under CAA12 is to further the interests of users of air transport services regarding the range, availability, continuity, cost and quality of AOS, and we expect the evaluation framework to reflect this.

However, the proposed framework for evaluation still risks placing undue weight on timeliness and deliverability. The evaluation framework must not – implicitly or explicitly – place implementation considerations above criteria that more directly reflect the CAA's primary duty to consumers. As currently drafted, the CAA risks double-weighting implementation considerations relative to criteria such as "*Promotes efficient costs*", "*Promotes competition*" and "*Promotes service quality*", which more directly reflect the CAA's primary duty to consumers. The CAA should address this by either merging "*Avoid delay and disruption*" and "*Practical to implement*" into a single criterion, or, where the same underlying concern drives a 'worsens' assessment rating under both criteria, apply it once only and note the double-counting explicitly.

Affordability should be included explicitly in the evaluation framework. We welcome the CAA's recognition that affordability is a very important matter. Consistent with this, ensuring that the future regulatory model supports an affordable airport is central to delivering the benefits of capacity expansion. Consideration of affordability goes beyond an assessment of whether the model "*Promotes efficient costs*". It is an assessment of whether the model can deliver a cost and charges profile that supports affordable airport services, accounting for airline business models, passenger impacts, and hub economics. The CAA has both a responsibility and the levers to ensure regulation better promotes affordability, and regulatory models should be assessed on their ability to deliver an affordable capacity expansion.

A package of reforms is needed. We support the CAA's conclusion that several regulatory models are mutually compatible and could be applied simultaneously. We discuss which combination of models should be shortlisted in the following sections.

The CAA should not rely on reductions in unsubstantiated and erroneous claims of scarcity rents captured by airlines as a justification for 'timeliness' benefits. As Heathrow Reimagined and its members have previously demonstrated, airlines at Heathrow operate in highly competitive markets and are unable to capture any scarcity rents associated with capacity constraints. The more credible risk to consumers is higher airfares driven by the substantial increase in Heathrow charges required to fund HAL's expensive and unaffordable capacity expansion plans.

The CAA's statutory duties must guide its assessment

70. We welcome the CAA's focus on the pursuit of its statutory duties in considering the framework for evaluating reform options.[47] As an independent regulator, the CAA may wish to consider the Government's objectives for capacity expansion, but to the extent that there is any conflict between these objectives and the CAA's statutory duties, the CAA must prioritise the pursuit of its duties.

HAL's proposed pass/fail criteria must continue to be rejected

71. We strongly support the CAA in rejecting HAL's claim that the evaluation of options should place most weight (or treat as pass/fail criteria) on its interpretation of timeliness, financeability and deliverability. Such an approach would result in prioritising speed over the effectiveness of the regulatory model in protecting consumers, which would be contrary to the CAA's statutory duties.

72. We set out our views on HAL's proposed evaluation criteria in our April 2026 response to HAL's Working Paper submission. In summary:

- **Timeliness**: HAL's claims on timeliness are based on its arguments about the presence of a 'congestion premium' at Heathrow. HAL's arguments and evidence are flawed and do not provide a robust basis for HAL's claims.[48] Airlines operate in highly competitive markets, which means that they do not capture any alleged scarcity rents. We discuss this further below.

- **Financeability**: HAL's approach to financeability is fundamentally flawed and focused on HAL's financing needs/preferences rather than consumer outcomes. It takes an overly narrow perspective on the financeability issues associated with capacity expansion and modernisation. It fails to recognise that a significant risk to the financeability of capacity expansion and modernisation arises from relying on a single, highly indebted operator to finance a very large programme of works.

- **Deliverability**: HAL's claimed insights from the megaproject literature are based on a flawed and narrow interpretation, and ignore important conclusions related to independent oversight and cost discipline. OGP's independent review finds that the evidence HAL relies on supports clear accountability, design maturity and disciplined delivery – but it does not support the need for concentrated (single) ownership and control by HAL, or relegating independent scrutiny and cost discipline in favour of delivery speed.[49]

73. The CAA sets out additional reasons for ruling out HAL's proposals for pass/fail criteria, which we agree with. We agree that "*it is not possible to determine with certainty whether some regulatory models will result in expansion being financeable*",[50] and note that Centrus finds that different regulatory models can deliver efficient financing. We also agree that there is no "*binding threshold beyond which a regulatory model will cease to be deliverable*" and that setting minimum thresholds would be arbitrary and inappropriate.

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[47] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraphs 1.16 and 1.24, link. The CAA's proposed criteria are: avoid undue delay and disruption, promote efficient costs, raise sufficient finance, practical to implement, promotes competition and promotes service quality.
[48] Heathrow Reimagine, Review of Frontier Economics' 2025 cost benefit analysis for HAL of Heathrow Expansion, April 2026, link.
[49] Oxford Global Projects, Technical critique of HAL's CAP3195 Supporting Document 1: Megaproject outcome drivers – Benchmarking fact base, June 2026.
[50] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 3.27, link.

The CAA's proposed criteria risk placing greater weight on short-term delivery considerations

74. While we note the CAA's decision not to apply explicit weighting to individual evaluation criteria, we consider that the criteria most closely linked to the CAA's statutory duties should, in practice, carry greater weight in its overall regulatory judgement. This includes efficient costs, affordability, the promotion of effective competition, and service quality. Against this benchmark, we are concerned that the CAA's proposed evaluation framework gives disproportionate emphasis to short-term delivery considerations. The CAA's statutory duties are to further the interests of consumers, not to pursue administrative expedience or simplicity.

Overlap between proposed evaluation criteria

75. There appears to be significant overlap between the "*Avoid delay and disruption*" and "*Practical to implement*" criteria, which effectively puts greater weight on deliverability and timeliness considerations. This is inconsistent with the CAA's rejection of HAL's proposed pass/fail criteria for deliverability and timeliness, where it stated that "*placing the most weight on timeliness, financeability and deliverability, as suggested by HAL, could mean prioritising speed over the effectiveness of the regulatory model in protecting consumers*".[51]

76. "*Avoid delay and disruption*" assesses whether "*the model is practicable to support the delivery of expansion and avoid undue delay and disruption*",[52] while "*Practical to implement*" considers whether "*it is likely to be practical to implement the model in a timely way*".[53] As currently drafted, the CAA risks double-weighting implementation considerations relative to criteria such as "*Promotes efficient costs*", "*Promotes competition*" and "*Promotes service quality*", which more directly reflect the CAA's primary duty to consumers.

77. This issue shows up in the CAA's assessment of the different regulatory models. For example, in relation to Model 1b, the CAA concludes:[54]

- under "*Avoid delay and disruption*" that "*an interface between planning and operation creates a risk of delay from additional governance required*"; while
- under "*Practical to implement*", it concludes that "*separation requires significant changes and risks creating complex interfaces that would be difficult to manage*".

78. In both cases, the concern relates to potential complexity and governance challenges created by separation. The model therefore receives a "*worsens*" rating against two separate criteria for what is effectively a single underlying issue.

79. We recognise the challenges associated with applying strict weighting or pass/fail criteria, particularly where the assessment involves complex and uncertain issues. However, the inclusion of overlapping criteria focused on timeliness and deliverability risks creating the same outcome that the CAA explicitly sought to avoid:[55] placing disproportionate weight on speed of delivery at the expense of the effectiveness of the regulatory model in protecting consumers.

80. The CAA should address this in one of two ways. Either merge "*Avoid delay and disruption*" and "*Practical to implement*" into a single criterion, ensuring implementation considerations carry no

[51] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 1.18, link.
[52] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 3.70, link.
[53] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 3.70, link.
[54] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, Table 4.2, link.
[55] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 1.18, link.

more weight than any other factor; or, where the same underlying concern drives a 'worsens' RAG rating under both criteria - as in the case of Model 1b - apply it once only and note the double-counting explicitly.

Scarcity rents

81. The CAA states that its "*consideration of timeliness discussed above and the advantages of delivering benefits to consumers will involve taking account of reductions in scarcity rents at Heathrow Airport*".[56] This appears inconsistent with the CAA's stated intention not to place undue weight on timeliness relative to the effectiveness of the regulatory model in protecting consumers, as it implicitly treats earlier capacity expansion as delivering consumer benefits through reduced alleged scarcity rents.

82. We fundamentally disagree with the suggestion that airlines capture scarcity rents at Heathrow, as set out in our April engagement with the CAA.[57] IAG's submission on the Frontier Economics scarcity rents analysis shows that the analytical work is flawed and cannot be relied upon by the CAA.[58] The arguments made by HAL present a misleading picture of airline economics at Heathrow and should not be relied upon for regulatory or policy decisions. The underlying analysis fails to sufficiently reflect, for example, Heathrow's uniquely high airport charges, capacity constraints, and concentration of premium long-haul traffic; factors that fundamentally differentiate it from other European hubs. These concerns were raised by IATA in its May letter to the DfT.[59]

83. The economic logic is straightforward: unlike HAL, airlines already operate in highly competitive markets and therefore cannot retain any claimed rents associated with Heathrow's capacity constraints. Rather, the consumer harm at Heathrow, as set out clearly in the case for change, stems from the airport operators' monopoly power being inadequately remedied – reform must comprehensively address this. To that end, we support the CAA in rightly recognising that its statutory duties require it to "*promote competition, where appropriate, in airport operation services and this will be the focus of our consideration of the competition models identified in the Working Paper*".[60]

84. HAL's expansion plans therefore will not drive lower airfares.[61] The competitive mechanism required to deliver that outcome already exists, as airlines operate in highly competitive markets. The more credible price risk to consumers runs in the opposite direction: the substantial increase in HAL's charges – that the CAA has rightly identified – required to fund expensive capacity expansion plans threatens to increase airfares. Higher charges can also deter airlines from investing in new routes, meaning consumers risk missing out on the benefits of greater choice and connectivity.

85. Given this, any analysis used to assess the benefits of timely capacity expansion should explicitly consider how different regulatory models affect airport charges and service quality over time, as these are the outcomes most directly relevant to consumers. Accepting HAL-commissioned scarcity rents analysis that does not consider the impact of capacity expansion on charges – or

[56] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 3.40, link.
[57] Heathrow Reimagine, Review of Frontier Economics' 2025 cost benefit analysis for HAL of Heathrow Expansion, April 2026, link.
[58] IAG, Empirical Tests of the Starting Scarcity Rent Hypothesis at Heathrow, Submission to CAA and DfT for review and consideration, March 2026, link.
[59] IATA letter to Department for Transport (copied to Selina Chadha at the CAA), dated 5 May 2026.
[60] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 3.40, link.
[61] HAL's case for timeliness benefits is based on a claim that capacity constraints allow airlines to capture scarcity rents that would be reduced by earlier expansion. That mechanism does not hold up in practice: airlines compete intensely for passengers and cannot retain rents of the kind HAL describes. See, for example, analysis set out in: IAG, Empirical Tests of the Starting Scarcity Rent Hypothesis at Heathrow, Submission to CAA and DfT for review and consideration, March 2026, link.

indeed its own level of charges today – would be inconsistent with regulatory best practice and the CAA's duty to protect consumers.

Time taken to implement and impact on future delivery

86. In any case, an assessment of delay must weigh not only the time to implement reform, but the delivery delays the resulting model will itself generate. The relevant test should be how likely is a model, once in place, to produce delivery delays. Taking more time to get the reform right is likely to reduce them. This is directly relevant to the counterfactual underpinning the CAA's evaluation.

87. The CAA risks mischaracterising "*delay and implementation*" risk as a product of regulatory reform, when its true source is the current model. The CAA rightly concludes that the existing regime was not designed for the scale of capacity expansion now envisaged, and that competition is required to remedy this. It should not, however, treat structural reform as inherently increasing delay risk; the opposite is the case.

88. Delay is already endemic under the current model. Recent price controls demonstrate this. For example: rollovers and interim arrangements in Q6 and H7 to manage early cost recovery; sustained disagreement over HAL's attempt to recover its Covid-era losses from consumers, culminating in CMA appeals; and a planned six-month delay to H8, a control HAL already warns provides insufficient capex to deliver material improvements to consumer experience. These delays are the predictable consequence of a system that embeds information asymmetries and harmful structural incentives to inefficiency, and places a monopoly provider in control of capital governance processes which it is able to game, driving the adversarial dynamic in which airlines must seek to constrain HAL.

89. Crucially, airlines have not opposed projects through capital governance, because the model gives them no realistic alternative. Throughout Q6 and H7, despite significant concerns over capex efficiency, delivery and proposed benefits, airlines approved every project, frequently because, like the Terminal 2 baggage system in H7, it was essential and long-overdue infrastructure whose rejection would jeopardise their own operations and consumers' experience. HAL has the ability to frame and time approval decisions such that there is no palatable alternative but to accept its proposal, regardless of its inherent merits or those of alternatives that could otherwise have been explored.

90. The current model creates a risk that early decisions effectively become irreversible, in favour of HAL: once a project has been scoped, sequenced and embedded in the wider programme, airlines have no practical authority to change course, stop the project, or require a different solution. Given the scale of capex that expansion requires, and the vast number of discrete projects that will comprise its critical path, the CAA must assume that any reform package which fails to address the harmful structural incentives, the strategic misalignment they create between HAL, airlines and consumers, and the underlying information asymmetries, will remain adversarial, and therefore prone to significant delay.

Affordability must be an explicit evaluation element

91. We welcome the CAA's acknowledgement that affordability is "*a very important consideration*".[62,63] It is critical that the reformed long-term regulatory model for Heathrow explicitly promotes outcomes that support the ongoing affordability of Heathrow, both in the context of capacity expansion/modernisation and on an ongoing basis. Without airport investment that is affordable, airlines cannot invest in the connectivity growth that delivers the economic benefits that underpin the case for capacity expansion. Affordability is therefore central to the interests of consumers and a key part of the CAA's primary duty. The promotion of affordability, therefore, must be an important element of the CAA's evaluation framework, as we set out in our response to the Working Paper.

92. Promoting affordability requires both structures and processes to be in place that effectively incentivise and police conduct that will support enhanced affordability. It also requires explicit processes that ensure that capex planning and the setting of capex envelopes are consistent with Heathrow remaining an affordable and attractive airport for its users. Both of these requirements are the responsibility of the CAA and must be reflected in the outcomes of this review.

93. Heathrow Reimagined therefore strongly disagrees with the CAA's exclusion of affordability from the evaluation framework. The CAA's basis for this exclusion appears to be that "*the choice of regulatory model(s) will not, in itself, determine the overall economics of a particular scheme*" as these "*will largely be driven by its broad specification and scope*" and that "*the incremental benefits that a regulatory model can reasonably be expected to deliver are captured through our proposed evaluation criteria, particularly in respect of costs and financeability*".[64]

94. We recognise the close links between cost efficiency, financeability and affordability. But designing and delivering a scheme efficiently does not, on its own, make it affordable, as we explained in our response to the Working Paper. The choice of regulatory model directly determines whether charges are likely to be affordable and represent value for money. Effective competition means that operators have to reveal their true efficient costs and win the work at prices that reflect them, so affordability is built in from the start. The status quo and Model 3 variants do the opposite.

95. The CAA leaves affordability out of its evaluation on the basis that it is set by a project's scope and specification, not by the model. That gets the order of cause and effect the wrong way round. Indeed, the CAA's own case for change rests in part on concerns that the current framework has not sufficiently constrained capex inefficiency, which is a key driver of airport charges and affordability. In a competitive market, investment proposals are tied to the expected returns of a project, whereas under a price control, investment proposals are constrained primarily by what the regulatory model allows. Expenditure and affordability are, therefore, directly affected by the choice of model, and we ask the CAA to reconsider its view that model choice and affordability are only indirectly linked.

96. We also recognise that decisions taken by others, including Government, on project specification and scope have a critical role in determining affordability. However, the CAA and its decisions on the regulatory model also have an important responsibility in determining whether capacity expansion can be delivered affordably. As we set out in our Working Paper response, the CAA must ensure that the final regulatory model has the right mechanisms in place to continuously take affordability considerations into account over the long-term.

[62] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 3.51, link.
[63] Related to this, the Secretary of State has herself stated that the CAA's regulatory framework must uphold "*exacting standards of service and affordability*". Affordability cannot therefore be treated as a secondary consideration. Secretary of State for Transport, Letter of Strategic Priorities to the Civil Aviation Authority 2026/27 (CAP3241), 20 April 2026, link.
[64] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 1.20, link.

D. COMPETITION MODELS

<u>**Key points**</u>

Heathrow Reimagined agrees that Models 4b, 5b and 7b should be shortlisted. As the CAA rightly accepts, competition is more effective than regulation at delivering consumer benefits. Mechanisms to maximise the role of competition in shaping the provision of AOS at Heathrow must be central to the package of reforms, with direct competition the focus.

Regulation has failed to deliver consumer outcomes that replicate those that would arise in a competitive market – competition, particularly direct competition, must be used as broadly as possible to remedy this. Such an approach is consistent with the CAA's primary duty and its duty to carry out its functions, where appropriate, in a manner that will promote competition in the provision of AOS.

Direct competition should be extended to include all terminals, existing and new, either via third-party ownership (pursuant to a third party being granted a DCO) or using a contractual separation mechanism, both of which can be achieved using the CAA's existing CAA12 powers. The CAA should be flexible in its application of the model in order to maximise the scope of direct competition benefits at Heathrow.

Alternatively, direct competition can be implemented for existing terminals using **Model 8**, which **should remain on the shortlist;** addressable implementation concerns should not be used as a reason for not shortlisting it.

Structural remedies such as introducing direct competition are the most effective way of addressing the underlying and persistent problems at Heathrow, improving consumer outcomes and meeting the CAA's duties, and should be prioritised wherever feasible. Effective direct competition addresses HAL's underlying harmful structural incentives at source, rather than relying on regulatory mechanisms to mitigate their consequences. Broadening the scope and intensity of direct terminal competition will increase the consumer benefits.

Claimed 'fragmentation' and operational risks are significantly overstated and, in any case, manageable. What is not manageable under the current failing regulatory model is the long-term absence of competitive pressure and discipline on Heathrow's monopoly operator. **The CAA must not prioritise administrative expedience over the pursuit of consumer benefits.**

There is no reasonable basis for not extending the scope of direct competition to include all terminals, existing and new, competing with each other.

- We would not advocate for competition models that have material risks of disruption or harm to the passenger experience – to do so would risk unacceptable harm to our businesses.
- Broadening the scope of terminal competition need not delay or distract from capacity expansion – it can be advanced in a manner that appropriately prioritises those reforms that are most urgent for timely capacity expansion while still recognising the importance of implementing terminal competition as fully as possible, and in a timely manner, to address the failings of the current regime.
- Maximising the role of competition to drive investment in the existing terminal campus would support the timely delivery of benefits for consumers using existing terminals.
- Arguments regarding terminal operators acting in an anticompetitive manner should not be given weight. They are overstated and, in any event, can be readily addressed.
- The CAA's primary duty is to promote the interests of consumers, not to protect HAL's equity investors from the consequences of HAL's inefficiency or its own financing decisions. From a consumer perspective, competition aids financeability by broadening the capital base, enhancing efficiency and improving risk allocation.

Introduction

97. This section sets out in detail Heathrow Reimagined's views on competition models. It is structured as follows:

- We first set out why the CAA needs to use direct terminal competition to reset HAL's incentives at source, wherever feasible. We explain why the CAA should prioritise direct competition and must maximise its consumer benefits by extending it to include all terminals, existing and new. This can be implemented by using Model 7b for new terminals and for existing terminals through a contractual separation mechanism, both of which can be achieved using the CAA's existing CAA12 powers. Alternatively, it can be implemented for existing terminals using Model 8, which should remain on the shortlist.
- We then set out our views on competition for semi-separable assets, based on design-build-operate with competitive procurement. We explain why, where direct competition is not feasible, the use of Models 5b and 4b could support greater consumer benefits compared to the current regime. Mandated design-build-operate and competitive procurement (i.e. Model 5b) can harness competition-for-the-market to support more efficient infrastructure that better meets the needs of users. But it does not reverse HAL's harmful structural incentives – the operator would in effect act as a contractor to HAL – and is less effective than Model 7b (including the contractual separation), which is broader in scope. Model 4b (mandated contract for design and build) could be an incremental improvement on the status quo, but its effectiveness would be more limited than that for the other shortlisted competition models.

98. We discuss the third element of the comprehensive package of reforms required (i.e. delivering a step-change in regulation) in the following section.

99. We do not comment in detail on the CAA's assessment of Models 5a, 6 and 7a. Overall, we support the CAA's decision not to shortlist those models as we set out in our response to the Working Paper.[65]

Maximising the role of direct terminal competition

100. The CAA accepts that competition is more effective than regulation and that the broader the scope of competition, the greater the consumer benefits. As we set out further in this section, direct competition provides the greatest benefits to consumers because it has the broadest scope. Where it can feasibly be introduced, effective direct competition is the remedy most capable of fully addressing the underlying harmful structural incentives HAL benefits from today.[66] Under this model, the right to invest and operate infrastructure is won by the operator that can provide best value for money, aligning its incentives with those of users.

101. The only logical conclusion from the CAA's own findings is that it should introduce structural changes by fostering direct competition, and that it should be implemented as expansively as possible across the entire campus, not just in relation to new terminals. This can be done under existing CAA powers.

102. The CAA's primary duty is to carry out its functions for the licensing of HAL in a manner that will further the interests of users of AOS. In doing so, it should act so as to promote competition in the

[65] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraph 250, link.
[66] The ability of effective direct competition to resolve the harmful structural incentives will be limited to those elements of the provision of AOS for which it can be introduced (e.g. terminals). Outside of those areas other reforms are required to remedy the consumer harm from ongoing monopoly provision. As set out in this submission, a comprehensive package of reforms is required.

provision of AOS. In performing its primary duty, the CAA must have regard to the need to promote economy and efficiency by HAL. Expanding the scope of direct competition to include existing terminals would be a rational response to the failings of the current regime and would be consistent with the CAA's duties. It would ensure that the benefits of competition are shared as fully as possible by users.

103. In the remainder of this sub-section, we cover the following areas in further detail, building on the arguments and evidence we set out in our February 2025 submission and our response to the Working Paper:

- **The CAA's package of reforms must include models that introduce competition in the provision of AOS at Heathrow.** Heathrow does not face effective competition from other airports, so it is essential that competition is harnessed as effectively as possible within the airport.
- **The CAA must prioritise models that promote direct competition wherever feasible.** Direct competition (i.e. Model 7b) is the most effective remedy to the underlying causes of harm to consumers - the only logical conclusion is it must be the CAA's primary mechanism for addressing the harm users are suffering today.
- **Existing terminals should be brought into the scope of direct terminal competition using Model 7b, so all terminals can compete directly with each other.** It would be inconsistent with the CAA's duties to deny users the full benefits of the most expansive and intense form of direct terminal competition.
- **Expanding the scope and intensity of direct terminal competition can be implemented via contractual separation that would not require HAL to divest existing terminals.** Such an approach can be implemented using the CAA's existing powers under CAA12.
- **Consumer benefits are not dependent on airlines switching terminals.** Consumers would benefit from expanding the scope and intensity of direct terminal competition through multiple mechanisms, including competition-for-the-market and better benchmarking – the benefits do not rely on competition-in-the-market (i.e. airline switching dynamics).
- **Direct terminal competition would support improvements in service quality.** Promoting well-functioning competition is the most effective way of addressing HAL's harmful structural incentives in relation to service quality, better aligning operators' incentives with user and consumer outcomes.
- **Concerns relating to 'fragmentation' and related operational concerns are materially overstated** – the CAA is right to conclude that they are surmountable. We would not advocate for reforms that would risk harming passengers' experience or service quality more generally – that would be highly detrimental to our businesses.
- **Concerns about terminal operators harming competition should not be given weight.** They are overstated and, in any event, can be readily mitigated.
- **Regulatory Model 7b must remain on the CAA's shortlist.** It scores highly against the CAA's evaluation criteria. **The CAA should ensure that Model 7b is sufficiently flexible to include implementation via contractual separation in order to maximise the consumer benefits**. The CAA has existing powers under CAA12 to enable direct competition via contractual separation, or in a situation where a third party has been granted a DCO, where appropriate.
- **Regulatory Model 8 should be included on the shortlist.**

The CAA's package of reforms must include models that introduce competition in the provision of AOS at Heathrow

104. We agree with the CAA that the establishment of effective competition can "*materially improve upon regulation and lead to significant consumer benefits*" and that such models "*warrant further consideration*".[67] Such competition:

- drives greater efficiency, stronger commercial accountability, lower prices and operators that are more responsive to the needs of their customers. It aligns the incentives of providers with the interests of its users; and
- is also a powerful force for driving innovation. In the context of capacity expansion, that dynamic is already driving innovation in scheme design, both to increase the likelihood of a third runway progressing against the Government's timetable and to lower the cost of delivering it. By way of example, Heathrow Reimagined understands that Heathrow West Limited (HWL) has recently tabled capacity expansion options to Government which, through an innovative approach to phasing the development of a 3.5km runway, could allow expansion to be delivered against the Government's timetable. This is in sharp contrast to HAL's scheme, which is also considerably more expensive. No improvement in capital governance, however effective, can recreate the incentives for innovation of this kind. Failing to prioritise the most expansive forms of competition would unnecessarily limit the scope for it.

105. This is all in sharp contrast with the structural incentive problem at Heathrow today. Passengers benefit from intense competition between airlines, but are forced to suffer from HAL's monopoly in AOS provision. As the CAA's case for change makes clear, this cannot be allowed to continue.

106. Any package of reforms that fails to maximise the use of competition in shaping AOS outcomes at Heathrow would be inconsistent with the CAA's statutory duties. We therefore support the CAA including Models 4b, 5b and 7b in the shortlist – including all three in the package of reforms could contribute to a step-change in the use of competition to deliver substantial benefits to consumers over the long-term and each can be implemented using the CAA's current powers under CAA12. However, as we set out further below, the CAA should also extend Model 7b to enable implementation of direct competition using contractual separation, and include Model 8 in the shortlist for further consideration too – failure to do so would not maximise the benefits to consumers from reform and would not fully address the harm set out in the case for change.

The CAA must prioritise models that promote direct competition wherever feasible

107. As the CAA rightly accepts,[68] structural remedies such as direct competition (i.e. Model 7b) offer greater benefits to consumers, including through introducing dynamic competition, and have been introduced successfully in other sectors. Effective direct competition better aligns the incentives between firms and their customers as firms only earn returns if they deliver services that consumers value and do so efficiently. This is critically important given the clear underlying cause of the poor outcomes at Heathrow: persistent and systematic inefficiency due to a lack of effective cost discipline, commercial accountability and competitive pressure.

108. Alongside driving greater cost efficiency and value for money, well-functioning competition also results in a more efficient allocation of risks between the operator and its customers and provides much greater transparency of what efficient delivery looks like.

[67] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.18, link.
[68] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 1.56, link.

109. Direct competition is the remedy most capable of fully addressing the underlying harmful structural incentives HAL faces today because it harnesses rivalry to the fullest extent possible from alternative operators. As the CAA rightly notes:

> *"Direct competition, in general, always has the potential to improve consumer outcomes by incentivising parties to offer their best proposition to users. This could include lower costs or a superior service offering in areas that matter to consumers."*[69]

110. Consistent with this, Steer rightly acknowledges that Model 7b scores highest in terms of costs and efficiency, recognising the strong incentives under the model to deliver construction at lower cost and to operate efficiently while ensuring high service quality.

111. Under a direct competition model, the right to invest and operate infrastructure is won by the operator that can offer the best value for money, promoting genuine commercial accountability and discipline – this is consistent with how well-functioning markets across the economy operate.

112. Alongside the clear direct consumer benefits, the CAA is also right to find that competition supports the financeability of capacity expansion and wider investment:

- competition drives greater efficiency, reducing the amount of capital that needs to be financed; and
- it broadens access to sources of capital, avoiding reliance on a single highly indebted operator – a significant risk to financeability under the status quo counterfactual.

113. We also agree that:

- Such a model would be attractive globally to major infrastructure investors[70] and operators – as we set out in our response to the Working Paper, we expect the opportunity to invest and operate at Heathrow would attract interest from airport operators, transport specialists, and other long-term strategic infrastructure investors that can contribute substantial operational capability, not just financing, but also are well-placed to understand and manage risk;[71] and
- The model would allocate design, build and lifecycle risk fully to the third party and would remove some construction risk from HAL. HAL also would not be liable for availability payments, as opposed to Model 5b, for example. By allocating significant risk to third parties, Model 7b would somewhat free up HAL's (albeit highly indebted) balance sheet to be better able to undertake investments on those parts of the airfield where it retains responsibility.

114. However, the CAA also notes Centrus' view that "*the implementation of this model might trigger the application of covenants included in HAL's financing arrangements and require HAL to obtain bondholder consents*".[72] The CAA should not place weight on this[73] – HAL's choices about its financing arrangements should not constrain the options available to the CAA to implement reforms that further the interests of consumers. If the CAA were to take such considerations into account, it would incentivise HAL to make itself even more vulnerable to such considerations.

115. Furthermore, to the extent that bondholder consents are required, that would not be an insurmountable impediment to reform – requiring such consents would not be unique to such reforms – businesses need to obtain such consents in other settings. As set out previously, the CAA

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[69] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 1.56, link.
[70] We also note that Model 7b has some similarities to airport concession models used in other settings – international investors have shown a clear appetite to invest in such assets.
[71] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraph 25, link.
[72] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.219, link.
[73] We note that such considerations have not prevented policymakers (including Government and the CMA) from implementing major structural reforms in other sectors (e.g. energy) or implementing the break-up of BAA plc.

should not prioritise administrative expedience over delivering substantial benefits to consumers. Regulators in other sectors have faced similar challenges but prioritised the interests of consumers – the CAA must do the same.

116. We strongly support the inclusion of direct terminal competition (i.e. Model 7b) in the shortlist. Indeed, the CAA must prioritise models that promote direct competition wherever feasible**.** Direct competition can be most obviously applied in the context of terminals but, in principle, it can be applied for other parts of the airport[74] – the CAA therefore should not rule out its use elsewhere.

Existing terminals should be brought into the scope of direct terminal competition using Model 7b, so all terminals compete directly with each other

117. The CAA recognises that, all else being equal, the consumer benefits of competition will be greater where the scope of competition is broader in its application.[75] We agree. The only logical conclusion from this is that the CAA must extend the role of competition in the provision of AOS as broadly as possible, including to existing terminals.[76] This would be a rational and proportionate response to the clear and substantial harm observed today and would be consistent with the CAA's statutory duties.

118. As set out in the Working Paper, the CAA describes Model 7b as being implemented via a DCO process and requiring third-party ownership of the terminal asset. We disagree that the CAA should adopt such a narrow view on the implementation of direct competition. It should instead be flexible in its application and enable Model 7b to also be implemented using a contractual separation mechanism that is available under its existing CAA12 powers, given it would give effect to the same outcome in principle; direct competition between third-party operators of terminals, but would additionally maximise the scope and related benefits the CAA rightly identifies. Annex 1 sets out the legal powers available to the CAA under CAA12 to include this approach as part of Model 7b.

119. Relying only on competition between HAL (as the operator of all existing terminals) and new terminal operators, which would be the consequence of the CAA applying Model 7b to terminals in the manner set out in the Consultation, would deliver substantial benefits to consumers. But it also: (i) risks consumers missing out on the full benefits that could be achieved by extending the scope and increasing the intensity of direct terminal competition to include all terminals – existing and new – competing directly with each other; and (ii) perpetuates the harm consumers demonstrably face today. As set out further below, extending terminal competition across the campus can be achieved without requiring HAL to divest ownership of the existing terminals. It can also be designed to respect HAL's regulatory certainty over the recovery of historically incurred terminal costs.

120. For the benefits of direct terminal competition to be realised, it must extend to the capex required to maintain, enhance, and extend existing terminals, not only the day-to-day operation of those terminals. Alongside the advantages of direct competition, this use of competition to shape capex

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[74] We note that the current process for capacity expansion has involved competing promoters (HAL and HWL) putting forward different plans that cover both terminals and runway/other airfield development plans.
[75] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.27, link.
[76] The concept of competition between terminals is not new. The Competition Commission previously considered separate terminal operation and development in the BAA market investigation, noting that "*significant benefits could be derived from introducing terminal competition, particularly at airports that are under weak competitive constraints from other airports, either because of their isolated geographical position or because of some other unique characteristic which confers substantial market power on them*" [paragraph 10.348 of the CC's final report]. While not implemented at the time due to wider structural remedies, this provides further support for the role of direct terminal competition in delivering better outcomes for users at Heathrow. Those structural remedies implemented by the Competition Commission in 2009 have not (and were not expected at the time to) remedy HAL's SMP at Heathrow.

decisions is a key point of distinction to Model 5a and 5b.[77] If future capex remains subject to HAL's harmful structural incentives, consumers' interests will be further harmed by unnecessary inefficiency, leading to even higher charges and further deterioration in value for money.

121. The CAA's package of reforms must recognise that the substantial consumer harm set out in the case for change is not a 'tomorrow problem' – it is based on the ineffective regulatory model at today's airport. The CAA's regulatory response must comprehensively address this harm. While it is critical that the failings of the past are not repeated, the CAA must not focus solely on capacity expansion and wholly new infrastructure; the CAA must broaden the scope and intensity of direct terminal competition to the maximum extent possible.

122. Given the importance of the terminal estate at Heathrow, which represents the major part of Heathrow's existing asset base and is an important driver of future capital expenditure,[78] there are very significant consumer benefits associated with extending the scope and intensity of direct terminal competition to better address the existing adverse effects on competition in relation to terminals. These benefits would include more commercial discipline and accountability, improved efficiency, greater responsiveness of terminal operators to the needs of consumers and other users, and enabling better benchmarking and regulation.

123. Heathrow Reimagined expects that, over any reasonable time horizon, the dynamic benefits from maximising the role competition can play in shaping AOS outcomes would very significantly outweigh any short-term implementation costs, as has been the case in other settings where fundamental reforms have been introduced:

- Implementation costs are likely to be relatively modest in the context of the current very high costs HAL incurs at Heathrow. Airports where there are separate operators of airfields and terminals have lower charges than Heathrow.
- Careful design and implementation can ensure that any duplication or incremental management costs are kept to a minimum.
- In any event, duplication of certain costs, or potentially lower utilisation of certain assets, occurs in any such intervention to promote competition.
    - For example, Ofcom's strategy to promote network competition in broadband markets means that in many parts of the country, there are multiple overlapping telecoms networks.
    - Similarly, the breakup of BAA resulted in each airport having to replicate certain functions that would have previously been undertaken at the BAA group level.[79] In its 2016 review of the Competition Commission's decision to break up BAA, the CMA found evidence of improved quality of service, better customer satisfaction, higher efficiency and stronger innovation at London airports. Evidence suggested that the benefits to consumers from improved connectivity and choice, and lower fares, would be £870 million up to 2020. The

[77] Models 5a and 5b do not involve direct competition (i.e. independent operators competing directly to attract users). Model 5a also only relates to terminal operations, it does not involve the operator undertaking terminal specific capex, particularly for enhancement, expansion and potentially replacement.
[78] Heathrow (SP) Regulatory accounts for 2025 show that terminal assets at Heathrow account for 65% of the total fixed asset base when excluding assets in the course of construction, intangibles, and investment properties (38% including these). Heathrow (SP) Limited, Regulatory Accounts, December 2025, page 20, link.
[79] We note that divestment costs mostly related to IT spend and fees paid to advisers. BAA significantly overstated those costs in its evidence submission. CMA, BAA airports: Evaluation of the Competition Commission's 2009 market investigation remedies, 2016, paragraph 1.27, link.

CMA concluded that "*by 2020 the value of consumer benefits would be a factor of six times higher than divestment costs*".[80]

- As the CAA has set out, effective competition can lead to significant consumer benefits, consistent with the experience in other sectors. Indeed, the CAA sets out[81] that its review of precedents suggests that, where effective, competition can materially improve upon regulation and lead to significant consumer benefits, citing examples of cost savings of up to 22% in the energy sector.

124. The existence of multiple terminals, along with the need for additional terminal capacity to support capacity expansion, creates a unique[82] and once-in-a-generation opportunity to introduce broadly scoped terminal competition at Heathrow. Failure to seize this opportunity would not allow the CAA to fully discharge its statutory obligations. The presence of manageable implementation challenges is not a valid reason for failing to pursue reforms that can maximise the benefits of reforms for consumers.

Expanding the scope and intensity of direct terminal competition can be implemented via contractual separation that would not require HAL to divest existing terminals

125. As we set out in our response to the Working Paper, we strongly believe direct terminal competition can be implemented without requiring HAL to divest assets. We described this alternative approach as "*contractual separation*" in our response to the Working Paper.

126. Under the contractual separation approach, HAL would retain the freehold to existing terminals but would be required by the CAA, through amendments to its licence, to enter into long-term contracts with independent terminal operators for each of the existing terminals. Those contracts would enable the independent operation of existing terminals, including the ability for terminal operators to undertake all necessary terminal-specific capex. The operator would also be able to decide when to develop a new terminal as a replacement for an end-of-life terminal.

127. The award of terminal contracts would be based on a competitive process with bidders selected on the basis of who provides the best value for money. The model could work as follows:

- HAL retains ownership of the existing terminals. There would be no divestment or structural separation of existing assets from HAL (this is the main point of difference from Model 8).
- Independent third-party operators are awarded long-term contracts to operate individual terminals following a competitive tender process.
- The CAA (or another relevant body) oversees the competitive tender process. The winning operator is selected based on a 'best value' assessment.
- Once appointed, terminal operators are free to compete to attract airlines. They would be free to undertake any terminal enhancements or expansions needed to attract additional airlines.
- Terminal operators would be responsible for operations and capital expenditure in their terminals during the contract period.

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[80] CMA, BAA airports: Evaluation of the Competition Commission's 2009 market investigation remedies, 2016, paragraph 6.49, link.
[81] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.18, link.
[82] Few international airports have the scale and terminal configuration that Heathrow enjoys. The opportunity to implement direct terminal competition at Heathrow is therefore a largely unique opportunity that the CAA can and should take full advantage of.

- Commercial arrangements with airlines and retail tenants are managed by terminal operators. This means terminals compete directly with each other; HAL would no longer control the terminal customer relationship.
- HAL receives payments which enable it to appropriately recover its historically incurred costs for the terminals and the use of land.

128. This approach would harness competitive rivalry and discipline through both:

- **Competition-for-the-market** via the structured competitive process to win the contract - Heathrow Reimagined expects that there would be considerable international interest in competing to operate, renew and maintain existing terminals at Heathrow, as we set out in our Working Paper response; and
- **Competition-in-the-market** via terminal operators competing to attract airlines to their terminals – terminal operators would be incentivised to find ways to expand capacity to enable them to compete for additional customers.

129. There would be significant further benefits from having multiple independent terminal operations, with far richer data for benchmarking independent operators' performance.

Consumer benefits are not dependent on airlines switching terminals

130. We agree with the CAA that where there is sufficient spare capacity available to facilitate user switching, then:

- there may be strong incentives to deliver the construction at a lower cost and to operate efficiently while ensuring high service quality; and
- the third party would also optimise risk allocation and control cost escalation, which would have a significant beneficial impact on consumers as it would protect them from cost overruns.[83]

131. We also note:

- the extent of spare terminal capacity required to facilitate switching by the long tail of airlines operating at Heathrow with limited service frequencies[84] would not need to be large.[85] Such switching at the margin can have significant consumer benefits.
- the benefits of Model 7b would not rely only on competition-in-the-market from ongoing switching[86] – the requirement for a promoter of new infrastructure to attract sufficient demand to support the business case for investment means that there would also be a strong element of competition-for-the-market.
- benefits from Model 7b would also accrue from the CAA and the Committee having access to richer benchmarking information.

132. The CAA also sets out that "*where there is material spare capacity to facilitate direct competition*" this "*might increase risk exposure of both the third party and HAL, since both would be exposed to*

[83] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.215, link.
[84] Heathrow Reimagined understands (based on our analysis of Cirium data) that over 80% of the carriers at Heathrow carry fewer than 1m passenger per annum, of which c.40% are evening only services (typically the quieter period at Heathrow). The illustrates that many carriers could benefit even with very marginal amounts of spare capacity. Would also note that opening of new terminals affords opportunities for larger carriers to switch.
[85] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.225, link.
[86] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.225, link.

competitive pressure, and might result in both parties being subject to weaker credit metrics and a higher cost of capital".[87] We strongly disagree that this is a relevant consideration for the CAA:

- First, many firms across the economy operate in highly competitive markets, including those characterised by significant switching, but are still able to attract the capital they need on terms that support their operations. Similarly, terminal competition exists elsewhere, avoiding such concerns.
- Second, the point of introducing competition is to expose firms to competitive pressure to create incentives to be efficient and deliver services that customers want to purchase. Customers should not be denied the benefits of competition because of the risk that HAL's management is unable to respond to competition effectively, and, therefore, its financial performance declines. The absence of jeopardy for poor performance is a central failing of the current regime.
- Third, as we have set out previously, if capacity expansion is to proceed under the current model, there are significant risks that financing costs will rise (i.e. financing costs will rise in the counterfactual). Without fundamental reform, including the introduction of direct competition, capacity expansion risks being inefficient and unaffordable. This introduces considerable demand risk for the airport as a whole.
- Fourth, were the cost of capital to increase, this would be outweighed by the benefits of dynamic competition over time, delivering better value to consumers through increased efficiency and innovation.
- Fifth, following the break-up of BAA by the Competition Commission, the legacy BAA airports other than Heathrow (e.g. Gatwick, Stansted, etc) have faced an increase in competition[88] but have continued to be financeable and, in several cases, have attracted the finance needed on sufficiently attractive terms to promote their own capacity expansion schemes.
- Finally, capacity expansion and modernisation would likely involve phased commissioning of incremental capacity which will naturally manage the level of spare capacity.

133. More broadly, we note that the Centrus report scores Model 7a considerably higher than Model 7b.[89] The principal driver of this difference in the overall score appears to be related to the CAA's point above – Centrus notes that if "*there is material spare capacity forecast, then this will increase demand risk resulting in the debt additionality marks becoming negative and equity attractiveness would reduce*".[90] These risks are not inherent to Model 7b. They reflect specific implementation choices, and the CAA has tools at its disposal to manage them - tools it would be expected to use given its competition and financing objectives.

134. The CAA asked both Steer and Centrus to assess each model on the basis that it is implemented in a reasonably effective form.[91] Applying that approach consistently across Model 7b, as Steer's assessment does, we see no reason why Model 7b would not achieve an equivalent (or, at least, materially similar) financeability score to Model 7a. The difference between the two reflects assumed implementation choices rather than inherent features. A similar consideration applies to Model 8, where the CAA, likewise, retains the means to manage the risks that drive its lower score.

[87] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.220, link.
[88] The CC, in its breakup of BAA, recognised that Heathrow was likely to retain its SMP for a considerable period of time. Competition Commission, BAA airports market investigation, March 2009, paragraph 3.130, link.
[89] Although we note that there is a discrepancy between page 24 and page 29 of the Centrus report.
[90] Centrus, Financeability assessment of regulatory models for Heathrow Airport, May 2026, page 24, link.
[91] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 3.33, link.

135. Furthermore, the experience in other settings where competition drives decisions about asset usage (including JFK) is that capacity that is no longer required is replaced or repurposed to higher value uses. This contrasts sharply with how Terminal 1 at Heathrow has been left largely unused since it closed.[92]

Direct terminal competition would support improvements in service quality

136. We agree with the CAA that "*where terminal competition can be implemented effectively, this model could create strong incentives to improve service quality throughout the operational life of the assets. It would also provide a similar incentive on HAL to maintain and improve its service quality*".[93] Promoting well-functioning competition is the most effective way of addressing HAL's harmful structural incentives in relation to service quality, as we have set out previously.

137. We also agree with the CAA that HAL's observation that service quality outcomes are lower at JFK and LAX is a result of a range of factors. Heathrow Reimagined's members have substantial presence at JFK, LAX and other major US airports and, therefore, have extensive first-hand experience of those models. We recognise that JFK (and certain other US airports) has faced service quality issues in the past, which likely have contributed to historically lower Skytrax ratings. In our experience, US airports have often focused more on operational efficiency than certain aspects of the customer experience (e.g. retail, food and beverage offering, etc.). However, this is changing rapidly. For example, the operators of JFK, including the various separate private sector terminal businesses,[94] are undertaking a major redevelopment of the airport (c.£15 billion)[95] with the intention of transforming the passenger experience. Once completed, all of JFK's terminals will date from this century, unlike Terminal 3 (1960s) and Terminal 4 (1980s) at Heathrow. Mott MacDonald[96] report that while "*much of the development is under construction, there's no doubt that JFK is already on its way to becoming a worthy, world-class gateway to the Unites [sic] States, and setting new standards in safety, efficiency, and user experience*".[97]

138. JFK is not alone in undertaking major modernisation and capacity expansion activities. New York LaGuardia, Los Angeles International, Dallas Fort Worth, and Chicago O'Hare, amongst many others, have undertaken or are undertaking major programmes, often working in close collaboration with their airline partners. We expect that these programmes will deliver significant enhancements in passenger experience in the coming years, which will be reflected in improved future Skytrax ratings.

139. In all cases, these programmes are being undertaken at a materially lower cost than Heathrow's capacity expansion and modernisation programme. This is despite taking place in complex, live airports and, in many cases, in costly cities. These lower modernisation and capacity expansion costs are against a backdrop of Jacobs consistently showing airport charges at JFK (and other major US airports) are materially lower than those at Heathrow. The substantial and persistent gap between Heathrow's charges and those of its US peers demonstrates that US airports do not have higher costs or are not less efficient than Heathrow; quite the contrary.

140. The circumstances and context underpinning the airport operating model at JFK differ from those at Heathrow, reflecting in large part how the airports have evolved over time. Important differences in circumstances and context mean that the implementation of terminal competition needs to be

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[92] Heathrow Reimagined, Fundamental reform of Heathrow, February 2025, paragraph 230, link.
[93] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.229, link.
[94] Private sector terminal operators at JFK include, for example, the New Terminal One consortium and JFK Millennium Partners.
[95] Port Authority Builds, Transforming JFK Into A World-Class Global Gateway, accessed on 12/06/2026, link.
[96] Mott MacDonald (link) are one of the advisers to the Port Authority as part of the redevelopment.
[97] Mott MacDonald, JFK International Airport Transformation: A new perspective on an 85 year-old airport, link.

tailored to reflect Heathrow's specific circumstances, not simply replicating structures at JFK or other airports.

141. However, the competitive tension between terminal operators at JFK provides a fundamentally different set of incentives for those operators – their incentives are much more closely aligned to those of users (both airlines and passengers). Members of Heathrow Reimagined have seen first-hand how the JFK model can contribute to improved airport outcomes. We therefore consider that the JFK model provides useful insights for how reforms at Heathrow could be used to reset the structural incentive problems at Heathrow that drive the observed poor consumer outcomes.

Concerns relating to 'fragmentation' and related operational concerns are materially overstated – the CAA is right that they are surmountable

142. The claimed issues related to 'fragmentation' and other operational boundary/coordination consequences from greater direct terminal competition are significantly overstated. As a consequence, the CAA is right to recognise that any such challenges are surmountable.[98] BAA made similar arguments in the Competition Commission's market investigation into BAA plc – as Annex 5 shows, the Competition Commission was right to place very little weight on such arguments then – the CAA is right to do the same today.

143. **Crucially, we would not advocate for competition models that pose material risks of** operational disruption or harm to the passenger experience - doing so would risk unacceptable harm to our businesses. Major international airports operate with the separation of airfield and terminal operations (e.g. JFK, LaGuardia, Atlanta, Munich). This shows that separate operations can take place safely and effectively. Unlike HAL, our members operate at these airports daily and understand the user, operational and safety experience first-hand, along with what drives good and less good performance. We have lived experience of the major redevelopment of JFK and other major international airports where terminal operations are separate from airfield operations.

144. We would not advocate for specific competition models if we were not confident in their safety and operational basis, both through periods of major redevelopment and ongoing operations. Failure on either dimension would severely harm our businesses.

145. Introducing new models of competition would involve developing new working practices and protocols. This would include ensuring there is clarity over roles and mechanisms for resolving any disputes. However, establishing such working practices and protocols can, for example:

- Build on the existing protocols and practices at the airport. Heathrow is already a multi-operator environment (including the independent operation of cargo and private aviation terminals)[99] involving delineation of roles and mechanisms for addressing disputes.
- Learn lessons from other airports where there are separate airfield and terminal operators today (e.g. JFK, LaGuardia, Atlanta, Munich, Hong Kong, certain US airports, etc). In particular, the CAA and its advisers should undertake structured comparator visits, starting with JFK and Munich, so that airlines and terminal operators can demonstrate first-hand how separated assets and major redevelopment / construction projects can coexist on a single campus while maintaining safe, coordinated and effective operations.
- Learn lessons from other sectors where major structural reforms have been implemented to expose more of the value chain to competition (e.g. telecoms, energy).

[98] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.21, link.
[99] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraph 189, link.

146. While establishing these working practices and protocols would involve some administrative effort, that is not a valid reason for denying consumers the substantial benefits from broadly scoped direct terminal competition. The CAA's goal should not be administrative expedience and simplicity at the expense of consumer benefits.

147. The CAA claims (in the context of Model 7b) that "*challenges associated with fragmentation and operational interfaces… would be more acute compared to other models, even after mitigation measures are introduced*".[100] We strongly disagree. As we set out in our response to the Working Paper and above,[101] Heathrow already operates as a complex multi-operator ecosystem with terminals, in particular, separable from the rest of the operations.

148. In response, the CAA notes that while Heathrow is already a multi-operator environment, that environment is coordinated by HAL and that the "*introduction of a second operator would introduce fragmentation and interface risks which are not currently present*".[102] The CAA has overstated these risks and understated the ability of any such risks to be mitigated:

- **HAL's role in the coordination of the multiple service providers today is limited**. Many of the entities operating at the airport provide services to the airlines, not HAL. Where HAL does coordinate, its role is opaque today. We note that the CAA has not set out in detail which specific coordination activities it considers HAL undertakes that will become 'fragmented' (either in the context of capacity expansion or on an ongoing basis). However, in general, we expect competition would increase the transparency to coordination processes and steps.

- **Direct competition would create incentives for operators to manage such risks. It would better align the incentives of operators across the airport with users.** This improved incentive alignment should also mean that operators are incentivised to establish mechanisms to manage any fragmentation and interface risks. This is consistent with how such risks are effectively managed in numerous other sectors across the economy.

- **Also, the CAA and the Committee could oversee coordination (including that undertaken by HAL) where needed.** To the extent that there is a requirement to coordinate and facilitate activities and developments across the campus[103] (including in relation to construction activities), this could be overseen by the CAA and the Committee. This would ensure system-level coherence while enabling competitive provision at the terminal level. As the experience in other sectors and airports shows, integrated operations do not require integrated ownership.

- **Furthermore, where necessary, the CAA and the Committee could appoint an independent third party to support them in this activity**. That third party could oversee coordination and the establishment of clear procedures/protocol,[104] including adjudicating on matters related to accountabilities, operational boundaries, ensuring passenger journey coherence, and ensuring appropriate coordination between construction and live operations. There would be some similarities to the role of the Office of the Telecoms Adjudicator in the context of telecoms markets. We see no reason why such a model could not be successfully used at Heathrow too. Surmountable implementation challenges, which are the types of governance and design challenges that regulators routinely solve in other sectors, should not be used as a reason to

[100] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.212, link.
[101] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraph 189, link.
[102] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.213, link.
[103] For example, establishing where needed access rules, non-discrimination obligations, common-service protocols, traffic allocation rules and mechanisms for campus resilience.
[104] Steer sets out further examples of mitigations that could be implemented, including in relation to interoperability standards, joint operational planning, crisis management protocols, etc. However, it does not set out in detail why such mitigations, in its view, would be insufficient. Our experience is that mitigations are effective at other airports where terminal and airfield activities are separately operated. Steer, Technical assessment of the CAA regulatory models for Heathrow expansion, May 2026, Table 7.8, link.

deny consumers at Heathrow the significant benefits that broadly scoped direct terminal competition could deliver.

- **The separation of terminal operations from airfield operations is established and operates safely at major international airports (e.g. Munich, certain US airports including LaGuardia and Atlanta, the world's busiest airport).** While the introduction of direct terminal competition has no direct precedent in the UK, it does have precedent internationally. At JFK, multiple independent terminal operators run alongside a system-level coordinator in the Port Authority, and the airport is undergoing a major redevelopment involving several different promoters that is proceeding to time, to budget, and at a substantially lower cost than HAL's plans for Heathrow.[105] LaGuardia Airport has undergone a major transformation through a long-term lease/concession model, delivered and operated efficiently, with a separate public body retaining airfield control.[106] The lesson is that terminal competition is compatible with safe, coordinated operation where a defined body holds the system-level coordinating role. Again, integrated operations do not require integrated ownership.

149. **We also note that there is a track record of third parties developing and operating their own infrastructure at Heathrow**; for example, Arora Group built and operates the Terminal 5 Sofitel within the airport perimeter and IAG's cargo facility was built by a third party. Other examples include cargo facilities located on airport property but owned and operated by other third parties, maintenance hangars developed and operated by independent providers, and terminal facilities delivered through a variety of contractual and operational arrangements. Outside of Heathrow, there is also considerable precedent for third parties building and operating their own infrastructure on or near airfields without disruption.[107] The governance challenge is therefore not a new one. Rather, it is an extension of arrangements that already exist across the airport campus today. The key requirement is to ensure that appropriate coordination, operational standards, safety oversight and infrastructure interfaces are maintained across all participants, regardless of ownership structure. The CAA states that "*fragmentation might also have an impact on the efficient use of gate capacity and staff resources*"[108] and also refers to additional coordination requirements between HAL and rivals.[109] This appears to have been inspired by comments made by HAL/Mott MacDonald comparing metrics on passengers per gate between Heathrow and JFK/LAX. However, the CAA should not rely on this argument and evidence. As the Mott MacDonald study also shows,[110] Heathrow has, on average, higher passengers per ATM than the other two airports. Therefore, the difference in passengers per gate is not a reflection of the structural arrangements at Heathrow versus JFK/LAX, but rather a reflection of Heathrow typically serving a greater proportion of widebody aircraft carrying more passengers.

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[105] We note that the Steer report acknowledges JFK is a functioning example of Model 7b in operation and provides "*a useful example of how a multi-operator airport model can be supported by common system-wide requirements.*" Steer, Technical assessment of the CAA regulatory models for Heathrow expansion, May 2026, Table 2.2, link.
[106] Terminal B has been awarded Skytrax 5-star status, making it the first terminal in North America to achieve this rating (Skytrax, Terminal B at LaGuardia again earns coveted 5-star Airport Terminal Rating, February 2025, link). In 2025, 99% of baggage was delivered within 20 minutes of aircraft landing (Swissport operational data).
[107] This can include third-party infrastructure totally distinct from aviation activities. For example, Dallas Forth Worth (DFW) International Airport and Pittsburgh Airport have both leased land to fracking companies to exploit shale gas deposits beneath airport land. Despite fracking's potential for local impacts (including earthquakes) and close proximity of drilling to airport operations, construction and operation was able to proceed without disruption to aviation activities. Neither airport has reported a fracking-related incident that damaged flight operations, and DFW states explicitly that no such incident has occurred (CBS News, City gets advice on airport gas drilling, August 2013, link). This experience shows that globally significant hub airports increasingly operate as broader infrastructure and economic platforms, requiring sophisticated management of commercial diversification, environmental credibility, and political risk alongside core aviation operations.
[108] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.212, link.
[109] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.216, link.
[110] Mott MacDonald for HAL, Multi Operator Airports, January 2026, link.

150. The long-term benefits to consumers from direct competition will significantly outweigh any costs associated with model implementation. Administrative complexity and expedience is not a valid reason to deny consumers the benefits from broadly scoped direct competition. But, in any event, and as set out previously, it is not uncommon that the introduction of competition can result in some loss of static efficiency (e.g. through the duplication of certain assets or functions, or additional costs to facilitate competition). However, such limited cases of static efficiency loss need to be assessed in the context of substantial potential gains in terms of dynamic efficiency improvements. The clear experience in other sectors has been that the consumer benefits of promoting competition to the maximum extent feasible will outweigh any costs of addressing (eminently manageable) operational implementation requirements. There is no reason why it would not be the case at Heathrow too.

Concerns about terminal operators harming competition should not be given weight

151. The CAA states that there:

> "*may also be the potential for the owner and operator of the new terminal to act in a manner that would limit the effectiveness of terminal competition. For example, if the owner and operator of the new terminal were to be an incumbent airline, it might have an incentive to offer discriminatory terms to competing airlines, including new users. This might also be the case where the third party was an external investor, but where an incumbent airline acted as an anchor client and, hence, exerted significant influence over the new terminal*".[111]

152. We consider this concern is overstated – such issues are managed in other settings and are eminently manageable at Heathrow:

- Terminal operators would be incentivised to maximise the attractiveness of their terminals to all airlines to maximise the use of their infrastructure and to support any growth plans they may have – this runs counter to the CAA's concerns.
- The CAA can design reforms in such a manner that relevant protections are put in place.
- Furthermore, terminal operators would need to act in accordance with competition law.

Regulatory Model 7b must remain on the CAA's shortlist, and it should be defined sufficiently flexibly to enable implementation via contractual separation

153. Consistent with the discussion above, we strongly support the inclusion of Model 7b on the shortlist. Further, the CAA should also define it sufficiently flexibly to include implementation via contractual separation.

- Where applied, Model 7b is the model most capable of comprehensively addressing the underlying problems that have given rise to today's poor outcomes. It supports improved efficiency, more affordable and fair charges, and services that better meet user needs.
- There are no practical impediments to the implementation of Model 7b, including via contractual separation. Further, the long-term benefits to consumers from direct competition will significantly outweigh any costs associated with model implementation. Administrative complexity and expedience are not valid reasons to deny consumers the benefits from direct competition.

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[111] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.227, link.

- Using Model 7b to the maximum extent possible will introduce genuine commercial discipline and accountability – something that is severely lacking in the status quo. It is more effective in doing so than other models, including Model 5b.
- It will also attract new capital, breaking the reliance on a single highly indebted operator, improving the financeability of capacity expansion and other capex.
- It can drive a more efficient and fair allocation of risk between users and operators than the status quo – investors, not passengers, will bear the risks associated with poor management decisions, lack of commercial discipline or other sources of inefficiency. Introducing competition does not fundamentally change the underlying risks associated with capacity expansion but rather can result in a more efficient allocation of those risks, better protecting consumers. Risks are more likely to be allocated to those better placed to manage them, increasing the incentives to better manage them.

154. Establishing a model that results in greater efficiency, better business cases, more affordable and fair charges, better service quality and a more equitable allocation of risks will better support long-term regulatory certainty by providing a sustainable long-term regulatory model. This will better support investors right across the Heathrow ecosystem to make the substantial investments needed to make capacity expansion a success.

155. While introducing Model 7b may require greater effort than other, more incremental, shortlisted models, this effort is justified by the lower costs, increased productivity and clearly superior outcomes for consumers. Pursuing the widest possible application of Model 7b, not just limited to capacity expansion or new terminals, must be the CAA's priority.

156. Consistent with this, Heathrow Reimagined considers that Model 7b (including its extension to include a contractual separation mechanism) performs strongly against the CAA's evaluation criteria:

- **Avoid delay and disruption**: We disagree with the CAA that the inclusion of Model 7b in the shortlist is neutral on this criterion; as we have set out above, its inclusion reduces the risks of delay and disruption to capacity expansion.

  Not only has the CAA overstated the risks of capacity expansion delay and disruption associated with implementing this model, but the risks of delay and disruption are <u>greater</u> if the CAA does <u>not</u> undertake the work necessary in advance to reform the current regulatory framework to accommodate an alternative operator (such as HWL). The capacity expansion process currently being undertaken by Government includes both HAL and HWL as potential developers. If HWL was to be granted a DCO and the CAA had not undertaken the work to modify the regulatory framework, there are material risks of delay and disruption. A failure to do this would also increase the risk of excluding competition, because HWL will need to obtain a no impediments statement from the CAA by the time of the DCO submission. The submission must show (among other things) that HWL's expansion plans are capable of being delivered and that the regulatory model is capable of being changed to accommodate HWL's proposal. If the CAA is not willing or able to provide a 'no impediments' statement this would harm the prospects of the DCO application. The risks of regulatory inaction are therefore greater than any perceived risks associated with advancing Model 7b (which are limited and manageable).

  We do not see a rational basis for finding that the inclusion of existing terminals within the scope of terminal competition based on a contractual separation mechanism would delay or disrupt capacity expansion - in fact, the CAA should conclude the opposite:

   - The claimed issues related to 'fragmentation' and other claimed operational boundary/coordination consequences for capacity expansion and ongoing operations from greater direct terminal competition are significantly overstated as set out above.
   - Consistent with the CAA findings for Model 8, since the inclusion of existing terminals in the scope for direct terminal competition would involve the operation of existing assets, there would be no direct impacts on the delivery and timing of capacity expansion. If anything, given its track record, removing responsibility from HAL for running and/or replacing existing terminals, combined with the expected demand from potential operators, would better support timely investment in the CTA and Terminal 4, while reducing delivery risk of the third runway if undertaken by HAL or another developer. This is particularly important given that without additional terminal capacity, new runway capacity risks becoming a high-cost, under-utilised asset.
   - There is no logical basis on which to assume direct competition must require ownership by the third-party operator, or to exclude a contractual mechanism that not only gives effect to the same direct competition principle, but enables its application to the entire Heathrow campus.

  The CAA may have concerns that pursuing this model could distract from the delivery of capacity expansion.[112] However, any such perceived risk could be managed by appropriately prioritising those reforms that are most critical to the timely delivery of capacity expansion, while still advancing terminal competition in a manner that recognises the importance of introducing it in a timely manner (including existing terminals) to address the significant consumer harm arising from the current model.[113] Such an approach would recognise the urgency of reform across the wider campus given the clear evidence of significant consumer detriment and that reforms related to existing terminals are entirely separate to expansion. Giving due consideration, in a timely manner, to broadening the scope and intensity of terminal competition would be a rational response to the failings of the current regime and would be consistent with the CAA's duties.

- **Promotes efficient costs**: We agree with the CAA that Model 7b is likely to drive efficiency savings; however, we strongly disagree that these are likely to be "*moderate*".

  Systematic and persistent inefficiency has been a major driver of Heathrow's charges being the highest in the world and value for money being unacceptably poor. This is consistent with HAL's harmful structural incentives and a regulatory regime that is ineffective at policing its ability to act on those incentives.

  Effective direct competition would result in both HAL and alternative providers having stronger incentives to act efficiently. Given the scale of investment required for capacity expansion and modernisation, the potential consumer benefits from improved efficiency are very substantial.

  Expanding the scope of direct terminal competition would promote greater cost efficiency:

   - As explained above, it would intensify terminal competition which can be expected to enhance its efficiency benefits.

[112] The CAA raises such a concern in the context of Model 8. CAA, CAP3195: Working paper on regulatory models, November 2025, paragraph 6.247, link.
[113] The CAA accepts at paragraph 6.247 that where Model 8 was implemented after expansion is complete concerns about distraction would be resolved. Heathrow Reimagined considers that the risks of distraction could be managed successfully with sequencing of reforms without having to wait until expansion is entirely complete. By shortlisting a model that would expand the scope of terminal competition to include existing terminals competing with each other and new terminals the CAA could consider in detail the appropriate sequencing and timing of reforms.

- It would also result in richer data for performance benchmarking.
- New working models and the introduction of competition are likely to result in some new and different costs. However, experience in other sectors has shown that the benefits of improved dynamic efficiency far outweigh any static losses, as set out above.

- **Raise sufficient finance**: As set out in our response to the Working Paper,[114] and accepted by the CAA in the Consultation,[115] direct terminal competition across the campus will enhance the financeability of capacity expansion and modernisation:
  - This benefit arises through: 1) improving efficiency and affordability thereby reducing the financing requirement and 2) broadening the sources of capital for investing in the airport (i.e. not relying on a single, highly indebted operator).
  - The contractual (and structural) separation mechanism can be implemented in a manner that respects HAL's historically incurred terminal costs.

- **Practical to implement**: We see no practical impediment to implementing direct terminal competition across both new and existing terminals:
  - The model would be practical to implement operationally, drawing on experience from other airports internationally where terminals and airfield operations are operated independently, and from the experience where competition has been successfully introduced in other sectors. It would involve developing new working practices and protocols, including ensuring there is clarity over roles and mechanisms for resolving any disputes. However, as set out above, establishing such working practices and protocols can build on existing protocols and practices at the airport.
  - The CAA argues that "*models where a third party is appointed as a contractor to HAL could have advantages over models where the third party owns the assets in its own right*" because "*contractor models allow HAL to manage the third-party contractor within its portfolio of contractors while remaining the "guiding mind" behind expansion overall*".[116] As we set out in our response to the Working Paper,[117] there are significant risks of consumer harm from HAL remaining the "*guiding mind*" as a result of its harmful structural incentives, particularly in relation to inefficient capex. While a materially more effective approach to capital governance could mitigate certain of these risks to some extent, as we set out in our response to the Working Paper,[118] direct competition unencumbered by HAL's harmful structural incentives would deliver greater benefits to consumers by breaking HAL's monopoly control.
  - To the extent that there are benefits from overall planning and coordination, it does not need to be, nor should be, HAL that controls such activities given its harmful structural incentives. That oversight and coordination role, where needed, could be overseen and controlled by the new Committee (albeit potentially delegating some activities to HAL), supported as relevant by independent experts who would be able to address and resolve day-to-day issues as needed – this could involve the adjudicator role set out above.
  - The CAA has the necessary powers under CAA12 to amend HAL's licence to require it to enter into the required contracts to implement direct terminal competition for existing

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[114] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraph 196, link.
[115] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.32, link.
[116] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.30, link.
[117] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraph 210, link.
[118] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraph 210, link.

terminals via contractual separation.[119] For the reasons explained, the introduction of direct terminal competition is a warranted structural remedy in response to the persistent regulatory failings at Heathrow; only the full package of reforms set out in this submission can solve the longstanding regulatory problems where successive interventions have failed.

Further, as the CAA has set out,[120] the case for shortlisting Model 7b is yet further strengthened by the current capacity expansion process; if the implementation aspects that the CAA would need to consider are not considered in advance of an alternative provider being granted a DCO, there would be material risks of delay and disruption to capacity expansion.

The CAA claims that "*more time may be needed to implement competition models, depending on our approach to these matters and the complexity of the model*" and that "*it could be more challenging to introduce competition for assets that must be built earlier in the expansion process*".[121] We disagree that this is a valid consideration:

- o As we have set out previously, administrative complexity and expedience are not a valid reason to deny consumers the benefits from broadly scoped terminal competition.
- o In any event, the long-term benefits to consumers from broadly scoped direct terminal competition will significantly outweigh any costs associated with model implementation.
- o But in any event, such considerations do not apply to the introduction of competition for existing terminals, as they are already built (we note the CAA accepts a similar point in relation to Model 8).[122]

- **Promotes competition**: Model 7b scores highly in terms of promoting competition. It would enable the broadest scope of competition. As the CAA has accepted, "*the consumer benefits of competition will be greater where the scope of competition is broader in its application*".[123]
  - o Extending the scope and intensity of direct terminal competition under our proposed model would make more extensive use of competition-for-the-market mechanisms and will enhance competition-in-the-market. It would enhance dynamic competition compared to other models, rather than relying solely on competition based on arrangements applied at a single point in time. As the CAA notes,[124] this offers "*greater benefits to consumers*".
  - o As set out above, concerns related to independent terminal operators undermining the operation of effective competition at the airport are materially overstated and, in any event, can be successfully mitigated.
- **Promotes service quality**: Direct competition would result in materially stronger incentives to provide a level of service quality that meets the needs of users. We disagree that there are material risks associated with interfaces and coordination – any such risks can be readily mitigated, as we set out above.

  Extending the scope and intensity of direct terminal competition should result in significant incremental benefits in terms of the responsiveness of terminal operators to the needs of users. Competition will also enhance the incentives to improve (currently inadequate) resilience within

[119] See Annex 1.
[120] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.214, link.
[121] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.27, link.
[122] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraphs 6.247 and 6.248, link.
[123] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.27, link.
[124] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.233, link.

terminals and reduce the likelihood of airport-wide failures in relation to terminal operations (as individual terminals are less likely to continue to use the same suppliers and systems over time, enhancing supplier diversity and resilience).

As we set out above, any claimed risks associated with passenger journey coherence can be effectively mitigated to the extent necessary.

Further, as we also set out above, we have no incentive to argue for reforms to the provision of AOS that would introduce material risks to their passengers' experience.

157. The case for expanding the scope of direct terminal competition to include all existing terminals competing against each other and new terminals is clear and unavoidable – it must be reflected in the CAA's shortlist.

Regulatory Model 8 (transfer of ownership and operation of an existing asset) should be included on the shortlist

158. As we have set out above, Heathrow Reimagined considers that the scope and intensity of direct terminal competition could be extended through a more flexible application of Model 7b including the use of a contractual separation mechanism that would not require HAL to divest existing terminals. This can be implemented in a timely manner under the CAA's existing CAA12 powers – it is therefore our preferred approach.

159. However, alternatively, the CAA could also pursue a combination of Model 7b for new terminals and Model 8 (i.e. structural separation) for existing terminals.[125]

160. Model 8:

- could be used to unlock significant benefits for consumers through enhancing the scope and intensity of direct terminal competition. The CAA accepts that the broader the scope of competition, the greater the consumer benefits – Model 8 supports the broadest version of terminal competition.
- can be implemented in a manner that avoids undue distraction to capacity expansion, would not result in material operational issues that could not be adequately mitigated, and would support financeability and preserve HAL's regulatory certainty over the recovery of its historically incurred terminal costs.

161. While the CAA may have concerns about its statutory powers to implement Model 8 itself, the CAA can make a reference to the CMA to undertake a market investigation (and as part of a market investigation process the CMA would have the remedial powers to order HAL to divest terminals if it considered that appropriate), or it can request Government extends it the powers to enable it to address the structural issues it has identified in its case for change (including through the Civil Aviation Bill which is currently before Parliament).

162. Given these options, including Model 8 on the shortlist for further consideration would be a rational response to the failings today and would be consistent with the CAA's statutory duties. There is no fundamental impediment to the CAA further considering how Model 8 could be used to unlock substantial consumer benefits as part of an appropriately managed package of reforms.

163. As Heathrow Reimagined has set out previously, the structural separation of BAA plc by the Competition Commission (also as part of a market investigation) two decades ago unlocked significant competition and consumer benefits. However, those reforms principally benefited

[125] For an explanation of the 'contractual separation' and 'structural separation' approaches, see Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraphs 213-215, link.

passengers at the other ex-BAA airports – HAL's SMP remained intact. The Competition Commission acknowledged this at the time, and recommended that "*legislation should be amended to allow for terminals to be developed or redeveloped and operated separately from runway facilities*", to facilitate greater competition.[126] The CAA has, given the case for change and prior Competition Commission recommendations, moved too quickly to rule out Model 8. This appears to be driven principally by its views on its own powers rather than acting in line with its statutory duties.

164. In terms of the CAA's detailed evaluation criteria:

- **Avoid delay and disruption**: Heathrow Reimagined considers that the scope and intensity of direct terminal competition could be extended through a more flexible application of Model 7b including the use of a contractual separation mechanism that would not require HAL to divest existing terminals. However, in the alternative, Model 8 could be adopted without causing any undue delay or disruption to capacity expansion:
  - As the CAA notes, there would be no direct impact because Model 8 applies to existing assets (e.g. terminals).
  - Any perceived risks associated with distracting capacity expansion[127] could be managed by appropriately prioritising those reforms that are most critical to the timely delivery of capacity expansion while still advancing terminal competition in a timely manner to address the significant consumer harm arising from the current model.
  - For the reasons set out above, any claimed coordination or 'fragmentation' challenges, to the extent they could arise, can be managed and mitigated, including by incorporating any learnings from other airports where terminal and airfield activities are operated separately. The CAA and the Committee, supported as required by independent experts, could ensure the necessary processes and protocols are in place. As noted above, JFK has successfully undertaken a very large transformation programme with multiple different scheme promoters, demonstrating that practical coordination issues can be well managed.
- **Promotes efficient costs**: Model 8 (as in the case with an expanded Model 7b) could play an important role in enabling direct terminal competition across all terminals, both existing and new. Such broadly scoped direct competition could deliver significant efficiency benefits, consistent with the experience in other settings.

  The CAA notes that "*the incentives to promote ongoing efficiency would depend on the availability of spare terminal capacity to facilitate switching*".[128] We disagree and address this point above.

  The CAA also argues that this model could "*have an adverse impact on operating costs due to fragmentation of airport operations and the presence of multiple points of interface*".[129] Notwithstanding the points we have made above re 'fragmentation' and the high degree of separability of terminals, the introduction of competition, including via Model 8, is likely to result in some new and different costs. However, as we have set out previously, the benefits of improved dynamic efficiency are highly likely to far outweigh any static losses.

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[126] Competition Commission, BAA ordered to sell three airports, March 2009, link.
[127] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.268, link.
[128] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.250, link.
[129] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.251, link.

- **Raise sufficient finance**: We agree with the CAA that the introduction of greater competition can attract new sources of capital.[130] We consider that the use of Model 8 (or an expanded Model 7b) to support a broader application of terminal competition will enhance financeability overall.

  The CAA refers to a point made by Centrus that "*the separation of a core asset from its existing asset base could significantly alter HAL's overall risk profile*" and that "*this could increase HAL's risk exposure and cost of capital*".[131] We disagree that these are material considerations that change the overall assessment that competition improves financeability:

  - In principle, the choice of regulatory model should not increase the overall level of risk associated with airport operations or capacity expansion. Rather, it results in a different allocation of those risks between different parties (i.e. HAL, other operators and users). Under competition, risks are more likely to be allocated to those better placed to manage them, increasing the incentives for efficient management of them.
  - The divestment of terminals should raise significant funds that would allow HAL to reduce its high levels of debt, reducing its exposure to risk and better enabling investment elsewhere at the airport (e.g. in better energy supply resilience or fund construction of a new runway). The CAA sets out that it is unclear how HAL would choose to use the proceeds. However, if HAL were to choose a route that sustains risk above a level it could have otherwise achieved,[132] the consequences of that choice should be borne by HAL's shareholders, not consumers. In any case, regardless of how HAL might choose to deploy the proceeds from divestment of terminals, any assessment of financeability could reasonably pre-suppose that a buyer would – at the margin – be in a stronger position with better access to debt and equity finance.
  - To the extent that the risk exposure and cost of capital for the residual business operated by HAL does change as a result of allocating the overall risks differently, ongoing regulation of the residual elements of HAL's business would be able to appropriately take this into account when setting price controls, bearing in mind that the relevant test for regulatory purposes is based on the notional efficient operator.
  - Notwithstanding this:

    1. The break-up of BAA has not hindered Gatwick, Stansted and other ex-BAA airports from financing their operations or capacity expansion plans on sufficiently attractive terms. We see no reason why HAL divesting terminals would not be similar.
    2. HAL's own financing choices and their implications for its cost of capital and exposure to risk cannot be seen to constrain the reform choices before the CAA. If it did, that would further reinforce the incentive for HAL to make itself financially vulnerable to shield itself from substantive reform.
    3. As we set out in our response to the Working Paper, the CAA needs to appropriately weigh up the benefits to consumers from reforms that create stronger incentives for efficiency and other consumer benefits, with any limited impacts on the cost of capital. As we have set out above, the experience from other settings, including the break-up

[130] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.253, link.
[131] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.254, link.
[132] For example, by distributing the proceeds of any divestment to equity holders. Following divestment of Stansted in 2013 and Aberdeen/Glasgow/Southampton in 2014, Heathrow Airport Holdings remunerated shareholders with £300m and £670m respectively from the proceeds of those divestments. See Heathrow Airport Holdings Limited, Annual report and financial statements, 2013, link and Heathrow Airport Holdings Limited, Annual report and financial statements, 2014, link. That was its choice and it should shoulder the consequences of that choice.

of BAA, shows that the benefits from enabling competition in previously monopoly settings substantially outweigh implementation costs.

- **Practical to implement**: We disagree with the CAA that Model 8 is not practical to implement. While the CAA may have concerns about its powers to implement the model via structural separation (i.e. Model 8), it can recommend Government extends to it the necessary powers under the legislation already planned (e.g. the Civil Aviation Bill before Parliament)[133] or it could make a market investigation reference[134] to the CMA (pursuant to which the CMA would have statutory remedial powers to require HAL to divest terminals where it considered this to be the appropriate remedy). The issues identified by the CAA and that underpin the case for change are not isolated operational failings, but persistent structural features of the market that would lend themselves to a market investigation.

  Introducing direct terminal competition for new and existing terminals under the CAA's existing powers remains our preferred route, with structural separation as the alternative. On the CAA's own logic for new terminals, where it acknowledges the possibility of needing to address a scenario where a third party obtains a DCO in the context of expansion, the CAA must ensure that it does not fail to cater for a situation where a third party obtains a DCO for redevelopment of the existing campus. In that case, a competing promoter would assemble the necessary land and rights through the planning system but would still require HAL to enter into similar arrangements with it as envisaged by the CAA under Model 7b. Whether that route is available and taken up turns on the planning regime and on supportive national policy, which are matters for Government rather than the CAA.

  The CAA also refers to "*challenges in respect of defining interfaces between the transferred assets and HAL*" and that the "*CAA would need to define roles and responsibilities between HAL and third party*". While we recognise that Model 8 would involve establishing new working practices and protocols, we do not consider this to be a fundamental impediment to implementing the model, or a reason to find it impractical to implement, as we have set out above.

  More broadly, addressable implementation challenges are not a rational reason for not shortlisting Model 8. The CAA's duties are to further the interests of consumers, not to pursue administrative simplicity or expedience.

- **Promotes competition**: As set out above, using Model 8 (as an alternative to an expanded Model 7b) to implement direct terminal competition across all terminals, both new and existing, would result in a substantial increase in the scope and intensity of competition in the provision of AOS at Heathrow.[135] We therefore agree with the CAA that there is "*potential for this model to improve competition compared to the current regulatory model*".[136, 137] As with the Competition Commission's break-up of BAA, it would be a decisive structural remedy to structural incentive problems.

[133] The CAA acknowledges this mechanism in the context of model 8– it does not set out any practical impediment to its use. CAA, CAP3195: Working paper on regulatory models, November 2025, paragraph 6.268, link.
[134] In paragraph 6.268 the CAA appears to argue that it does not have the powers to initiate a market investigation under the Enterprise Act 2002. We disagree. The CAA's powers to make a market investigation reference to the CMA are set out in CAP1235.
[135] The CAA notes that under this model "*competition would be introduced during the operational phase of the asset lifecycle, but not during the design or construction phases*". CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.260, link. As set out earlier in this section, we consider Model 8 could support a model of direct terminal competition where a third-party would not only take on day-to-day operations of existing terminals but would also be responsible for all terminal-specific capex, including potentially replacing an existing terminal.
[136] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.263, link.
[137] The CAA raises the issue of spare capacity in paragraph 6.261. We address this in paragraph 131 above. The CAA also raises the "*potential for the owner and operator of the new terminal to act in a manner that would limit the effectiveness of terminal competition*" in paragraph 6.262. We address this point in paragraphs 151 and 152 above.

- **Promotes service quality**: Direct terminal competition enabled by Model 8 (or an expanded Model 7b) would result in terminal operators having a strong incentive to improve service quality to meet the needs of its users, as we set out above. The benefits for consumers under our model of expansive direct terminal competition do not rely on switching by airlines, as set out above.

  We see no reason (nor has the CAA advanced one) as to why a "*permanent operational boundary between HAL and the third party could undermine service quality*".[138] We have set out above[139] why we disagree with concerns about 'fragmentation' harming service quality. Furthermore, Heathrow Reimagined's members are well-placed to judge such risks given that they operate at airports where terminals and airfields are operated by different entities. Were there to be a material risk to passenger experience, it would not be in our interests to propose such reforms – they would be harmed were their customers to face a deterioration in service quality, including increased disruption.

165. There are multiple successful examples of terminal operations being run by separate entities, including Munich, Atlanta, LaGuardia and JFK. Munich Airport is widely recognised as one of Europe's highest-performing hubs.[140] Passengers have benefited through increased airline capacity and frequency.[141] For example, at JFK, a complex multi-terminal, multi-operator airport, Swissport achieved 98.5% aircraft turnaround on-time performance in FY2025 and an airline NPS of 8.2 out of 10.[142] Coordination between airlines, ground handlers and airport operators is highly effective and does not constrain key operational outcomes, including on-time performance, baggage handling or recovery from operational disruption.

Competition for semi-separable assets

166. As we have set out above, effective direct competition offers additional advantages over less broadly scoped models. It is the model most capable of fully resetting HAL's harmful structural incentives, maximising the benefits to consumers, and should therefore be implemented wherever feasible. The CAA also rightly acknowledges that direct competition offers the greatest benefits to consumers as it provides an incentive for both the third party and HAL to adapt efficiently to changes in market conditions on an ongoing basis.[143]

167. The CAA claims in the context of Model 7b (direct competition) that "*it is not clear that this model offers clear advantages over other short-listed models (particularly regulatory models 4b and 5b)*". We strongly disagree. As the CAA has acknowledged, "*the consumer benefits of competition will be greater where the scope of competition is broader in its application*".[144] The scope of competition is broader under direct competition than under Model 5b. For example, Model 7b involves independent airport operators (e.g. terminal operators) competing directly for users on an ongoing basis (i.e. it enables dynamic competition). Under Model 5b,[145] the involvement of third parties would be more limited as, for example, HAL will continue to own the relationship with the users and HAL (and its harmful structural incentives) would still be able to influence decisions about capex project identification, specification and prioritisation.

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138 CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.267, link.
139 We address this in paragraphs 142-144.
140 Premium passenger handling is highly developed, including near-perfect on time performance (99%) for dedicated high-end ground services (Swissport operational data).
141 Lufthansa replaced a single A380 in Frankfurt with two A350 aircraft: one in Frankfurt and one in Munich.
142 Swissport operational data, 2025.
143 CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.233, link.
144 CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.27, link.
145 And even more so compared to Model 4b.

168. We therefore consider that the CAA should pursue direct competition to the maximum extent possible. However, in cases where the use of direct competition is not feasible, such as for semi-separable assets, the use of Model 5b (complemented by Model 4b) would deliver material benefits for consumers compared to the status quo. While it would not reverse HAL's harmful structural incentives, it would provide a strong counter-balance to them as part of a comprehensive package of reforms. For maximum benefits, the tender should be overseen by the CAA (or relevant designated body), not by HAL. The enhanced use of competition-for-the-market rivalry compared to the status quo should result in material benefits for consumers compared to the status quo. Consistent with this, we agree that "*competition across the asset lifecycle could result in the creation of an efficient cost baseline, while costs associated with points of interface and outsourcing of operations can be managed through appropriate contractual provisions and governance*".[146] Model 5b would also improve financeability by both driving greater efficiency and broadening access to finance by not relying on a single highly indebted operator.

169. Under Model 5b third parties would have a greater incentive "*to ensure that the design and build of new infrastructure was fit for purpose, since it would then be exposed to the operational risk associated with providing services under the management contract*".[147] Having competitors internalise the ongoing operational consequences of their design and build decisions and taking the accountability, has the scope to avoid short-term poor decision-making during the critical design and build stages of new infrastructure development, delivering ongoing benefits for consumers. Such benefits should include more effective and usable infrastructure with fewer service interruptions.

170. In the remainder of this section, we set out in further detail why the CAA is right to shortlist Model 5b and 4b.

Regulatory Model 5b – design, build and operation

171. We agree with the CAA that Model 5b should be shortlisted. In short:

- Where direct competition is not feasible, such as for semi-separable assets, Model 5b can deliver meaningful consumer benefits over the status quo through enhanced use of competition-for-the-market rivalry. It therefore can play an important role as part of a comprehensive package of reforms.
- There are no practical impediments to the implementation of Model 5b – it can be implemented with the CAA's existing CAA12 powers.
- Model 5b will also attract new capital, breaking the reliance on a single highly indebted operator, improving the financeability of capacity expansion and other capex.
- It will support a more efficient and fair allocation of risk between users and operators than the status quo. Greater use of competition does not fundamentally change the underlying risks associated with capacity expansion but rather results in a more efficient allocation of those risks, better protecting consumers. Risks are more likely to be allocated to those better placed to manage them, better aligning incentives.

172. Model 5b must remain on the CAA's shortlist as a key component of a comprehensive package of reforms.

[146] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, Table 6.3, link.
[147] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.86, link.

The CAA is right to reject HAL's claims about 'fragmentation' and delay

173. We agree that the CAA is right to reject HAL's claims that Model 5b would materially increase the risks of delay.[148] The CAA is also right to reject HAL's claims related to "*the risk of fragmentation, reduced resilience and increased complexity*".[149] We disagree that such risks are a material consideration or relevant. As the CAA notes, HAL already operates a portfolio of contractors and has done so in the context of major projects, including terminals. More broadly, competition can create strong incentives to improve resilience (as part of the wider user experience) and to manage any risks of fragmentation or complexity effectively.

174. The clear scope for competition to improve resilience at Heathrow has been demonstrated by numerous failings in recent years (for example, in relation to power supply, baggage systems and various car parks).[150] Heathrow's level of resilience today is inadequate despite the vast sums of capital that HAL has deployed in recent decades – further clear evidence, if it were needed, of HAL's persistent and systematic inefficiency.

Model 5b can be straightforward to implement

175. The CAA is right to disagree with HAL's claims regarding this model (or Model 4b) requiring primary legislation, market power determinations or new licences. The model could be implemented through modifications to HAL's existing licence under the CAA's existing CAA12 powers, which explicitly provide for it to require HAL to enter into contracts.[151]

176. We see no credible reason why the application of Model 5b would necessitate any new market power determinations. HAL would continue to have a complete monopoly on the provision of AOS at Heathrow to users, as it does today. Increased or different use of third parties acting on behalf of HAL would not change HAL's market power.

177. The CAA notes[152] that it could be challenging to specify operational requirements early in the project lifecycle. Such considerations do not prohibit the use of such mechanisms in other settings – they are eminently manageable. They require careful design and calibration of output requirements and appropriate mechanisms to enable in-contract modifications (designed to minimise any resulting implications for risk). For example, the model should be sufficiently flexible to allow commercial negotiation between asset owners and users over bespoke or new requirements.

178. There may be circumstances where the Committee identifies advantages of tendering certain aspects of the design, build and operation of assets under different contracts or under different contractual mechanisms. For example, this could be informed by market testing activities. As such, the model should be implemented in a manner that allows the CAA flexibility to ensure that the appropriate and proportionate approach is applied in each case, drawing on the advice of the Committee.

179. The CAA sets out that it would "*seek to apply the model in a focused way and, exclude assets and operations that are safety-critical and/or highly integrated into broader airport operations*".[153] We

[148] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.101, link.
[149] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.102, link.
[150] Most recently, on 15 May 2026, a Terminal 5 baggage system failure left approximately 20,000 bags stranded – the third major baggage incident at Heathrow in 2026. BA CEO Sean Doyle wrote to HAL describing the impact as "*significant and unacceptable*". BA subsequently sought up to £10 million in compensation from Heathrow. Financial Times, 'British Airways seeks up to £10mn from Heathrow after baggage chaos', 19 May 2026, link.
[151] Although we note that even if that was not the case, the requirement to undertake such administrative steps would not be an acceptable reason to deny consumers the benefits of materially enhanced competition in the provision of AOS.
[152] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.118, link.
[153] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.102, link.

recognise that there may be some limited cases where the application of Model 5b may not be the optimal approach for consumers. However, the CAA should not fetter its discretion in advance by opining on the appropriateness of specific infrastructure in the abstract – such decisions should be case-specific and based on a careful case assessment.

Greater competition will improve service quality

180. The CAA also states that with "*operational control delegated to a third party, HAL's ability to drive consistent, airport-wide service quality improvements may be reduced, and mechanisms for joint planning or investment in service enhancements would become harder to manage*".[154] We disagree that this is a relevant consideration:

- Service quality, particularly in relation to terminals, varies considerably across the airport today as reflected in, for example, the very different ratings of individual terminals by Skytrax.[155] Service quality is also inadequate, demonstrating that HAL has made poor use of its current "*ability to drive consistent, airport-wide service quality improvements*", consistent with its underlying poor incentives.
- By enhancing incentives to focus on service quality and the needs of users, greater competition should drive up service quality across the airport. We therefore agree with the CAA that "*competition could also help drive up service-quality standards*".[156]
- Notwithstanding this, we agree that such concerns, to the extent that they are valid, can be mitigated. As the CAA notes, strengthened governance arrangements, a clear definition of system-wide responsibilities, and performance-linked contractual incentives could help improve alignment between parties, including through improving transparency. The Committee could play an important role in overseeing such mitigations.

The CAA is right to shortlist Model 5b

181. Model 5b scores well against the CAA's evaluation criteria – it must be retained on the shortlist:

- **Avoid delay and disruption**: We agree with the CAA that there is no reason to expect Model 5b would materially increase the risks of delay. We have set out above why the CAA is right to disagree with HAL's arguments in relation to claimed fragmentation risks, reduced resilience and increased complexity. Further, as the CAA rightly notes, HAL already operates a portfolio of contractors and has used them in the context of major projects such as Terminal 5. In addition, we agree with the CAA[157] that where there are learnings to be drawn from the use of similar models in other settings, they could be applied to Heathrow to facilitate effective and timely implementation.
- **Promotes efficient costs**: We agree with the CAA that Model 5b "*can be expected to promote an efficient cost baseline, since competition for the market provides an incentive for bidders to put forward efficient bids*"[158] and that the model outperforms the current model in terms of cost efficiency. Heathrow Reimagined considers that Model 5b could strengthen risk management and improve cost discipline, ultimately offering stronger safeguards for consumers – we therefore view it as outperforming the current model. However, for the reasons set out above, Model 5b performs less strongly than direct competition.

[154] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.115, link.
[155] Heathrow Terminal 3 is rated 3.5 stars by SkyTrax, while Terminal 2 is rated 4.5 stars, and Terminals 4 and 5 are rated 4 stars. Skytrax, Heathrow Airport Rating Analysis, accessed on 12/06/2026, link.
[156] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.115, link.
[157] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.101, link.
[158] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.103, link.

- **Raise sufficient finance**: We agree with the CAA that this model would not materially worsen the financeability of capacity expansion and could lead to an improvement compared to the current model. The CAA is right to recognise that the model has the potential to attract significant third-party capital and, to the extent it is relevant, it could also reduce HAL's exposure to cost overruns and delivery uncertainty. We consider that access to third-party capital alongside the improvements in efficiency, which should improve affordability, both act to enhance financeability. In our view, the potential benefits are greater than being merely "*marginal*", as argued by the CAA.[159]
- **Practical to implement**: We agree that this model could be implemented under the CAA's existing powers without the need for primary legislation, market power determinations or new licences for third-party operators. For similar reasons to Model 4b, we disagree that there would be material practical implementation challenges; if there were any challenges to implement, they would be manageable.
- **Promotes competition**: We agree that this model would introduce competition across a broader range of AOS activities than either the current model or other more narrowly focused regulatory models, but it is limited compared to Model 7b in that the third-party operator under Model 5b would be, in effect, a contractor to HAL which means that Model 5b does not fully harness the benefits of competition unencumbered by HAL's harmful structural incentives. For the same reasons as under Model 4b, we agree with the CAA[160] in rejecting HAL's arguments about market appetite undermining the case for such models.
- **Promotes service quality**: As set out by the CAA,[161] this model should help drive up service-quality standards through greater use of competition. We have set out above why we disagree with claims related to "*operational control delegated to a third-party*" having risks for consumers, but in any case, we agree that any potential risks can be managed through contractual structures and governance.[162] Overall, given the significant potential benefits for service quality from enhanced competition, and the limited downside risks (which can be readily mitigated), the CAA's overall assessment of the model neither being expected to "*materially improve or worsen service quality compared to the current regulatory model*"[163] is unduly conservative – in our view, the appropriate score would be 'Improves'.

Regulatory Model 4b – mandate contract for design and build

182. We agree with the CAA that Model 4b should be shortlisted. As we have set out previously, capex inefficiency is a key driver of the poor value for money at Heathrow today, so measures that could improve future capex efficiency, even where only incrementally, are welcome.

183. We consider that Model 4b could provide some incremental consumer benefit as part of a broader package of reforms, but the CAA must not view it as a substitute for Model 7b or 5b.

184. While Model 4b could contribute to better contracting practices by HAL, it will not and cannot address the fundamental underlying structural incentive problems with the status quo. In particular, decisions about capex project identification, specification and prioritisation will still be influenced by HAL's harmful structural incentives. While the Committee will act to mitigate the

[159] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.109, link.
[160] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.113, link.
[161] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.115, link.
[162] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.115, link.
[163] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.116, link.

influence of HAL's harmful structural incentives on these key pre-cursor decisions, such mechanisms cannot fully replicate competitive outcomes.

185. As the CAA notes, HAL has previously undertaken the sorts of tenders envisaged under Model 4b – we see no reason why the CAA having greater ability to monitor and compel HAL to undertake such contracting practices where it is in the interests of consumers would have any downsides.

186. Consistent with this, while the incremental benefits of Model 4b should be viewed as more limited compared to Model 5b and Model 7b, it nevertheless scores sufficiently favourably against the CAA's evaluation criteria to justify its inclusion on the shortlist as part of a package of reforms:

- **Avoid delay and disruption**: We agree with the CAA that it having the ability to mandate the use of competitive tendering processes should not result in material delay or disruption to capacity expansion. Consistent with the CAA's position, we see no reason why this model would materially increase bureaucracy, reduce flexibility, slow effective decision-making, risk mobilisation delays, or jeopardise delivery.

  We agree with the CAA[164] that there are learnings to be drawn from the use of similar models (including models similar to Model 5b); they could be applied to Heathrow to facilitate effective and timely implementation.

- **Promotes efficient costs**: We agree that this model, and the resulting improvements in the effectiveness and consistency of the use of competitive procurement mechanisms, could promote improved (albeit marginally) efficiency and could provide some limited additional protection against cost overruns for the reasons set out by the CAA. As we set out in Section B, persistent and systematic capex inefficiency (resulting from HAL's harmful structural incentives) has been a major driver of the poor value for money that consumers suffer at Heathrow today. However, the potential improvement in efficiency that Model 4b could unlock should be assessed as less than Model 5b and substantially less than Model 7b.

- **Raise sufficient finance**: By promoting greater efficiency, and contributing to enhanced affordability, Model 4b should support, albeit marginally, improved financeability. We see no reasons why the model would have any offsetting harmful effects on the fundamental risk profile or other relevant financeability considerations. We therefore disagree with the CAA that the impact of Model 4b on this criterion is only 'neutral' – we expect it to have a small but beneficial impact.

- **Practical to implement**: We see no reason why the CAA retaining the ability to require HAL to pursue a particular procurement approach would introduce incremental and material implementation issues. The CAA has existing powers under CAA12 to implement the model through the required amendments to HAL's licence. HAL already has established procurement processes including those that involve similar tendering. The Committee should be well placed to support the CAA in monitoring HAL's procurement approaches and overseeing any updated procurement policies, supported by its independent experts (including those with extensive experience in complex tendering mechanisms). Where there are any residual implementation issues, we agree with the CAA that they would be manageable.

- **Promotes competition**: We agree that Model 4b would be a positive development for the design and construction phases and that it could provide "*greater assurance that competitive discipline is applied consistently and transparently*".[165] We also agree with the CAA that the Committee could undertake proportionate market testing activities to establish likely bidder

[164] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.101, link.
[165] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.54, link.

interest to ensure that the powers are deployed in a manner that drives performance accountability and maximises the benefits for consumers. However, as set out above, Model 4b is materially less effective in promoting competition than Model 5b and Model 7b.

- **Promotes service quality**: We consider that greater competition for design and build has the potential to result in assets and infrastructure that better meet the needs of consumers and therefore would promote improved service quality, albeit marginally. On this basis, while the model would not change existing accountability structures, coordination arrangements or mechanisms through which service quality improvements are delivered, we consider that the CAA's assessment against this criterion is likely too conservative – we expect it would deliver benefits, albeit marginal, in terms of service quality.

E. VARIATIONS OF THE CURRENT FRAMEWORK

Key points

Heathrow Reimagined agrees that Models 1a, 2 and 4a should be shortlisted as part of a comprehensive package of reforms. They are necessary but, on their own, not sufficient: they constrain or partially mitigate HAL's harmful structural incentives but cannot reset them at source, unlike competition. It would be wrong for the CAA to treat these models as a substitute for greater competition, particularly direct competition applied across the whole campus.

The CAA's position in relation to the Committee is welcome and reflects the broad direction of the capital governance reforms that Heathrow Reimagined has called for in previous submissions. An overhaul of capital governance is essential. The matter for the CAA is now one of design, not principle – and implementation is where the proposal's ability to address the current consumer harm will be determined. Effective governance must run across the full asset lifecycle – capital planning, approval and performance monitoring – with clear and effective accountability at each stage.

The Committee must have the right to withhold approval, with effective and timely escalation to the CAA and access to meaningful sanctions. The CAA should not accept HAL's framing that any committee with real powers means 'dispersed veto rights' and disruptive governance. A capital programme of this scale will have several decision points, and a proposal that fails scrutiny at any of them – on financial, procurement or operational grounds – should be capable of being rejected on that ground. That is the ordinary discipline of a well-run capital programme, and it is what the case for change requires. HAL's support for an advisory-only committee should be read in that light. HAL has consistently supported governance structures in principle, while opposing the design features that would make them effective; an advisory committee without the right to withhold approval is the appearance of reform without its substance.

Reforms must apply to all future capex at Heathrow. The case for change rests on today's two-runway airport, and a regime limited to capacity expansion capex would leave a large proportion of HAL's forward capital programme under the same arrangements that produced today's poor outcomes. There is no logical basis for that carve-out.

Model 2 requires three specific amendments to be effective – no RAB bonus for on-time and on-budget delivery; HAL bearing the full cost of overruns; and Delivery Obligations carrying meaningful weight on user outcomes alongside outputs – and none of them is optional.

Model 4a is a useful but modest complement; treating it as a substitute for Models 4b, 5b, 7b or 8 would be wrong and inconsistent with the CAA's duties in relation to the promotion of competition in the provision of AOS.

Introduction

187. This section sets out Heathrow Reimagined's views on Models 1a, 1b, 2 and 4a. Reforms within the current framework can constrain or partially mitigate HAL's harmful structural incentives but cannot reset them at source. They are necessary but not sufficient, and the competition models in Section D, particularly direct competition, must remain the CAA's primary remedies. The two sets of reforms work as a package; they should not be treated as alternatives. Within the package, the

reforms in this section are most needed where effective competition cannot feasibly reset HAL's incentives, recognising that effective competition cannot extend to every part of the campus.

188. We build on the arguments and evidence in our February 2025 submission and our response to the Working Paper in January 2026, and do not reiterate them in full here. We also draw, where relevant, on the AOC's independent capital governance review, which assessed HAL's current arrangements against the FRC UK Corporate Governance Code and established capital lifecycle principles and reached substantively the same conclusions through an independent methodology.[166]

189. The section is structured as follows:

- We set out our position on Model 1a, including the three points where further refinement of the CAA's proposals is essential.
- We address Model 2 and set out the three targeted amendments that are necessary as part of the broader package.
- We address Model 4a and its role as a modest complement, not a substitute, for the competition models.

190. We see merit in Model 1b. However, we understand why the CAA may wish to focus its resources on other reforms at this stage, and do not oppose its exclusion from the shortlist on that basis. Should reforms under Models 1a, 2, and 4a prove ineffective, the CAA should reserve the right to undertake more fundamental structural reforms of the kind envisaged under Model 1b.

Regulatory Model 1a – changes to capex governance

191. As set out in detail in our response to the Working Paper, the current capex governance regime at Heathrow is ineffective at its core purpose: preventing HAL from acting on its incentives to maximise capex regardless of efficiency.[167] The deficiencies are widespread and manifest themselves across all aspects of the capex lifecycle (capital planning, approval and performance monitoring).[168] A fundamental and wide-ranging reset is essential and urgent.

192. The overarching objective of the reforms we have set out in previous submissions is to replicate, as effectively as possible, the capital discipline and accountability that firms face in well-functioning competitive markets.[169,170] At Heathrow, HAL has SMP in the provision of AOS.[171] Regulation must seek to replicate the discipline and accountability that competitive markets deliver to the maximum extent possible[172] – and that requires the right control structures, approval processes and powers,

[166] AOC Capital Governance and Reform Framework: Assessment of Current Capital Governance Arrangements and Future-State Recommendations, Heathrow AOC, 18 May 2026 ('the AOC Governance Review'). The review assessed HAL's current capital governance arrangements against the FRC UK Corporate Governance Code and established capital lifecycle principles.
[167] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraphs 62-64, link. Paragraph 64 sets out the five fundamental and interdependent failures of the current capital governance regime in detail.
[168] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.21, link.
[169] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraphs 221 and 225, link. These paragraphs set out the overarching principle that capital governance reform must mimic the scrutiny and accountability that competitive markets impose. We recognise that regulation cannot perfectly mirror those conditions, but must aim for the same outcomes for consumers.
[170] In competitive markets, firms that pursue inefficient capital programmes face real consequences: lower returns, management accountability and, ultimately, loss of customers who can switch to alternatives. Consumers are protected because the market imposes the discipline that regulation must otherwise provide.
[171] In this section, references to HAL reflect that it is the only licensed operator at Heathrow today and the source of the consumer harm the new governance regime must address. Consistent with the position in Annex 1, the regime could be extended to any other licensed operator at Heathrow in future.
[172] While recognising that regulation is an imperfect substitute for effective competition.

monitoring mechanisms, and sanctions with sufficient teeth. It is against that standard that the CAA's reforms must be assessed.

193. In previous submissions,[173] we have referred to the package of reforms needed to deliver this regime as the Capital Investment Committee, or CIC, and shared an independent report by Dr Paul Mansell setting out additional recommendations.[174] The intention of the CIC is to improve governance across all stages of the capex lifecycle (i.e. capital investment planning, capital investment approval, and capital investment performance monitoring) and drive materially more effective commercial discipline and accountability to more effectively replicate the conditions firms face in competitive markets.

194. The CAA's proposals sit between two distinct positions:

- At one end is HAL's preferred and ineffective model: a purely advisory committee with no power to withhold approval, which would leave HAL free to proceed in the face of stakeholder concern, and would represent a weakening of even the current ineffective Gateway 3 process – the appearance of reform without substance.
- At the other end is the CIC that Heathrow Reimagined has called for: real approval rights covering all capex, effective escalation routes to the CAA, and access to genuinely independent assurance, intended to increase accountability, transparency, and quality of decision-making throughout the capex lifecycle.

195. The CAA's current proposals move beyond what HAL has sought, but, without approval rights and with scope potentially confined to expansion capex, they remain materially closer to HAL's preferred outcome than what the case for change demands and what is needed for genuinely effective governance. The design choices set out in the sections below are what is necessary to close that gap.

196. We strongly agree with the CAA that the Committee "*should be used to provide scrutiny of HAL's capital plans and delivery and provide a step-change in the current capital governance processes*".[175] This is a material step forward and aligns with the necessary reforms we have previously set out. The matter is now one of design and implementation rather than principle.

197. We agree that the Committee should "*provide oversight across strategic planning, approval, monitoring*".[176] Oversight at the performance stage should go beyond monitoring to genuine accountability for delivery and for asset performance across the lifecycle. We also strongly support requiring HAL to provide "*clear long-term plans for the committee to review and that stakeholders should have the opportunity to interrogate alternative options*".[177] Inadequate long-term capital planning is, as we have explained previously, a major failing of the current regime.

198. Reforms must apply to all future capex, not only capacity expansion. We would welcome the CAA confirming that the package (described at paragraph 4.135 onwards in the Consultation)[178] is

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[173] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraphs 239-241, link. These paragraphs set out the two structural approaches to delivering the required capital governance control – the CIC model and the CIC in conjunction with Regulatory Model 1b.
[174] Dr Paul Mansell of Green Impact, Independent Assurance of Governance for Heathrow Airport's Expanding Capital Expenditure Plans, December 2025, link.
[175] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.34, link. This position appears to be firmer than the formulation in paragraph 4.135 ("*there could be merit in setting up a new capital committee*"). The CAA should adopt the firmer position; maintaining only a "*could be merit*" approach would not be consistent with the strength of the case for change that the CAA has itself set out.
[176] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.135, link. We consider that effective assurance requires hard mechanisms – e.g. audits, performance reviews and assurance – not lessons learnt exercises, as suggested by the CAA.
[177] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.34, link.
[178] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.135, link.

intended to apply across both capacity expansion and BAU capex; if its intention is to apply different arrangements to BAU capex, rather than to design bespoke arrangements for capacity expansion within a common framework, that would not be appropriate.[179] The case for change is based on the existing two-runway airport, and a regime that addressed governance failings only for capacity expansion would leave the underlying consumer harm without remedy. Non-expansion capex over the expansion period is likely to be of a magnitude that approaches the current RAB value of the whole airport. There is no logical basis for a carve-out of that scale; it would also fragment the regime, splitting the limited scrutiny resource available to airlines across parallel processes and adding cost and delay rather than reducing it.

199. On the specific elements of the CAA's intended Committee design, we agree with the following, subject to certain amendments as set out below:

- **An independent chair of the Committee who would report to the CAA.** We agree that, in principle, this should introduce more independence and support more effective collaboration between stakeholders. We recognise the CAA's concerns about directly chairing the Committee itself.[180] In principle, an independent chair, appointed by the CAA following consultation and independent of HAL, who reports to the CAA, would be an acceptable alternative. The chair's role is to ensure the Committee operates effectively and impartially; decisions reserved to the CAA remain the CAA's.

- **Senior representation from HAL and airlines.**[181] Membership should be kept sufficiently contained to be effective – senior representation from HAL and airlines, with the consumer interest safeguarded through the independent chair, who reports to the CAA, and with other stakeholders consulted as needed. Under the new model, an integrated and layered capital assurance function – serving the Committee, the CAA and airlines, and independent of HAL – should replace the Independent Fund Surveyor (IFS) with the scope, access, independence and authority to provide effective assurance across the capital lifecycle. The current IFS arrangements are insufficiently scoped and do not support capital decision-making or performance monitoring. The remit is largely project controls and compliance focused. A broader range of assurance is needed to support capital planning, financial scrutiny, contractual assurance, solutions and performance monitoring, instilling discipline across the renewal lifecycle and in investment performance.[182]

- **Independent experts and/or technical advisers supporting the Committee must be appointed independently of HAL.**[183] It is essential that any independent experts or advisers supporting the Committee are not jointly appointed by, nor share supervision with, HAL. Their express purpose is to scrutinise HAL's plans to enable decision-making and performance monitoring, to drive capital efficiency on behalf of consumers. Joint appointment or shared instruction is not needed and would expose them to obvious conflicts and would be incompatible with the transformation in scrutiny the CAA accepts is needed. The CAA's position on this is not, as currently expressed, clear.

- **Consequences for HAL's performance against the governance regime – covering delivery, the quality of decision-grade information provided, and accountability for performance**

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[179] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.37, link. The consultation does not explicitly distinguish between expansion and BAU capex in its description of the proposed governance regime, but the framing at paragraph 4.37 refers primarily to expansion. We read the firmer formulation at paragraph 4.34 as applying across both, and we ask the CAA to confirm that this is its intention.
[180] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.136, link.
[181] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 1.33, link.
[182] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraphs 64 and 222, link.
[183] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.38, link.

across the lifecycle.[184] These consequences must have real teeth: strong enough to outweigh HAL's structural incentives to circumvent effective governance, given its track record of acting on those incentives.

- **HAL should be required to produce robust business cases, and the Committee should have the authority to scrutinise them and hold HAL accountable for the commitments made.**[185] The integrity of the business case – not merely its existence – is what matters. HAL has strong incentives to present business cases that overstate costs, understate risk, or obscure the basis for key assumptions; the Committee's scrutiny function only has value if it extends to testing those foundations and drawing real consequences where they do not hold.

- **The Committee must have the power to require HAL to provide the information it needs to carry out its functions.**[186] Given the information asymmetry between HAL and its stakeholders, and HAL's incentives to maintain those asymmetries, this must be a right rather than a discretionary power. It is particularly important where the CAA does not allow the Committee to call upon HAL's internal audit functions.

- **The Committee should set clear expectations of HAL for the information it requires to take decisions –** both to take well-informed decisions and to assess performance and hold HAL to account – and should articulate what best practice looks like in meeting those expectations.[187]

- **For oversight and scrutiny to be effective, there must be effective protections in place to guard against HAL under-delivering against the required standards.** [188] For the new governance regime to be effective, the CAA must have access to effective sanctions to ensure genuine accountability for performance across the lifecycle. We are concerned that in describing the Committee's responsibilities for capital performance monitoring,[189] the CAA: a) refers to capacity expansion capex only – the Committee should have responsibility across all capex, not just that for capacity expansion; and b) does not discuss measures to ensure accountability where monitoring identifies deficiencies.

- **There should be a proportionate approach to the scrutiny of different parts of capital plans and the process should be predictable.**[190] However, it is critically important that decisions over which parts of the capital plans are subject to various forms of scrutiny are not made or controlled by HAL – they must fall to either the Committee or the CAA.

- **Long-term capital planning**[191] **should be a key responsibility of the Committee,** and the Committee should be responsible for:[192]
  - Specifying the information it expects to see in the long-term strategy and capital plans (which should be regularly updated and cover a reasonable horizon to assess the needs across the full renewal cycle, such as 20-25 years);

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[184] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.39, link.
[185] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.40, link.
[186] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.40, link.
[187] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.143, link.
[188] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 1.35, link.
[189] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.145, link.
[190] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.38, link.
[191] In our view, capital planning should be a continuous, portfolio-led framework for shaping, sequencing and governing long-term investment across the airport, rather than a single spending figure or a fixed five-year envelope. It should translate the masterplan, asset condition, renewal cycles, operational requirements and affordability into a prioritised portfolio of near-, medium- and longer-term investment, with clear trade-offs across competing needs and traceability from strategic need through to approved delivery. It should be evidence-led, drawing on asset condition data, whole-life costing, benchmarking and independent assurance, and expressed in terms of customer, operational and resilience outcomes rather than outputs alone.
[192] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.141, link.

  - Scrutinising plans and the evidence base, drawing on a broad set of independent assurance;
  - Approving the scale and prioritisation of the capital plan, with any disagreement that cannot be resolved referred to the CAA for determination; and
  - Holding HAL to account where it does not provide suitable information in a timely and transparent way.

- However, **the Committee should also have responsibility for considering, and advising the CAA on, the affordability of any long-term strategy**, including putting forward alternative options that better support affordability. As set out previously, for the Committee to hold HAL to account effectively, there needs to be effective routes of escalation and appropriate sanctions.

- **The CAA should remain responsible for setting capex allowances and for developing incentives to further support capital efficiency**. Allowances are set through the price control, but the capital plan and outlook the Committee oversees should run on a rolling, longer-term basis across the renewal cycle rather than being reset to a five-year horizon at each review. The CAA should engage with the Committee during the process for setting capex allowances, as the Committee should have an important role in advising the CAA on the affordability of different capex allowance scenarios.

The right to withhold approval, escalation and sanctions

200. The CAA's proposed approach of denying the Committee any power to withhold approval over HAL's capex planning and delivery would materially undermine the effectiveness of the regime as a whole.[193] We disagree with that position.[194] An advisory-only committee would be even weaker than the status quo, under which HAL's major capex already passes a G3 approval gate – an advisory-only model would remove even that, leaving nothing HAL must clear before proceeding. A reform that reduces existing scrutiny cannot be the answer to the case for change.

201. HAL has presented what it claims are "*legitimate concerns that providing dispersed veto rights and multiple, complex layers of governance would increase the risk of undue delays and costs*",[195] and the CAA has accepted those concerns at face value. We disagree. A capital programme of this scale will have several decision points; that is responsible and disciplined, not a deficiency. At each, a proposal that fails scrutiny – on financial, procurement or operational grounds – should be capable of being rejected, because the spend will be passed on to consumers. Where HAL disagrees, the CAA can decide; HAL can strengthen its case, escalate, or proceed at its own risk. The burden of making a compelling case rests with HAL, which is asking consumers to pay. What HAL describes as complex governance is, in fact, a complex programme. That complexity does not negate the need for rigorous checks and transparent information.

202. The claim that denying the Committee approval rights would reduce delay and cost is the opposite of what evidence from the current regime suggests. Without an up-front approval right, airlines are left to challenge projects only once HAL has committed time and expenditure, at G3 or a later gateway. At that stage, the pressure to approve in order to avoid sunk cost and further delay is precisely what has historically undermined effective scrutiny.

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[193] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.36, link.
[194] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraphs 224-226 and 238-239, link. These paragraphs explain why effective control structures require the governing body to hold genuine approval powers, not merely advisory functions, and why HAL must not control the process of scrutinising its own decisions.
[195] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.36, link.

203. A structured approval right addresses that dynamic at source. It also changes HAL's incentive: rather than arriving at a gateway with an entrenched position, HAL would have reason to engage openly from the outset in order to secure approval in advance.

204. The Committee cannot stop HAL from spending its own money. What the Committee should have, and what the regime needs in order to function effectively, is the right to withhold approval. In the absence of such a right, HAL would proceed at risk: capex not approved by the Committee would be subject to ex post efficiency review, with costs found inefficient excluded from the RAB. That is the institutional equivalent of the CAA itself being prepared to say 'no', and it is the minimum required for genuine accountability.

205. It is not logical to design a regime in which the Committee has neither the right to withhold approval nor an effective route to escalation. That is the combined effect of the CAA's position,[196] which would require HAL only to "*explain clearly where it chooses to deviate from the advice that the committee and its experts provide*". On its own, that replicates the principal failing of the current regime. In a scenario where the CAA decides that the Committee should not have the right to withhold approval, effective escalation is the minimum mechanism through which the regime can function at all and is the minimum that the CAA's statutory duties require.

206. The CAA's stated intention to "*avoid unnecessary duplication, complexity and bureaucracy*"[197] should not be conflated with more effective governance. Effective governance of capex on the scale and complexity HAL is proposing requires real scrutiny, powers and sanctions. A complex programme is not an argument for weaker governance; it is, instead, an argument for well-applied, disciplined governance – clear information requirements, rigorous scrutiny at the decision points that matter, and real accountability for the result. Stripping the Committee of meaningful authority in the name of avoiding complexity would be a false economy and is not a logical response to the case for change.[198]

207. We are also concerned that the CAA's description of capital monitoring[199] refers to capacity expansion capex only (it should cover all capex) and does not discuss accountability measures where performance falls short.

- The new Committee and CAA should have access to a graduated set of sanctions, proportionate to the nature and persistence of any failure. These run from enhanced reporting and public transparency where HAL departs from the Committee's advice, through financial consequences for serious or repeated failures, including disallowance of inefficient costs from the RAB and consequences for the remuneration of those responsible, to accountability at senior management and board level where failures are persistent or serious. Such a range of sanctions would reflect that which applies to firms, their management and owners in competitive markets. Keeping the full range available – rather than relying on a single blunt instrument – is what would give the Committee credible authority and ensure HAL faces

[196] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 1.34, link.
[197] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.135, link.
[198] This reflects a broader regulatory principle. Where an operator holds SMP and controls the information, the governance process must be designed to properly equip those scrutinising it, who do so from a position of structural disadvantage. Counterbalancing that asymmetry is the purpose regulation exists to serve. Section 4 of the Technical critique of HAL's CAP3195 Supporting Document 1: Megaproject outcome drivers – Benchmarking fact base, produced by Oxford Global Projects, highlights the issues with conflating bypassed governance with controlled decision-making.
[199] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.145, link

meaningful jeopardy for underperformance.[200] Heathrow Reimagined considers that the CAA has the existing powers under CAA12 to establish the Committee with such powers.[201]

- The threshold for ex post exclusion of inefficient costs from the RAB has, as the CAA has previously acknowledged, historically been set too high to affect HAL's incentives. It needs to be recalibrated.
- Equally, the Committee – not HAL – must decide which parts of the capital plans are subject to which forms of scrutiny.[202] Allowing HAL to shape that triage would replicate the issues stemming from HAL's information asymmetries we have set out in previous submissions - it is highly inappropriate. As one concrete illustration, the AOC's review identified that the same governance process currently applies to capital commitments ranging from around £10m to over £550m, with no thresholds or differentiation in the depth of scrutiny applied. Such an approach would not be used by private sector businesses with their own capital at risk.[203]

Engagement with the CAA's expert advice

208. Heathrow Reimagined notes the CAA's intention to commission expert advice on the best governance approach for Heathrow Airport.[204] We stand ready to support the CAA and its adviser(s) on the development of that approach. We will provide all necessary support and access, including access to our expert advisers where appropriate and helpful. We would value the opportunity to comment on any proposed scope of work for advisers so we can support it to be as effective as possible. The scope of that work must be sufficient to address the governance failings the CAA has itself identified; a narrowly scoped review would not be a suitable response to the case for change.

Summary against the CAA's evaluation criteria

209. The CAA's assessment against the evaluation criteria must reflect the cumulative contribution of Model 1a within the package of reforms.

- **Avoid delay and disruption**: We agree that an effective and flexible capital governance regime should reduce delay and disruption compared with the continuation of the current regime. A disciplined and rigorous approach to capital planning, approval and performance – with scrutiny and accountability driving high-quality information, transparency and traceability – is what enables robust, timely decisions. Delay arises from poor-quality information and from challenge that comes too late to be resolved cleanly; the current regime demonstrates this. Scrutiny applied properly at the right points prevents it. That conclusion depends on the Committee having real powers and real escalation routes. A regime that takes longer to establish but reduces delay in delivery thereafter is the right trade-off for consumers.
- **Promotes efficient costs**: We agree that greater scrutiny and more effective challenge should reduce costs and improve efficiency, subject to the inherent limits on the ability of regulation to address HAL's underlying harmful structural incentives. The efficiency gain depends on scrutiny across the full lifecycle – planning, approval and performance monitoring – not delivery

[200] The Committee should operate the front-line measures directly – enhanced reporting, public transparency, and the withholding of approval. The financial and licence-level sanctions – disallowance of inefficient costs from the RAB, and any formal enforcement action – remain decisions for the CAA, taken on the Committee's recommendation or following escalation. This preserves the CAA as the ultimate decision-maker while giving the Committee credible day-to-day authority.
[201] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraph 223, link.
[202] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.38, link.
[203] AOC Governance Review, Appendix 4 (Governance Forum Effectiveness).
[204] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.135, link.

alone, and on credible sanctions to moderate HAL's incentives. An advisory Committee without these would not deliver the benefit. Greater commercial discipline and rigour should also produce more robust contracts and less reliance on change control, which is a significant source of cost escalation under the current regime.

- **Raise sufficient finance**: We agree that improvements to capital governance under this model have the potential to improve financeability, both by improving efficiency and investor confidence.
- **Practical to implement**: We agree that this model is practical to implement, and that the CAA should be able to implement it in a timely manner under its existing CAA12 powers.
- **Promotes competition**: We agree that Model 1a does not, in itself, have a material impact on competition. Improved governance cannot deliver the innovation and dynamic-efficiency benefits that only competition produces. The Committee complements the competition models in Section D; it is not a substitute for them.
- **Promotes service quality**: We agree that more effective capex governance should support improved service quality through a greater focus on consumer needs.

Regulatory Model 1b – separating HAL's system planning function from its operational functions

210. As set out in our response to the Working Paper, we see merit in implementing a version of Model 1b; structural reforms can effectively reinforce other reforms.[205]

211. We understand, however, why the CAA may want to focus on other reforms at this stage. We do not object to its exclusion from the shortlist on that basis, and do not discuss it further in this submission. In the future, should reforms under Models 1a, 2 and 4a fail to prove effective, the CAA should reserve the right to undertake more fundamental structural reforms, such as those under Model 1b.

Regulatory Model 2 – targeted adjustments to the existing incentive regime

212. In our response to the Working Paper,[206] we explained why the H7 capital governance changes, including the incentive regime built around capex incentives and Delivery Obligations, are incapable of addressing the fundamental problems with the current regulatory regime.

213. We set out five fundamental and interdependent failures:[207]

- HAL's strong structural incentives to undermine the effectiveness of capital governance, including by inflating cost baselines and resisting capital governance reforms;

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[205] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraphs 239 and 246, link.
[206] Our response to the Working Paper also referred to presentations shared with the CAA in December 2025 which further expanded on the arguments we made and provided specific case studies. We refer the CAA again to those presentations. We would be happy to resupply them should that be helpful.
[207] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraphs 64 and 235, link. Paragraph 64 sets out each failure in detail; paragraph 235 explains why targeted adjustments to the H7 incentive regime are incapable of delivering the fundamental reform required.

- the regime's focus on outputs rather than user outcomes, which permits HAL to discharge Delivery Obligations while users miss out on the experience improvements they are paying for;
- the information asymmetries that hollow out airline scrutiny at Gateway 3 and elsewhere;
- the structural limits of the IFS' remit; and
- the baseline change protocol, which allows HAL to re-baseline against pre-defined exclusions and assumptions without airline permission.[208]

214. We also set out, in our response to the Working Paper, that these failures are inherent to the current regime design, rather than implementation issues that can be resolved through incremental adjustments or other 'regulatory incentives'. The distinction matters. The harmful incentives are structural, inherent in the current model itself. The amendments below are regulatory adjustments intended to offset those structural incentives, not to remove them. They are necessary improvements, but they do not reset the underlying drivers, which is why reforms that introduce direct competition remain essential as part of a broader package.

215. We do not repeat those points here in full, but, rather, focus on the nature of the changes that could usefully be made to the current regime. Specifically, while we remain of the view that changes under Model 2 are incapable of addressing the fundamental problems with the current regime on their own, we do accept that, as part of a broader package of reforms, three targeted adjustments to the existing incentive regime could result in improvements to the status quo and support timely delivery of capacity expansion.

Amendment 1: HAL should not receive any RAB bonus for on-time and on-budget delivery

216. As set out in our Working Paper response, the presence of the bonus creates further perverse incentives for HAL to game capex governance.[209] It relies on airlines being able to effectively scrutinise the baselines set by HAL, which they cannot. As the National Audit Office (NAO) identifies in its 2020 report on electricity markets,[210] regulated companies have an evidence advantage that lets them set spending targets in ways that increase their own compensation. Therefore, HAL has both the ability and the incentive to manipulate the baselines to maximise its chances of securing a RAB bonus, without any requirement to deliver genuine improvements in capex efficiency, resulting in direct harm to consumers.

217. The objection that removing the bonus produces an asymmetric regime considers the wrong benchmark. The relevant test should be whether the regime rewards the delivery of genuine value and penalises detriment; the test should not be whether HAL's exposure is symmetric around a baseline it has itself set. Removing it does not create an asymmetry so much as withdraw an unearned reward, while retaining a proper consequence where HAL causes harm by overrunning.

218. Even on the narrower question of symmetry around the baseline, the case for a symmetric rate does not hold. The CAA opposed asymmetric incentives in its H7 Final Proposals: *"We do not consider that an asymmetric rate would be appropriate because the budget set at G3 should be based on a cost estimate where there is the same likelihood that actual costs will turn out higher*

[208] The scale at which the baseline change protocol can be relied upon is illustrated by HAL's own G3 documentation for the T2 Baggage project, which sets out a very large number of assumptions and exclusions across numerous pages. It is a substantial amount of pre-approved grounds on which HAL can re-baseline a project without airline consent. Heathrow Reimagined would be happy to provide this documentation to the CAA if that would be helpful.
[209] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraphs 64 and 235, link.
[210] NAO, Electricity networks: Report by the comptroller and auditor general, January 2020, paragraph 2.28, link.

or lower.” [211] However, that rationale for applying a symmetric rate, in this case, depends on a premise that does not apply at Heathrow. The likelihood of outturn costs being higher or lower is not symmetric – it is skewed towards lower outturn costs, consistent with HAL’s incentives and ability to set baselines unilaterally that cannot be properly scrutinised by stakeholders. Symmetric incentives in this circumstance are not, on the CAA’s own framework, an appropriate response to the case for change.

Amendment 2: HAL should bear the full cost of overruns, not just 25%

219. The CAA recognised the potential need to increase the ex ante capex incentive rate in its H7 Final Proposals: “*…we consider that 25 per cent is appropriate for H7. We recognise that an increase in this rate might be appropriate for future price control periods…*”.[212] That future price control period has now arrived; H8 will involve capital expenditure on an unprecedented scale,[213] which makes stronger incentives essential.

220. HAL is afforded the time and resources before G3 and final investment decision to mature its plans, investigate risks, make appropriate allowances and put firm contracts in place. The category of cost genuinely outside its control should therefore be narrow. HAL can, and should, resolve the large majority of cost and delivery risk before G3, and the change control process already gives it levers to mitigate what remains.[214] Significant risk left unresolved beyond that point reflects poor discipline, not factors genuinely beyond HAL's control. Passengers should not bear the consequences of overruns that fall within HAL's control, particularly given its control over baseline-setting, since this blunts HAL's incentive to manage those risks.[215]

221. The current 25% incentive rate, which is low by comparison to those used in other sectors (see Annex 4), is inadequate to create the right incentives for HAL given the specific circumstances at Heathrow. HAL’s control over baseline-setting, systematic information asymmetries, and airlines' inability to effectively scrutinise proposals create risks not present to the same degree in other sectors. These failures mean the jeopardy for HAL is simply inadequate to have any impact on HAL’s harmful structural incentives.[216] The structural effect of the current rate compounds the problem: HAL bears only 25% of an overrun, while the remaining 75% is added to the RAB, on which it earns a regulated return across the asset's life. Once the incentive to grow the RAB is recognised, overrunning can be value-enhancing for HAL rather than a penalty.

222. To address this, the CAA should implement a customer protection mechanism under which HAL bears 100% of cost overruns above the risk allowance already provided for within the baseline. The baseline set at G3 already incorporates a risk allowance to absorb unavoidable variance; that allowance is the appropriate buffer, and a further tolerance band on top of it would duplicate the same protection while diluting HAL’s incentive to set realistic baselines. The only exception should be the limited residual cost genuinely outside HAL's control and beyond the change control process. This would not undermine the financing of efficient investment incentives, since HAL

[211] CAA, CAP2524C: Economic regulation of Heathrow Airport; H7 Final Proposals Section 2: Building Blocks, 2023, paragraph 7.23, link.
[212] CAA, CAP2524C: Economic regulation of Heathrow Airport; H7 Final Proposals Section 2: Building Blocks, 2023, paragraph 7.23, link.
[213] See Annex 2.
[214] Heathrow Reimagined, Response to the CAA’s November 2025 Working Paper, January 2026, paragraphs 64 and 237, link. These paragraphs set out how HAL's change control process provides existing protection against overruns from factors outside its control, and why the 25% sharing rate is inadequate given this. We provided further information and explanation of this in our December 2025 presentations to the CAA.
[215] Heathrow Reimagined, Response to the CAA’s November 2025 Working Paper, January 2026, paragraph 237, link. This paragraph sets out the targeted adjustments to the existing capex incentive regime and explains how the bonus creates perverse incentives without addressing the underlying incentive misalignment.
[216] Of the £4.4 billion of RAB additions in Q6, only £12.7 million - about 0.3% of capex - was disallowed following the Arcadis ex post capex review. Heathrow (SP) Limited Regulatory Accounts, 2014 – 2020; Arcadis, Heathrow Q6 capex efficiency review, September 2020, link.

retains the risk allowance built into the baseline, but it would prevent the gaming of inflated baselines that the current regime enables.

223. The interaction between the bonus and the sharing rate compounds the problem. Because the baseline incorporates a risk allowance, HAL can use that allowance in full – growing the RAB and the return it earns on it – while being treated as having delivered within budget.[217] Beyond it, 75% of any further overrun passes to consumers in any event. Where the bonus is earned, it is added to the RAB rather than paid as a one-off, so the reward itself continues to earn a return across the asset's life. Each mechanism blunts the discipline the other is supposed to provide, which is why removing the bonus (Amendment 1) and recalibrating the sharing rate (Amendment 2) are needed together.

Amendment 3: Delivery Obligations need to place greater emphasis on the user outcomes that underpin the business case and value for money

224. In principle, the Delivery Obligations (DO) regime should support value for money and user benefits by holding HAL accountable for delivering the benefits upon which the capex was approved. But, in practice, a narrow focus on outputs, rather than consumer outcomes, means it is flawed.

225. Compliance with DOs is judged by whether the assets meet standards (outputs), not by whether they deliver and perform the reliability, capacity, productivity or service improvements (outcomes) used to justify the spend. This means that HAL can meet the output requirements of the DOs and still fail to deliver the experience improvement for consumers that they will be expected to pay for. The regulatory mechanism validates delivery activity rather than performance, disconnecting expenditure from value for money. It fails to protect users or further their interests as a result.

226. The CAA's H7 guidance allows user outcomes to be specified in DOs alongside outputs.[218] In practice, their inclusion depends on HAL's agreement. The CAA confirmed in its H7 Final Proposals that "*HAL and airlines can choose to either specify the key dimensions of the infrastructure to be delivered or, if there is agreement between airlines and HAL to avoid that level of granularity, the overall performance capability*". HAL has clear incentives to resist outcome-based commitments, which expose it to accountability for the benefits the capex was approved to deliver. Under the current framework, airlines have limited practical means to require their inclusion where HAL withholds agreement.

227. While the CAA's capex governance guidance[219] recognises a potential role for considering *outcomes* as part of DO, this is currently not the standard approach, and requires agreement from HAL. Ensuring capex delivers the right user outcomes is critical to furthering the interests of consumers.

228. Including outcomes and performance capabilities in DOs (in addition to outputs) should be the norm, rather than the exception. Airlines should be able to require HAL to include outcomes in the DOs – it should not be dependent on HAL's agreement, which HAL has clear incentives to resist. Strong penalties for failing to deliver against user needs and realised benefits are important to

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[217] HAL, Capital Governance Handbook v1.0, February 2025, Section 12 (Risk Management: P50 and risk allowance approach) and Section 4 (Development/Core Capex: G3 baseline setting); HAL, Capital Investment Protocol v6, paragraph 7/Table 1 (G3 definition).
[218] The CAA notes that HAL and airlines can agree to exempt some projects over £1 million from Delivery Obligations, and have done so. In practice, these exemptions are narrow and jointly agreed, and are confined to projects where delivery sits outside HAL's control – for example, those dependent on third-party providers. They are not a general relaxation of accountability, and do not bear on the central concern set out here: that where delivery is within HAL's control, the DO regime measures outputs rather than the user outcomes the expenditure was approved to deliver. Original CAA comment: CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, Footnote 25 of paragraph 4.5, link.
[219] CAA, *CAP2605: Guidance on capital expenditure governance*, 2023, paragraph 2.73, link.

create the right incentives. Treating their inclusion as optional, or as something that depends on HAL's agreement, is not an appropriate response to the case for change.

The CAA should reject HAL's 'outside risk' / progressive adjustment proposal

229. HAL's proposals for different risk-sharing rates based on an assessment of the level of "*outside risk* " , and for setting incentives and targets "*progressively as designs mature and the risks are better understood*", would significantly increase the risk of abuse and gaming. In particular:

- Assessment of the level of "*outside risk*" is inherently a subjective judgement that HAL is well-placed to game given the significant information asymmetry it benefits from.
- Any "*progressive*" adjustment to targets and incentives can be misused to avoid accountability for its own management failures. As set out above and discussed with the CAA in December 2025, we have considerable concerns about misuse of re-baselining mechanisms under the current regime.

230. The current regime is already vulnerable to abuse and manipulation which is harmful to consumers, with HAL 'pre-qualifying' change controls with long lists of generic and specific risks and exclusions provided at investment gateways. We therefore disagree that the CAA should consider mechanisms that expose consumers to yet further risks of gaming and abuse.

Other reforms

231. We agree with the CAA that the use of mechanisms that cap HAL's liability for overruns or provide for re-openers needs to be carefully considered and calibrated. As we set out in our Working Paper response, it is vitally important that HAL faces the strongest possible incentives to maximise efficiency. [220] Limiting its exposure to the consequences of its own management failures undermines those efficiency incentives, and exposes consumers to risk they should not bear. Designing re-opener mechanisms in a way that limits HAL's exposure to management failure would not be a suitable response to the case for change.

232. We also agree that reforms under Model 2 should consider:

- the Committee undertaking, in conjunction with the CAA's upcoming H7 capex review, targeted ex post reviews of costs against approved baselines for future capex and reviews of asset performance against the business case.[221] We also strongly agree with the CAA that costs found to be inefficient should be removed from the RAB. However, the bar for such exclusions needs to be set at an appropriate level to ensure that such a power meaningfully affects HAL's incentives and discipline. As the CAA has previously acknowledged,[222] the threshold has historically been set high, and, in our view, too high for it to contribute to accountability.
- a budget cap for capacity expansion to provide a backstop protection to limit the risks to consumers from significant cost escalation.[223] However, such protections should not only be adopted for capacity expansion – they should be available for all major capex projects.

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[220] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraphs 225 and 248, link. The same point about efficiency is relevant for any other potential airport operators.
[221] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.146, link.
[222] CAA, CAP3195: Working paper on regulatory models, November 2025, paragraph 2.64, link.
[223] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.146, link.

Summary against the CAA's evaluation criteria

233. We agree there is a case for including Model 2 on the shortlist as part of a broader package of reforms:

- **Avoid delay and disruption**: We agree that measures to improve the efficient delivery of capacity expansion should contribute to mitigating risks and support timely delivery, provided they are properly calibrated. Their effectiveness risks being limited by the inherent information asymmetries that HAL can exploit.
- **Promotes efficient costs**: We agree that effective reforms should have a beneficial impact on cost control during capacity expansion, subject to the general limitations of regulatory interventions of this type set out previously.
- **Raise sufficient finance**: Such changes should support the raising of sufficient finance, as they support improved discipline and efficiency. As set out above in Amendment 2, any re-opener or cap mechanism must not result in consumers bearing the consequences of HAL's management failures; doing so would undermine the efficiency incentives the regime is designed to create.
- **Practical to implement**: We agree that this model is practical to implement, and that the CAA should be able to implement it in a timely manner.
- **Promotes competition**: We agree that this model does not, in itself, have a material impact on competition.
- **Promotes service quality**: We agree that this model has the potential to support improved service quality if appropriate reforms are pursued, including those that ensure a strong focus on consumer outcomes rather than HAL's outputs. Without Amendment 3, that potential is not realised.

Regulatory Model 4a – enhanced scrutiny of HAL's approach to procurement

234. We remain of the view that Model 4a, on its own, is insufficient to address the problems with the existing capex governance arrangements. We, therefore, did not support its inclusion in the shortlist in our Working Paper response. The detailed reasoning is in our previous submissions, and we do not repeat it here.[224]

235. However, we recognise that, as part of the broader package of reforms that the CAA is proposing to pursue in its shortlist, greater transparency and scrutiny of HAL's procurement strategy could play a useful – but modest – role in promoting greater capex efficiency. We agree with the CAA that the Committee should provide this additional scrutiny and ensure that HAL is held accountable for properly harnessing the benefits of competition within its overall procurement approach to help manage costs and delivery.[225] Today, procurement risk is largely opaque and open to pre-qualified change control.

236. The Committee's scrutiny of procurement should cover the approach to market, benchmarking and how specifications are carried through to contracts and where gaps and risk lie. It should specifically include the rationale for the use of any cost-reimbursable (i.e. cost-plus) contracting.

[224] Heathrow Reimagined, Response to the CAA's November 2025 Working Paper, January 2026, paragraphs 235-237, link.
[225] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.147, link.

Cost-reimbursable contracting transfers cost risk to consumers, unless specification discipline and change control are robust; neither can be assumed under the current regime. Independent scrutiny of HAL's contracting strategy, project-by-project, is necessary to address this.

237. We, therefore, support the CAA's proposal to include this model as part of its broader package of reforms. Much like the targeted adjustments under Model 2, enhanced procurement scrutiny is a counter-balance to HAL's structural incentives rather than a reset of them, so its application is inherently limited. It is most relevant for semi-separable assets that are not subject to full direct competition. For the avoidance of doubt, however, we do not consider that Model 4a is an effective substitute for Models 4b, 5b, 7b or 8. Treating it as one would be wrong and would be inconsistent with the CAA's duty to promote competition in the provision of AOS where practicable. The CAA must take that distinction seriously when it determines how to weigh Model 4a against the competition models.

Summary against the CAA's evaluation criteria

238. We agree there is a case for including Model 4a on the shortlist as part of a broader package of reforms:

- **Avoid delay and disruption**: We agree that enhanced capex scrutiny should not have a significant impact on capacity expansion timings.
- **Promotes efficient costs**: We agree that there is scope to promote greater efficiency, but the impact is likely to be relatively modest.
- **Raise sufficient finance**: We agree that it is likely to have a positive but minor impact on financeability.
- **Practical to implement**: We agree that this model is relatively straightforward to implement.
- **Promotes competition**: We agree that this model does not, in itself, result in a material change. It is not a substitute for the competition models; treating it as one would not be a logical response to the case for change and would be inconsistent with the CAA's statutory duties.
- **Promotes service quality**: We agree that this model is unlikely to have a significant impact on service quality.

F. LONG-TERM REGULATORY FRAMEWORK

Key points

Model 3 should not be shortlisted. Unlike the comprehensive package of reforms put forward by Heathrow Reimagined, the CAA's proposed reforms under Model 3 would not address the fundamental failings of the current regulatory framework. They **would not address the underlying harmful structural incentives**, make regulation more effective at preventing HAL from acting on those incentives, or otherwise address the current poor consumer outcomes. Indeed, **there is a material risk that any long-term regulatory commitments would instead further weaken HAL's accountability and worsen consumer outcomes over time by increasing capital cost allowances.**

The CAA has not properly articulated the problem that Model 3 is intended to solve. It presents no evidence that the current framework could not finance efficient expansion, while **other regulators have funded proportionately similar levels of capex without extending the length of regulatory commitments**. Absent a clearly defined problem, there is no rationale for taking Model 3 forward. Even if the CAA was able to evidence an investability challenge with the current framework, the proposals under Model 3 would be harmful to consumer outcomes.

Long-term regulatory commitments shift risk towards consumers, and away from HAL and its investors. Significant uncertainty around future demand, costs, financing conditions, and investment requirements drives this. It creates asymmetric risk in favour of investors, with consumers bearing a disproportionate share of forecasting and implementation risk through higher allowed revenues and reduced regulatory scrutiny. **Model 3 transfers value to HAL without addressing the harmful structural incentives that have led to Heathrow's high charges. It cannot further the interests of consumers and should be removed from the shortlist.**

Regulatory Model 3 does not support the CAA in meeting its duty to consumers

239. Heathrow Reimagined did not support the inclusion of Model 3 in the shortlist in our Working Paper response, and we continue to strongly disagree with its inclusion.

240. Model 3 is also categorically different from the other models the CAA proposes to take forward alongside it. Other models are designed to resolve or mitigate the harmful structural incentives that underpin today's poor outcomes. Model 3 is not – it does not and cannot address the underlying problems. Rather, it is a proposal that, ultimately, would extend additional financial protections to HAL and its investors, at the expense of consumers and airlines, in order to address a problem that the CAA has not demonstrated exists.

241. To the extent that HAL faces any financeability difficulties they are not inherent to the five-year framework; rather, they are a product of HAL's own previous leverage and capital structuring decisions, which leaves it carrying a level of indebtedness that is exceptional by any comparable measure. The CAA's financeability duty is designed around a notional capital structure, not HAL's actual financing choices, and there is, therefore, no obligation on the CAA to design a new regulatory model to protect HAL against the consequences of its own decisions that it made to maximise profits.

242. We welcome the CAA's recognition of our concerns,[226] and its acceptance[227] that uncertainty associated with long-term price control periods gives rise to asymmetric risk in favour of investors. Multi-period commitments to specific price control parameters do not address the fundamental problems with the current regime and risk making them worse.

243. We particularly welcome the CAA's recognition[228] that any long-term framework would need to guard against disproportionate protections for investors and ensure the overall framework provides incentives for efficiency and affordable charges. We strongly agree.

244. Both HAL and Heathrow Reimagined have made arguments regarding the regulatory framework taking a longer-term perspective. However, we have fundamentally different positions:

- HAL seeks longer regulatory commitments to protect itself from risk (by passing it to consumers) and to act on its harmful structural incentives with less scrutiny.
- Heathrow Reimagined seeks long-term planning transparency and stakeholder oversight within a framework that also maximises the role of competition with the ultimate goal of better protecting consumers.

245. These are fundamentally different objectives. Furthering the interests of consumers is the lens through which the CAA must consider Model 3. The CAA's primary duty is to promote the interests of consumers, not to protect HAL's investors from normal business risks or the consequences of its own financing choices in the past.

246. The CAA's own assessment supports our overall conclusion on Model 3:

- As reflected in Table 5.1 of the Consultation,[229] Model 3 has no direct impact on five of the six evaluation criteria: avoiding delay and disruption, promoting efficient costs, promoting competition, promoting service quality and practicality. The model is only positive on raising sufficient finance.
- Furthermore, the CAA's assessment of financeability is heavily qualified. The CAA's analysis is conditional throughout – the benefit depends on specific design and the broader package of reforms.[230]
- We note that the Centrus assessment (commissioned by the CAA) scored Model 3 positively from a financeability perspective. Centrus is explicit that its report addresses financeability only and "*does not comment on any other aspects of CAA's evaluation framework*".[231]

247. As such, none of the elements most directly relevant to the CAA's primary duty, and, therefore, the interests of consumers, is advanced by this model.

248. The CAA interprets the consequences of Model 3, and the potential for windfall gains, narrowly – on the basis that "*the choice of regulatory model(s) will not, in itself, determine the overall economics of a particular scheme for the expansion of Heathrow Airport*".[232] This reasoning mirrors the conventional analysis of aiming up, in which aiming up does no more than transfer a portion of a static net benefit from consumers to investors.

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[226] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraphs 5.13-5.18, link.
[227] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 5.33, link.
[228] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 5.49, link.
[229] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, Table 5.1, link.
[230] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraphs 5.49, link.
[231] Centrus, Financeability assessment of regulatory models for Heathrow Airport, May 2026, page 4, link.
[232] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 1.20, link.

249. That framing does not hold here. The overall economics of expansion depend on airlines' capacity to translate additional airport capacity into commercially viable routes. Charges, expansion economics and the regulatory model are therefore inextricably linked, not separable. An unnecessary premium that simultaneously reinforces HAL's incentives to spend inefficiently could be decisive for the economics of the scheme.

250. The CAA therefore cannot justify shortlisting Model 3 on the basis that it has financeability benefits that consumers will benefit from. Centrus' own observation that "*the importance of the precise mechanic will be outweighed by other factors such as reopeners, charges/cash flow profile and risk allocation*"[233] is consistent with our position that the conditions of implementation are where the consumer interest is determined.

The CAA has not demonstrated that the problem requires a Model 3 solution

251. The proposal of Model 3 appears to be grounded in a perceived financeability challenge: a concern that the CAA cannot commit sufficiently to Heathrow's efficient expansion financing costs within a five-year allowed return. The CAA identifies the mechanism - a mismatch between the duration of the regulatory period and the expansion investment horizon - and cites rating agency commentary in support.[234]

252. The evidence the CAA relies on does not establish that this mismatch is material. The CAA accepts that the rating agencies have not, to date, applied any negative notching to reflect the mismatch, and it points to no instance of the existing framework failing to finance investment at Heathrow.[235] A perceived risk that the agencies themselves have not acted upon is not a demonstrated financeability problem.

253. The CAA has identified a theoretical concern; it has not shown that expansion is unfinanceable under the current framework, still less that it requires a novel model that would fetter the CAA's own discretion.

254. In comparable cases, regulators have addressed construction-phase risk through a modest uplift to the allowed return, while retaining the normal periodic redetermination of the cost of capital. PwC, advising the CAA, reviewed a range of such cases – including Heathrow's own Terminal 5 and Ofgem's RIIO-T1 determination – and proposed an indicative construction-risk uplift of just 0.25 percentage points to 1.0 percentage points.[236] For Terminal 5 specifically, the Competition Commission applied an uplift of 0.25 percentage points to the BAA group, or 0.33 percentage points to HAL.

255. The CAA has not articulated why Heathrow capacity expansion is so different that it requires a new model (Model 3), which would lock in a premium destined to be much higher than in previous regulatory decisions.

256. There is also no evidence that the CAA cannot make credible commitments across price control periods without a formal longer regulatory period.

257. The licence, appeal rights and regulatory institutions serve to discipline regulatory decision-making, and there are ample examples of regulators taking discretionary steps to support

[233] Centrus, Financeability assessment of regulatory models for Heathrow Airport, May 2026, page 33, link.
[234] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 5.30, link.
[235] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 5.30, link.
[236] PwC for the CAA, Estimating the cost of capital for H7, November 2017, Table 1, link.

financeability or maintaining discipline in circumstances where they could have prioritised customers' narrow short-term interest in lower charges. For example, the CAA intervened by giving a £300 million uplift to the RAB following the Covid pandemic.[237]

258. The airlines also believe that the CAA has erred towards generous estimates of financing costs, particularly in the context of expansion or enhancement. This is already apparent in the H8 Initial Proposals (IPs), which will naturally be a benchmark for assessing the expansion cost of finance. As the airline community set out in its recent responses to the CAA's IPs, the proposed WACC for H8:

- materially overstates and is inconsistent with HAL's low-risk profile as a capacity-constrained monopoly operating to a single till; and
- when considering the overall regulatory package, it is significantly imbalanced in favour of HAL by providing several layers of protection against multiple sources of risk and then also being compensated through the cost of capital.

259. It is, therefore, not clear that the CAA's current framework fails to provide a financeable prospect for expansion. There is no rationale for the inclusion of Model 3 on the CAA's shortlist.

Model 3 creates risks that will increase costs to consumers

260. Even if a financeability challenge were demonstrated, Model 3 itself could not improve financeability without either reducing the risks borne by HAL's investors or increasing the returns they expect. The CAA's consumer benefit logic depends on this being costless: it reasons that a lower cost of capital "*would reduce airport charges and so, all else being equal, would further the interests of consumers*".[238] All else, however, is not equal. A long-term commitment does not remove the underlying uncertainty around demand, costs and financing conditions; it reallocates who bears it. Unless the CAA can show that total risk across the system has fallen - and the absence of any rating-agency notching indicates it has not[239] - a reduction in HAL's cost of capital is matched by risk or cost arising elsewhere, borne by airlines and ultimately by consumers, whether through higher charges or through the reduced financeability of the airlines that pay them. On that basis, the CAA cannot describe Model 3 as designed to avoid "*any undue upward pressure*"[240] on the cost of capital; it is a model that relocates this pressure rather than removing it.

261. The CAA also appears to judge Model 3 on the basis that it will result in a cost of finance "*lower than otherwise*".[241] However, this is impossible to evaluate because the counterfactual is undefined. We do not know what adjustment is necessary; the CAA provides no evidence to show this, and, yet, the CAA continues to make a judgement that Model 3 may benefit consumers. We strongly disagree with this approach.

262. The CAA suggests that a longer-term commitment would enhance, rather than undermine, regulatory certainty, on the basis that reducing the scope for regulatory discretion lowers perceived regulatory risk.[242] This conflates two different points. The certainty that investors legitimately value – and that we support – is certainty of the framework: a stable, transparent and evidence-based regime, with predictable principles and a clear process. That does not require the

[237] CAA, Economic Regulation of Heathrow Airport Limited: response to its request for a covid-19 related RAB adjustment, April 2021, Paragraph 27, link.
[238] CAA, CAP3251 Heathrow capacity expansion – consultation on a shortlist of regulatory models, paragraph 5.34, May 2026, link.
[239] CAA, CAP3251 Heathrow capacity expansion – consultation on a shortlist of regulatory models, paragraph 5.30, May 2026, link.
[240] CAA, CAP3251 Heathrow capacity expansion – consultation on a shortlist of regulatory models, paragraph 1.26, May 2026, link.
[241] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 5.4, link.
[242] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 5.32, link.

CAA to fix an allowed return for 10 to 15 years. Model 3 delivers something different – it locks in a number and removes the CAA's ability to revisit it as evidence emerges. The CAA characterises that fettering of its discretion as a benefit, but it is the central harm of the model. The discretion being fettered is the CAA's capacity to act on its primary duty when its forecasts prove wrong, and to do so in time to protect consumers rather than after a decade of accumulated error. Certainty bought for HAL's investors by fettering the regulator's discretion is not certainty for consumers; it is the transfer of forecasting risk onto them.

263. The mechanisms through which this transfer of risk and value from investors to consumers could occur are evident in several features of Model 3. In particular, longer-term commitments, asymmetric regulatory protections, and differentiated returns for capacity expansion expenditure each have the potential to increase consumer exposure while reducing downside risk (or increasing returns) for HAL and its investors. This is set out below.

Multi-period commitments and aiming up

264. Long-term commitments materially change WACC-setting dynamics in a way that risks negative impacts on consumers. To set the allowed WACC over a longer period, the CAA must forecast across a wider range of outcomes and, consistent with the "*aiming up*" principle, apply a larger margin to avoid setting returns too low. The risks of underestimating the WACC, including financeability concerns, ratings pressure, and political intervention, are more immediate and visible than the gradual consumer harm from overestimating it. This asymmetry becomes more pronounced over longer commitment periods due to forecasting errors and is likely to increase the allowed WACC. The CAA therefore cannot assume that longer-term commitments will reduce consumer charges.[243]

265. The RIIO-1 framework and its long-term regulatory commitments provide an example of a commitment that ultimately proved costly for consumers in several respects, despite its intended benefit. CEPA for Ofgem found that "*the longer a price control period, the greater the scope that actual outcomes would diverge from network companies and Ofgem's forecasts*" and "*The RIIO-1 price controls expose network companies to some risks that are likely to be outside their control. So far in RIIO-1 these risks have turned out favourable to network companies, resulting in added returns that are not due to improved performance.*"[244] These risks are likely to exist under an explicit long-term regulatory commitment at Heathrow.

Option value in favour of HAL

266. HAL also accrues option value under any long-term commitment due to the CAA's duty with respect to financing. The mechanics are as follows:

- If the committed WACC proves more generous than required, HAL retains the benefit for the duration of the commitment period, allowing investors to earn higher returns with limited risk of downward adjustment. Any forecasting error is amplified over a long-term regulatory commitment, with HAL the beneficiary.

[243] See, for example, Helm and Tindall on the cost of capital in regulated industries (2009, link), and Guthrie on investment under regulatory uncertainty (2006, link). The references here are to the broader point of the asymmetric cost of errors in WACC-setting, rather than any specific claims that the resulting bias is consistently upward (i.e. our argument is that the asymmetric cost of errors compounds over a longer commitment period, regardless of the direction of any bias in a given cycle).
[244] CEPA for Ofgem, Review of the RIIO Framework and RIIO-1 Performance, 2018, link.

- If the committed WACC proves insufficient, HAL can seek regulatory relief by relying on the CAA's financing duty, creating pressure on the regulator to revise the settlement to maintain financeability.
- By making a true regulatory 'commitment', the CAA's discretion to intervene during the duration of the agreement is fettered.
- This creates an asymmetric "*one-way bet*" in which HAL retains upside gains while consumers bear much of the downside risk through higher charges, and which is difficult for the CAA to unwind once embedded in a long-term commitment.

267. The CAA places very little emphasis on the potential downside risks for consumers associated with reducing its regulatory flexibility and discretion over an extended period of time.

Gaming risk

268. A separate capacity expansion RAB with a higher allowed cost of capital than the BAU RAB also creates a material gaming risk. Where the allowed return on the capacity expansion RAB is set at a premium to BAU, HAL would have a clear incentive to maximise the proportion of capital expenditure classified as capacity expansion rather than BAU. In practice, this is likely to generate disputes over asset boundaries, project scope, and expenditure categorisation. The risk is compounded by HAL's information advantages and degree of control over baseline assumptions, as discussed in the response to Model 2.

269. The CAA fails to consider how a long-term regulatory commitment could impact HAL's behaviour and financing decisions. There is a material risk that a long-term regulatory commitment could lead to HAL seeking to outperform that allowance through increasingly complex debt and derivative arrangements, weakening its financial resilience. Should those arrangements generate losses, or should expansion encounter difficulties, the CAA would face a significant challenge identifying and quantifying the costs arising from management decisions that should be borne by HAL.

270. The CAA appears to favour separating expansion from BAU activity through a split RAB with a differentiated cost of capital. However, HAL continues to raise debt through a single financing platform, and the boundary on which a split RAB depends cannot be cleanly maintained where financing is undertaken on that basis.

271. Our concern is heightened by the CAA's proposed move to an actual cost of debt allowance for BAU activities in H8. There is a risk of contagion, with expansion-related financing risk and costs bleeding into the BAU cost of debt allowance. This would allow overcompensation to migrate across the expansion/BAU boundary, compounding the gaming risk already identified, and would be difficult for the CAA to detect, attribute or conduct effective enforcement action.

Protecting consumers given increased risk of higher consumer costs

272. The CAA sets out that "*setting a longer-term cost of capital or collars on returns would only make sense in the context of meaningful incentives for capital efficiency*".[245] We agree. The option value and gaming problems raise the bar further. If Model 3 gives HAL asymmetric protection on the WACC, allowing it to retain upside gains while relying on the financing duty on the downside, capex

[245] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 1.40, link.

efficiency incentives would also need to offset the resulting moral hazard. This is a materially higher threshold than the CAA's current Model 2 proposals can meet.

273. The CAA's own logic establishes that Model 3 is only workable if the reform package genuinely addresses HAL's underlying incentives. However, incremental adjustments to the existing incentive regime cannot meet this test for the reasons set out in our response to the Working Paper and earlier in this response. Direct competition (Model 7b) would be the most effective way of addressing the harmful structural incentives, but the use of third parties under Model 7b negates the need for Model 3, as set out above. If the competition models are narrowed or reframed such that they no longer properly address the underlying incentives, the CAA's own precondition for Model 3 would not be met, and our opposition to the model would be reinstated in full.

274. The Portsmouth Water / Havant Thicket Reservoir precedent that Centrus cites – a bespoke higher project WACC alongside the standard BAU WACC, paired with cost adjustment mechanisms for unforeseen costs – shows that tight scoping and reopener discipline are achievable in practice. It does not, however, establish that a long-term commitment is desirable – only that, if the CAA proceeds, those design features are the minimum required.

All three of the sub-options should be rejected

Option 3.1a

275. We do not consider that Option 3.1a (a long-term combined cost of capital determination covering business-as-usual and capacity expansion activities) is acceptable. Extending a long-term commitment to BAU activities would lock in returns on the existing asset base, exposing consumers to the asymmetry and forecast error risks set out above without addressing any legitimate financeability concern. We welcome the CAA's finding not to take this option forward.[246] We also note that Centrus reaches the same conclusion: it cautions against wholesale changes to BAU WACC on the grounds that this would create complexity and ratings risk without clear benefit.[247]

Option 3.1b

276. Option 3.1b (a long-term cost of capital determination for capacity expansion applied to a separate capacity expansion RAB, with the business-as-usual cost of capital redetermined every five years) would remain harmful and must be rejected by the CAA. Any long-term determination materially increases the scope for, and risks of, consumer harm, for the reasons set out earlier in this section.

277. Given the scale of expansion capex, the capacity expansion RAB would account for the majority of Heathrow's assets and expenditure. A long-term determination would govern most of the regulated business while the five-year price control applied to only a shrinking minority.

[246] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 5.40, link.
[247] Centrus, Financeability assessment of regulatory models for Heathrow Airport, Page 17, May 2026, link.

Option 3.2

278. Option 3.2 (formal lengthening of the HAL price control period) has critical flaws and would harm the consumer. We welcome the CAA rejecting this option,[248] which is reinforced by Centrus' negative assessment of any extension of the BAU regulatory period to 7-10 years.

279. In addition to the credit rating agency considerations that both the CAA and Centrus identify, a longer price control period would reduce the frequency at which the CAA has the opportunity to introduce, extend or recalibrate competition arrangements in light of evidence. It would risk entrenching HAL's monopoly position over a longer period and act as a constraint on the CAA's ability to deliver the package of reforms required to meet its statutory duties. The CAA should rule this option out definitively in its July update.

Option 3.3

280. Option 3.3, a cap and collar mechanism on returns, is presented by the CAA as a way to mitigate the asymmetry risk identified in our Working Paper response. We do not accept that this is the right remedy. The mechanism remains exposed to the same information asymmetries and financing duty pressures that contributed to HAL earning £1.6 billion above its allowed return between 2014 and 2023,[249] under a shorter five-year regulatory cycle with less forecast error risk.

281. The Centrus assessment does not address this calibration risk. Rather than resolving the underlying asymmetry, the mechanism shifts it to the setting of the cap and collar bounds, where HAL retains the same systematic advantages. The CAA's efforts would be better directed at structural measures that prevent the one-way bet arising in the first place.

Model 3 should be removed from the shortlist

282. Model 3 scores poorly against the CAA's evaluation criteria, and should be removed from the shortlist:

- **Avoid delay and disruption**: We agree the model has no direct impact on delay or disruption.
- **Promotes efficient costs**: The model risks actively undermining cost efficiency by further weakening the link between investor returns and the quality of expenditure decisions.
- **Raise sufficient finance**: As set out above, the CAA has not properly articulated the financeability problem that Model 3 is intended to solve. The CAA presents no evidence that the current framework could not finance efficient expansion, while other regulators have funded proportionately similar levels of capex without extending the length of regulatory commitments. Absent a clearly defined problem, there is no rationale for taking Model 3 forward on financeability grounds.
- **Practical to implement**: We agree that implementing Option 3.1b is within the CAA's existing powers. However, the CAA overstates its ease of implementation given the potentially complex mechanisms required to address increased forecast risk. For example, the financing cost adjustment mechanism introduced for Thames Tideway Tunnel was reopened following

[248] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 5.42, link.
[249] British Airways, response to CAP2618 Setting future price controls – review of approach, March 2024, link. The £1.6 billion figure represents the cumulative difference between HAL's actual profitability and its allowed regulatory return over 2014-2023, calculated as 104 basis points of outperformance against regulatory settlements and equivalent to an overcharge of £2.50 per passenger. Total outperformance rises to £1.9 billion when the CAA's £300 million RAB adjustment in the H7 decision is included.

concerns that extraordinary macroeconomic circumstances introduced extreme revenue impacts which would affect the project's financial resilience. Ofwat ultimately had to change the licence to support Tideway's financial position.[250] Option 3.3 would not be practical to implement. It would add significant complexity to price control decisions and require greater regulatory oversight to limit gaming opportunities.

- **Promotes competition**: We agree that there is no impact in the narrow sense, but this understates the model's potential to entrench HAL's monopoly position over the commitment period through path dependency. The design of long-term investor protections must not pre-empt or constrain the introduction of terminal competition.
- **Promotes service quality**: We agree that there is no direct impact on service quality.

[250] Ofwat, Consultation on amending Tideway's project licence, December 2021, link.

G. NEW FRAMEWORKS FOR SETTING AIRPORT CHARGES

We support the CAA's decision to exclude Models 9a, 9b and 9c from the shortlist

283. We agree with the CAA that none of Models 9a, 9b and 9c should be shortlisted. None addresses the source of poor outcomes at Heathrow – the combination of SMP and a regulatory model that is ineffective at preventing HAL from acting on its harmful structural incentives. Each would change the basis on which charges are set without changing HAL's underlying incentives or the framework's ability to constrain them.

284. While we agree with the CAA's conclusion, we consider that its reasoning places too much weight on HAL's concerns about financeability under these models. The CAA's duty in relation to financing does not require it to prioritise models that protect HAL's existing financial position over those that better serve consumers. The determinative question is whether each model would further the interests of consumers in respect of the range, availability, continuity, cost and quality of airport operation services. On that test, each variant of Model 9 falls short:

- **Model 9a – price benchmarking**: While benchmarking is a useful diagnostic tool, we agree with the CAA that it does not provide a workable primary basis for setting maximum allowed charges.[251] Its role should be to provide evidence informing the CAA's judgements on efficiency and affordability, rather than the mechanism for directly setting charges.
- **Model 9b – long-run incremental costs**: As we set out in our response to the Working Paper, LRIC operates effectively in sectors such as telecoms wholesale access, where buyers can choose to self-supply if regulated charges are set above efficient levels. Airlines have no equivalent option at Heathrow: they cannot build a competing runway or terminal in response to inefficient pricing. The economic foundation for LRIC, therefore, does not carry across to airports. The practical estimation challenges identified by the CAA reinforce that conclusion.[252]
- **Model 9c – "*lighter touch*" regulation**: In line with our response to the Working Paper, HAL holds SMP, faces no effective competitive constraint in the provision of airport operation services, and continues to charge well above competitive levels. Lighter touch regulation in that context would reduce, not increase, the protection consumers receive. We agree with the CAA's assessment.[253]

[251] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraphs 7.13-7.16, link.
[252] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraphs 7.27-7.29, link.
[253] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraphs 7.37 and 7.38, link.

Annex 1. The CAA's legal powers to implement reforms

285. This annex provides an overview of the CAA's statutory duties and existing powers under CAA12 as regards the regulation of dominant airport operators, and sets out how the CAA's existing statutory powers under CAA12 can be used to implement in a timely manner the proposals by Heathrow Reimagined.

286. In short, Heathrow Reimagined has given careful consideration to whether its proposals for terminal competition and capital governance can be implemented within the scope of the CAA's existing regulatory powers under CAA12. Based on a proper interpretation of the relevant legal principles, Heathrow Reimagined's strong view is that:

    a. The CAA has the necessary powers already under CAA12 to introduce terminal competition both in respect of new terminals and existing terminals, including by requiring HAL to enter into contractual arrangements that facilitate competition.

    b. The CAA has the power to adopt a Capital Investment Committee (CIC) model of regulation under its present statutory powers.

Overview of the CAA's existing statutory powers and the licensing regime under CAA12

The CAA's statutory duties under CAA12

287. The Heathrow Reimagined submission to the CAA dated 5 February 2025 set out the statutory duties of the CAA in regulating operators of dominant airports. A short summary of the key duties contained in CAA12 is provided below.

288. Section 1 of CAA12 concerns the CAA's general duty in relation to the regulation of operators of dominant airports. It provides that:

    > *"(1) The CAA must carry out its functions under this Chapter in a manner which it considers will further the interests of users of air transport services regarding the range, availability, continuity, cost and quality of airport operation services.*
    >
    > *(2) The CAA must do so, where appropriate, by carrying out the functions in a manner which it considers will promote competition in the provision of airport operation services."*

289. In performing the abovementioned duties, the CAA must have regard to a number of matters under section 1(3) of CAA12, including:

    a. the need to "*promote economy and efficiency on the part of each holder of a licence under this Chapter in its provision of airport operation services at the airport to which the licence relates*"; and

    b. the principles in section 1(4), namely that: (i) regulatory activities should be carried out in a way which is transparent, accountable, proportionate and consistent; and (ii) regulatory activities should be targeted only at cases in which action is needed.

The CAA's existing powers in relation to the regulation of operators of dominant airports

290. CAA12 introduced a licensing-based regime for the economic regulation of operators of dominant airports. Under section 3 of CAA12, the operator of a dominant area or part of a dominant area at a dominant airport is prohibited from levying relevant charges in respect of AOS without having an economic licence in respect of the relevant area.

291. The CAA has broad existing powers as to the scope of conditions that can be included in such a licence. Section 18 of CAA12 provides as follows:

"*A licence may include—*

(a) such conditions as the CAA considers necessary or expedient having regard to the risk that the holder of the licence may engage in conduct that amounts to an abuse of substantial market power in a market for airport operation services (or for services that include airport operation services), and

(b) such other conditions as the CAA considers necessary or expedient having regard to the CAA's duties under section 1.

(2) For the purposes of this section conduct may, in particular, amount to an abuse of substantial market power if it is conduct described in section 18(2)(a) to (d) of the Competition Act 1998."

292. Under section 19 of CAA12, the licence "*must include such price control conditions as the CAA considers necessary or expedient.*"

293. Section 21 of CAA12 provides a broad (and non-exhaustive) list of provisions that may be included in a licence condition, as follows:

"*(a) provision for a condition to have effect or to cease to have effect at times or in circumstances specified in, or determined in accordance with, a condition;*

(b) provision requiring the holder of the licence to enter into a contract or other arrangement for a purpose specified in a condition and on terms specified in, or determined in accordance with, a condition;

(c) provision requiring the holder of the licence to comply with requirements imposed (by directions or otherwise) by a specified person;

(d) provision requiring the holder of the licence to do or not to do things specified, or of a description specified, in the licence unless a specified person consents to its not doing or doing those things;

(e) provision requiring the holder of the licence to refer a matter to a specified person for approval or determination; and

(f) provision relating to activities carried on outside the airport area for which the licence is granted."

294. The CAA is able to modify the licence conditions or the area for which a licence is granted, pursuant to sections 22 and 23 of CAA12.

295. The CAA12 also makes provision for the enforcement of licence conditions (sections 31 to 47 of CAA12). This broadly involves the ability for the CAA to (i) impose enforcement orders and penalties on holders of economic licences that have contravened conditions in the relevant licence; (ii) enforce duties owed under enforcement orders via civil proceedings; (iii) impose financial penalties for contravention of enforcement orders.

Introduction of terminal competition under the CAA's existing statutory powers

296. The existing regulatory framework under the CAA12 was designed to be broad enough to cater for a dominant airport having more than one operator. This was introduced, in large part, in response to the Competition Commission's 2009 report following its market investigation of BAA which

concluded that legislation should be amended "*to allow for terminals to be developed or redeveloped and be operated separately from runway facilities*".[254] For example, section 9 of CAA12 provides that a person may be an operator of a discrete area of an airport where they have overall responsibility for the management of the area in question. It is consistent with this provision for there to be multiple operators at the one airport, each responsible for a different discrete area.

Introduction of terminal competition is in line with the CAA's statutory duties

297. As set out in this submission, Heathrow Reimagined's proposals in respect of the introduction of terminal competition – both in relation to existing terminals as well as any newly developed terminals – would be transformative in delivering better outcomes for users of air transport, and would be aligned with the CAA's primary statutory duty under section 1 of CAA12, including its obligation to carry out its duty in a way that promotes competition in the provision of AOS.

The CAA already has existing powers under CAA12 to facilitate the introduction of terminal competition at Heathrow

298. The CAA has previously recognised in the context of the proposed expansion of capacity at Heathrow that, in principle, section 21 of CAA12 permits the CAA to require HAL, under its licence conditions, to enter into a contractual arrangement with a third party which owns and operates terminal capacity at Heathrow. In 2017-2020, in the context of considering as part of expansion a possible newly developed (and third party operated) terminal at Heathrow, developed pursuant to the grant of a DCO to that third party, the CAA noted that:

    - its "*regulatory tools could be used to facilitate and encourage airlines or other parties to enter into commercial arrangements with HAL to deliver expansion*";[255]
    - it is able "*where it considers it necessary or expedient, to make provision in HAL's licence for the accommodation of an alternative operator which had been successful in obtaining a DCO to develop part of Heathrow airport, by requiring it to enter into contractual agreements or other arrangements for the delivery of capacity expansion*";[256] and
    - the flexibility of the CAA12 "*could extend to requiring HAL to enter into contractual agreements or arrangements with the developer and operator of new terminal capacity at Heathrow in circumstances where such intervention was necessary and proportionate to prevent abuse of market power or to further the CAA's statutory duties*". This could also "*in principle, extend to appropriate arrangements to integrate the new capacity into the operation of the airport as a whole, provided that it was considered to be necessary and proportionate.*" [257]

299. Such a structure is akin to, and could be accommodated under, the CAA's Model 7b (direct competition for AOS) which the CAA proposes to shortlist. Under this model, a third party could for example, apply for and obtain a DCO to develop a new terminal at Heathrow, and then develop, build, design, finance and operate the terminal, directly providing services to airlines and recovering its revenues from them, in direct competition with HAL.

300. The CAA does not raise concerns in the Consultation that its existing powers under CAA12 cannot be used to implement Model 7b (and discussion as part of the Second Reading of the Civil Aviation Bill on 2 June 2026 also indicated that the CAA had not identified any new powers needed to

[254] Competition Commission, BAA airports market investigation, March 2009, paragraph 10.349, link.
[255] CAA, CAP1541: Consultation on core elements of the regulatory framework to support capacity expansion at Heathrow, June 2017, paragraphs 2.19-2.20, link.
[256] CAA, Technical information note on the CAA's approach to dealing with licensing issues raised by potential alternative developers of new capacity at Heathrow Airport, August 2018, page 5, link.
[257] *Ibid.*

implement the models shortlisted),[258] but it asserts that such a model is dependent on the developer applying for and being granted a DCO and the model being compatible with any revised ANPS.[259] Heathrow Reimagined agrees that in those circumstances, the CAA's existing powers under CAA12 (in particular, under sections 18 and 21 CAA12) could be used to facilitate Model 7b, as the CAA previously contemplated between 2018-2020. However, the application of Model 7b is not limited to new terminals built as part of expansion; for example, it could equally apply to the redevelopment or operation of existing terminals by a third party that owns and operates under a DCO.

301. In addition, having considered carefully the relevant legal principles and the CAA's regulatory powers under CAA12, Heathrow Reimagined's firm view is that the CAA's powers under sections 18 and 21 CAA12 could in principle also be used to introduce direct terminal competition more widely, in respect of <u>both</u> new and existing terminals (via a contractual separation mechanism).

302. In respect of existing terminals, contractual separation would involve establishing a long-term contractual mechanism under which HAL would retain ownership, but independent third parties could operate the terminals and provide direct competition, even where the third party has not been granted a DCO. This could, for example, include contractual mechanisms (such as a long-term licence or concession agreement) which enable the design, build and operate elements of a terminal to be carried out by a third party who has not been granted a DCO (including a redevelopment of an existing terminal) while HAL retains the freehold. It could also include competitive tendering, procurement or contractual structures for projects similar to regulatory approaches used in other sectors - in particular, Ofwat's Direct Procurement for Customers (DPC) regime – which was also introduced via conditions in regulated entities' licences under Ofwat's pre-existing licensing powers.[260]

303. In this regard, the CAA has all necessary powers under CAA12 to require HAL, as part of its licence conditions, to enter into contractual arrangements with a third party to enable terminal competition:

   a. Section 18 CAA12 gives the CAA a very broad power to impose licence conditions as it considers necessary to prevent any abuse of substantial market power by the licence holder or to meet its statutory duties. The CAA's consultation has already recognised that there is a clear case for change and that there are considerable benefits that would flow from facilitating more competition at Heathrow.

   b. Section 21(b) CAA12 explicitly states that a "*provision requiring the holder of the licence to enter into a contract or other arrangement for a purpose specified in a condition and on terms specified in, or determined in accordance with, a condition*" is an example of a condition that the CAA can include in a licence. There is therefore a clear statutory basis in CAA12 for the CAA to be able to require HAL to enter into contractual arrangements with a third party.

   c. The CAA could also use powers under section 21(c), (d) and (f) CAA12 to support these arrangements, for example:

      i. to require HAL to run a tender process on specified terms for such a contract;

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[258] In particular, in response to a question raised by Lord Hendy of Richmond Hill during the Second Reading of the Civil Aviation Bill on 2 June 2026, the Minister of State for Rail at the Department for Transport explained that, "*[o]ur current position is that the CAA has not identified any new powers needed to implement the options that have been put forward.*" Link.
[259] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.203, link.
[260] Ofwat's DPC model requires the licensee to consent to a particular project being subject to DPC, whereas Heathrow Reimagined considers that the CAA could implement such a model without the consent of HAL given the clear express statutory powers afforded to the CAA under CAA12.

ii. to design the criteria pursuant to which the successful bidder would be identified;

iii. to create mechanisms to financially incentivise or penalise HAL if it did not facilitate terminal competition as envisaged; and

iv. to facilitate access and interoperability between HAL's licensed airport area and any competitor terminals.

d. Moreover, the examples in section 21 CAA12 are not exhaustive examples of conditions that may be included in a licence. The CAA, rather, has broad powers as to the types of conditions it can include in a licence, which give it considerable flexibility to implement terminal competition in respect of both newly developed and existing terminals.

e. Whilst the Consultation notes that the CAA considers that it does not currently have "*explicit powers to force divestment of assets*" (as discussed by the CAA in the context of Model 8),[261] a requirement that HAL enters into contractual arrangements which would deliver terminal competition can be implemented without forcing HAL to divest its property rights.

304. Consequently, establishing a purely contractual mechanism to facilitate terminal competition in respect of newly developed or existing terminals (as distinct from a mechanism that might require the divestment of property assets) is therefore, in principle, within the scope of the CAA's existing powers under CAA12.

Implementation

305. As regards implementation:

a. Conditions to facilitate terminal competition as contemplated above in respect of both newly developed and existing terminals could be introduced through a modification to HAL's existing licence, pursuant to section 22 CAA12.

b. Insofar as a third party operator may require wholesale AOS from HAL in order to offer users a complete service (as the CAA contemplates in relation to Model 7b[262] but may also be relevant to Heathrow Reimagined's proposals in respect of existing terminals), an amendment to HAL's existing licence could be introduced pursuant to the CAA's existing licensing powers such that charges for this wholesale service form part of HAL's regulated charges. The CAA would also be able to amend HAL's licence to impose, if necessary, a non-discrimination requirement upon HAL under its existing powers set out in section 18 CAA12.

c. The CAA would also be able to regulate interfaces, access and interoperability between terminals operated by different parties and the wider airport by introducing appropriate conditions under sections 18 and 21(1) (and, in particular, section 21(1)(f)).

Introduction of the CIC model under the CAA's existing statutory powers

306. The CAA also has all the necessary powers under CAA12 to implement the CIC model as proposed by Heathrow Reimagined. In particular, the CAA holds existing relevant powers pursuant to:

a. Section 18 of CAA12 which permits the CAA to introduce conditions in an economic licence which it considers necessary or expedient having regard to its duties under section 1 of the CAA. Such duties include (i) its function of regulating a dominant airport operator in a manner which it considers will further the interests of users of air transport services regarding the

[261] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.257, link.
[262] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.202, link.

range, availability, continuity, cost and quality of airport operation services; and (ii) its secondary duties noted at paragraph 289 above.

b. Section 21 of CAA12 which permits the inclusion of licence conditions which (i) require the holder of the licence to comply with requirements imposed (by directions or otherwise) by a specified person (section 21(1)(c)); (ii) require the holder of the licence to do or not to do things specified, or of a description specified, in the licence unless a specified person consents (section 21(1)(d)); and (iii) require the holder of the licence to refer a matter to a specified person for approval or determination (section 21(1)(e)). As noted above, the list of examples in section 21 is expressly non-exhaustive, and the CAA therefore has broad powers as to the types of conditions it can include in a licence. Licence conditions in HAL's licence could accordingly require HAL to submit capital projects to the CIC for scrutiny, approval or determination.[263]

CIC would not involve delegation of CAA duties and CAA would retain independence

307. The proposed CIC model would not involve the delegation of duties conferred upon the CAA under CAA12 to the CIC. The CIC would be responsible for functions such as reviewing long-term capital plans, scrutinising business cases for individual capital projects and monitoring capital delivery outcomes. These are not statutory duties or powers conferred on the CAA under CAA12 and can therefore be exercised by the CIC as part of the proposed model without requiring any delegation of the CAA's statutory powers. The CAA would retain ultimate decision-making authority on matters falling within the scope of its statutory powers, including modifications to licence conditions and the enforcement of licence conditions.

308. The CIC can accordingly be structured in a way which preserves the CAA's independence on matters to be determined by the CAA under the statutory scheme, ensuring that the CIC provides scrutiny, oversight and recommendations to inform the CAA's exercise of its regulatory judgement, without binding or pre-determining the outcome of the CAA's decision-making.

CIC enhanced enforcement measures

309. The CAA's existing powers under sections 18 and 22 of CAA12 are also sufficient to support effective sanction measures in connection with the CIC model, including:

a. **Restrictions on executive bonuses:** the CAA has the power under sections 18(1)(b) and 22 of CAA12 to modify HAL's licence[264] to include a condition requiring compliance with specified performance standards or principles before HAL may make bonus payments to its executives.

b. **Restrictions on dividend payments**: the CAA similarly has the power under section 18(1)(b) and section 22 of CAA12 to introduce a condition requiring HAL[265] to comply with a dividend policy, and to refrain from making dividend payments in specified circumstances, for example, where HAL exceeds forecasted expenditure by a specified threshold, where financial performance standards are not met or where HAL's credit rating has been downgraded.

310. Such conditions are consistent with the CAA's statutory duties, including the duty to promote economy and efficiency on the part of the licensee in the provision of airport operation services, and to further the interests of users in respect of the cost of those services. The conditions would also fall within the scope of sections 21(1)(c) and (d) of CAA12, which, as noted above, permit licence conditions requiring the licence holder to comply with requirements imposed by a specified person, or to do or not to do specified things unless a specified person consents.

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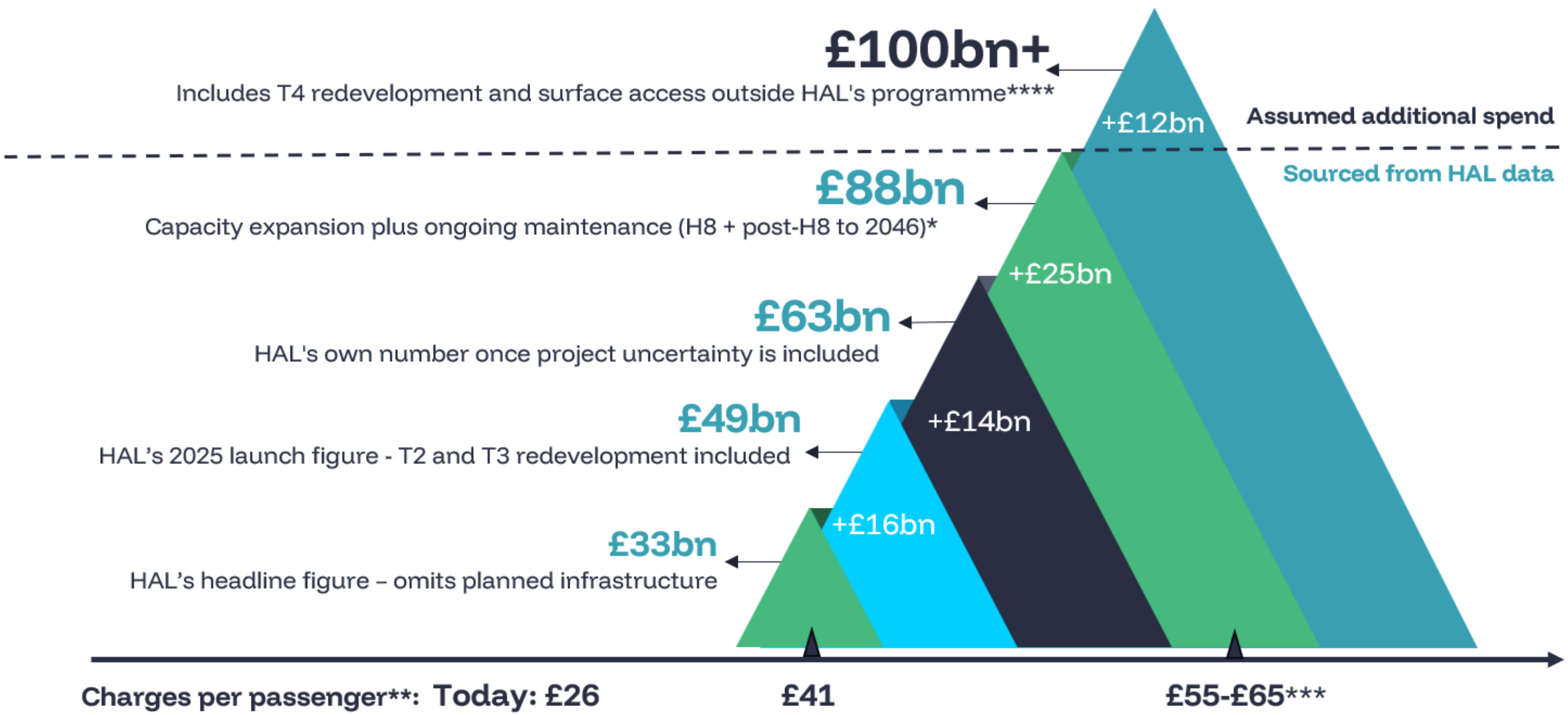
[263] In the event that, in future, any third-party operator at Heathrow was subject to a licence, a similar condition could be included in its licence.
[264] *Ibid.*
[265] *Ibid.*

Annex 2. How charges could evolve at Heathrow

311. The figure below shows how charges could evolve at Heathrow based on HAL's published spending plans and forecast passenger volumes.



**Estimate could double to £30bn if HAL spends at same annual rate it has proposed for "H8".*
*** Impact of additional charges per passenger are double for a return trip - making a round trip £60 per passenger more expensive than today or £240 for a family of four going on holiday.*
****£55 charge per passenger reflects a £49bn spend on capacity expansion. £65 charge occurs if HAL spends £63bn on capacity expansion. These scenarios are optimistic as they assume a full airport with no cost and time overrun and include estimated ongoing maintenance costs of £25bn.*
***** In the event that HAL seeks to pass on the cost of rail and other surface access schemes through airport charges, charges will increase beyond £55-65 per passenger*

Annex 3. Flaws in KPMG's analysis

312. HAL commissioned KPMG to benchmark Heathrow's aeronautical revenue per passenger against thirteen comparator airports, in support of its engagement on the H8 control period and the regulatory models working paper (CAP3195).[266] This annex addresses two adjustments the CAA accepted but should not have: the widebody aircraft adjustment, and the partial inclusion of HAL's own unverified estimate of the VAT-free shopping impact.

313. The KPMG analysis is significantly flawed, and it is concerning that the CAA has accepted material parts of it. The analytical approach has no sound basis and lacks transparency. In our view, the CAA's acceptance of these adjustments is neither appropriate nor consistent with the transparency principle set out in CAA12. It does not provide a sufficiently robust or credible basis for decision-making.

General lack of transparency

314. The CAA states that it "*did not receive the full set of airport-level adjusted charge calculations from KPMG for each comparator airport, or the detailed underlying inputs required to fully replicate their benchmarking results*" and was "*unable to validate KPMG's calculations*". This is consistent with the concerns we raised after attempting to replicate previous analysis conducted by KPMG for HAL. Despite this, the CAA proceeded on the basis that "*KPMG's calculations are correct as presented*".[267]

315. KPMG relies on unverified Heathrow data elsewhere in its analysis. For example, KPMG states that "*Long-haul and transfer passengers spend 18-30% longer in terminals than short-haul passengers, necessitating additional facilities and more complex infrastructure*", but the relevant footnote says the figure was "*provided by Heathrow for context*" and "*has not been assessed or verified*".[268] This is consistent with a broader lack of transparency in the analysis provided by KPMG and HAL.

316. Where the CAA has been able to assess HAL and KPMG's analysis effectively, including on 'other revenues' and 'government financial support', it has rejected substantial elements of the analysis. It is therefore unclear why, and inappropriate that, the CAA has accepted other material elements that it was not able to assess properly due to insufficient supporting data, methodology, or calculations.

Widebody adjustment – analytical issues

317. KPMG's £1.99 adjustment for widebody aircraft – almost a quarter of the total adjustment accepted by the CAA – rests on a single flawed proposition. KPMG explains how widebody aircraft have a maximum take-off weight (MTOW) of around four times that of narrowbody aircraft, but carry only about 1.8 times the passengers.[269] From this, KPMG claims that widebody operations imply both disproportionately higher charges per passenger and a higher airport asset requirement per passenger. KPMG sets this out in its footnote 31:[270]

    "*This is derived by comparing the change in average asset requirement per passenger as the proportion of widebody aircraft movements increases from 20% to 30%. Widebody aircraft*

[266] KPMG for HAL, Comparator Analysis of Aeronautical Revenue, April 2026, link.
[267] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 2.27, link.
[268] KPMG for HAL, Comparator Analysis of Aeronautical Revenue, April 2026, link.
[269] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, Figure 2.1 and paragraph 2.48, link.
[270] KPMG for HAL, Comparator Analysis of Aeronautical Revenue, April 2026, link.

typically have a maximum take-off weight nearly four times that of narrowbodies, but only about 1.8 times the passenger capacity. Because airport infrastructure charges are primarily based on aircraft weight, a higher widebody share leads to a disproportionate increase in charges reflecting the disproportionate increase in asset requirements per passenger."

318. The premise that airport charges are "*primarily based on aircraft weight*" does not reflect how airports recover their costs. Weight-based charging is generally limited to elements such as the landing charge, and those elements are commonly banded or subject to fixed minima rather than scaling linearly with weight. The largest single component of airport charges, at Heathrow and at the comparator airports, is levied on a per-passenger basis. KPMG's characterisation of airport charging is therefore inaccurate.

319. KPMG's reasoning also produces an implausible result when applied to costs per passenger. On KPMG's own figures – four times the weight across 1.8 times the passengers – a widebody passenger would imply a cost of approximately 2.2 times that of a narrowbody passenger. The principal cost-driving assets – security search lanes, check-in and bag-drop, immigration and border-control, baggage systems and terminal floorspace – are sized by passenger throughput rather than aircraft weight. A passenger on a widebody does not require more than twice the security-lane or baggage-handling capacity of a passenger on a narrowbody, and KPMG provides no basis for concluding otherwise.

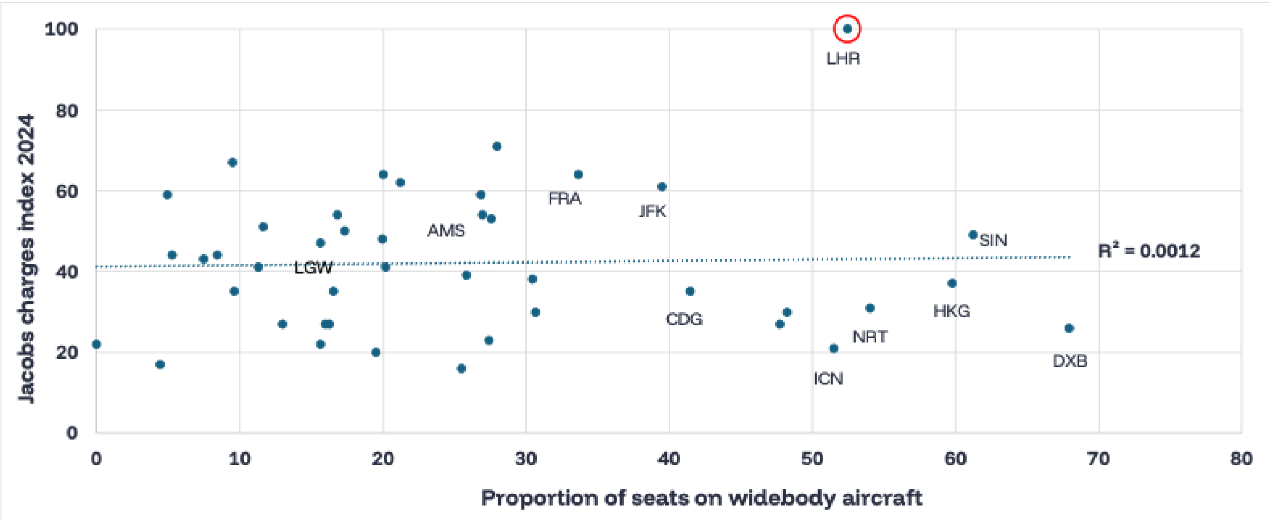
320. The assets most closely associated with aircraft size also do not scale with weight. A widebody stand and apron occupy approximately twice the footprint of a narrowbody stand, not four times, and serve around 1.8 times the passengers. The stand asset requirement per passenger is, therefore, marginally higher at most, and nowhere near the four-fold increase that KPMG's weight-based logic would imply. KPMG's analysis would also imply that widebody aircraft require a runway twice as long as that needed by narrowbody aircraft, which is plainly not the case.

321. The available evidence on asset requirements per passenger and aircraft size points in the opposite direction. Larger aircraft consolidate more passengers into each movement. Given the substantial fixed-cost component of airport assets and the capacity-constrained nature of the airfield, employing widebody aircraft reduces the marginal asset requirement per passenger rather than increasing it. This is consistent with the economics of fleet deployment: widebody aircraft are operated because they deliver lower unit costs per passenger. KPMG's adjustment assumes the reverse.

322. As we have previously demonstrated to the CAA,[271] the evidence on the relationship between airport charges and the proportion of widebody aircraft seats using that airport is not statistically significant, based on a sample size more than three times what KPMG appears to have used (43 vs 13). This adds further doubt to the validity of the widebody adjustment.

[271] See our presentation on 5 June 2025.

Figure 1: Proportion of seats on widebody aircraft vs charges, 2024



Source: Jacobs, Review of Airport Charges, 2024; Analysis of 2024 OAG seats data. Note: Sample of 43 includes all the airports for which data on charges (Jacobs) and widebody seats % (OAG) were available. The coefficient on the proportion of widebody seats is not statistically significant (and becomes negative when LHR is removed from the sample).

Widebody adjustment – lack of transparency

323. KPMG's analysis is also not transparent. It provides no empirical basis for the elasticity of 0.23, which is derived solely from a stylised assumption that cost scales with aircraft weight, and does not set out how that elasticity is converted into an adjustment to comparator aeronautical revenue per passenger. The supporting evidence from Singapore shows only that some charges reflect aircraft size, weight or seat capacity; it does not establish that widebody aircraft impose higher infrastructure costs, or higher charges, per passenger. An accurate comparison of airport assets per passenger by aircraft type would require a detailed cost allocation exercise, and there is no evidence that one was carried out.

324. The 20% to 30% range underpinning KPMG's calculation is unsupported. KPMG does not explain why this range is appropriate. It provides no evidence on the average widebody share at the comparator airports to support a 20% starting point, and no assessment of the sensitivity of its results to alternative assumptions.

325. Neither KPMG nor the CAA, in its application of the analysis, provides any explanation for how it translated the claimed relationship between asset requirements per passenger and widebody share into the precise numerical adjustment to average aeronautical revenue per passenger. The CAA should not place any weight on the adjustment without stronger evidence.

Tax environment

326. On the adjustment for the removal of VAT-free shopping, we disagree that the CAA should include 50% of HAL's "*illustrative and unverified £100m estimate*".[272] The CAA should not make any adjustment in the absence of evidence. Proposing to 'split the difference' through adjustments like this risks encouraging regulatory gaming.

[272] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 2.37, link.

Annex 4. Capex incentives: Incentive rates used in other regulated sectors

327. The 25% incentive rate applied to HAL under the H7 regime is at the low end of the range applied by UK economic regulators. Where regulators have judged that an operator's exposure to risk warrants a lower rate, they have done so on the basis of demonstrated risk factors and visible ex post assurance. There is no equivalent basis at Heathrow. The design failings described above mean that the CAA and the airlines cannot demonstrate the level of risk in HAL's projects, because they cannot scrutinise HAL's baselines on a level playing field. The 25% rate combines the lowest incentive strength in the comparable set with the weakest evidential basis for it.

Table 1: Incentive rates used in other sectors

Regulator	Price control	Category of spend	Incentive mechanism	Source
Ofwat	PR24	Enhancement	40:40 (Companies are exposed to 40% of overspend, and 40% of underspend)	Ofwat, *PR24 FD*, 2024
Ofwat	PR24	Base	50:50	Ofwat, *PR24 FD*, 2024
Ofwat	PR24	Enhancement spend with "*potentially higher uncertainty*" – e.g. spend related to the Industrial Emissions Directive	25:25	Ofwat, *PR24 FD*, 2024
Ofwat	PR24	Enhancement spend related to water quality monitoring and investigations	40:10	Ofwat, *PR24 FD*, 2024
Ofgem	RIIO-2 ET (FD)	Totex	Company specific, symmetric incentive: 33% - 49%	Ofgem, *RIIO-2 FD*, 2020
Ofgem	RIIO-3 ET (DD)[273]	Totex	Symmetric, 'stepped'[274] approach: 0% - 25%	Ofgem, *RIIO-3 DD*, 2025

[273] Incentive strength fell sharply from RIIO-2 to RIIO-3; Ofgem said the shift reflects a heavy pipeline of large, capital-intensive projects prone to cost overruns.
[274] 25:25 for the first 5% of over/underspend; 5:5 for the next 10% of over/underspend; 0:0 beyond 15% of over/underspend (i.e. everything beyond 15% passed on to consumers).

Ofgem	RIIO-2 GD (FD)	Totex	Company specific, symmetric incentive: 49% - 50%	Ofgem, *RIIO-2 FD*, 2020
Ofgem	RIIO-3 GD (DD)	Totex	Symmetric incentive: 50%	Ofgem, *RIIO-3 DD*, 2025
Ofgem	RIIO-3 NGT (DD)	Totex	Symmetric incentive: 39%	Ofgem, *RIIO-3 DD*, 2025

Source: Heathrow Reimagined analysis of regulators' published price control documents. "FD" denotes Final Determinations. "DD" denotes Draft Determinations.

328. The operators in this set face equal or lower information asymmetries than Heathrow and are subject to more developed ex post assurance regimes. Against that backdrop, the 25% rate at Heathrow sits at or below the floor of the range applied to network operators in other sectors. That comparison is not, of itself, decisive: regulators set rates against the specific conditions of the regime concerned. The relevant point is that the rate is at the bottom of the distribution and that the underlying conditions at Heathrow are, on the evidence in the case for change, materially less favourable than in any of the comparators.

329. This evidence supports Amendment 2 in Section E: HAL should bear 100% of cost overruns above a defined threshold. The threshold is a buffer against unavoidable variance; it should not be seen as a quantum of overrun to be tolerated. Cost overruns above the threshold should be borne by HAL in full unless demonstrably attributable to factors outside HAL's control, with the burden of proof on HAL.

Annex 5. Comparison to BAA positions on airport break-up

330. HAL's objections to competition-based regulatory reform are not new. BAA made materially similar arguments in 2008 when the Competition Commission considered breaking up its airport portfolio. For example, BAA argued that common ownership was essential for operational coherence, that reform would delay infrastructure delivery and undermine financeability, that airline views were commercially motivated, and that its performance under the existing regime was adequate. The Competition Commission rejected each of those arguments.

331. The table below maps BAA's 2008 arguments directly onto HAL's current positions. In each case, the evidence – including the CMA's 2016 evaluation of the BAA break-up – shows that the arguments were wrong and the Competition Commission was right to reject them. The CMA found that consumer benefits from the break-up outweighed divestment costs by 6:1, that divested airports improved capital efficiency over time, and that investments that would not have taken place under BAA's ownership followed directly from competitive pressure. HAL's arguments today are structurally equivalent and equally unsupported by evidence. The CAA should reject them.

332. We consider that this is highly relevant for the CAA's review. The CAA is being asked to weigh the same objections against the same type of reform. History shows that those objections should be treated by the CAA with a high degree of scepticism.

Invalid claim	BAA's view from 2008	HAL's view today	Reality
Fragmentation leads to inefficiencies and duplication of costs	Multiple different management structures could be just as likely to have disbenefits as benefits. Common ownership ensures coherent operation across the system.[275]	Multi-operator or fragmented airport models would create higher costs and poorer service quality due to duplicated systems and governance.[276]	In a 2016 evaluation of the break-up of BAA's airports, the CMA found that the consumer benefits from competition outweighed divestment costs by 6:1, and that divested airports increased the efficiency of their capital investment in facilities/services and improved their operational efficiency over time.[277]
Regulatory reform delays infrastructure delivery	Regulatory reform creates bureaucracy, disruption and uncertainty, slowing down the planning and delivery process for new improvements.[278]	Overly ambitious regulatory reform threatens the government's timetable for a third runway, as a new regime would take too long to navigate and	The CAA correctly rejects this view, since prioritising speed over a good regulatory model that protects consumers would be inconsistent with its duties as regulator.[280]

[275] BAA Limited, BAA's response to emerging thinking, May 2008, paragraph 6.13, link.
[276] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.147 and 6.155, link.
[277] CMA, BAA airports: Evaluation of the Competition Commission's 2009 market investigation remedies, 2016, paragraph 1.28, 1.6, link
[278] BAA Limited, BAA's response to emerging thinking, May 2008, paragraph 7.2, link.
[280] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 1.18, link.

		would introduce third-party involvement in the process.[279]	Regulatory reform can increase and incentivise infrastructure delivery. Post divestment of BAA's airports, Stansted invested in Satellite One, its new departure gate area to facilitate long-haul international travel and compete with Heathrow. Stansted said the investment would not have occurred under BAA's ownership.[281]
Financeability would be undermined by reform, reducing investment	Separate ownership would increase uncertainty and undermine airports' ability to invest with confidence.[282]	Competition-based regulatory models would reduce HAL's appeal for investors, increasing cost of capital and making delivery of new investment more challenging.[283]	The CAA's independent advisers (Centrus) found that competition could broaden the pool of available capital by attracting new infrastructure investors.[284]
Airlines' views are given undue weight	Airlines' criticisms of BAA performance are accepted too easily, without proper scrutiny of their commercial motivations.[285]	Airlines focus on their own interests and may delay projects that don't align with these interests, creating a risk to investment.[286] The views of incumbent airlines on regulatory reform may be unduly influenced by the relatively high profits they make from capacity constraints at Heathrow.[287]	Heathrow Reimagined and airlines have raised similar structural problems to those identified by the CAA. Consumers and airlines both directly suffer from a service quality that provides poor value for money. When appropriate measures of profitability are used, there is no evidence that airlines operating at Heathrow make excess profits.[288]
Performance is adequate within the current	BAA has successfully delivered capacity expansion	HAL has delivered a number of investment projects in recent years, largely on time and on budget. Costs are not quite as high as they initially	Successful delivery does not mean efficient delivery, and the CAA's analysis correctly identifies that infrastructure costs at Heathrow are high. However, the CAA's conclusions understate the role that capex

[279] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.163, link.
[281] CMA, BAA airports: Evaluation of the Competition Commission's 2009 market investigation remedies, 2016, paragraph 5.32, link
[282] BAA Limited, BAA's response to emerging thinking, May 2008, paragraph 11, link.
[283] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraphs 6.92 and 6.155-6.158, link.
[284] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 6.218, link.
[285] BAA Limited, BAA's response to emerging thinking, May 2008, paragraph 15, link.
[286] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 4.9, link.
[287] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 2.13, link.
[288] IAG's submission on Frontier Economics' scarcity rents analysis shows that the work is flawed and cannot be relied upon. IAG, Empirical Tests of the Starting Scarcity Rent Hypothesis at Heathrow, Submission to CAA and DfT for review and consideration, March 2026, link.

regulatory structure	in multiple airports, including Terminal 5 at Heathrow.[289]	seem after adjustments for local labour market conditions and other factors.[290]	inefficiency has played in driving high airline charges. The OGP benchmarking study provides evidence of persistent and systematic inefficiency that cannot be explained away by local factors.[291]

[289] BAA Limited, BAA's response to emerging thinking, May 2008, paragraph 7.16, link.
[290] CAA, CAP3251: Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026, paragraph 2.83, link.
[291] Oxford Global Projects, Heathrow benchmark report, November 2025, section 11, link.