

Rob Toal  
Civil Aviation Authority  
Westferry Circus  
Canary Wharf  
London EH14 4HD

By email: [economicregulation@caa.co.uk](mailto:economicregulation@caa.co.uk)

29 May 2026

Dear Rob,

**Aer Lingus response to CAA H8 Initial Proposals (CAP3232)**

Aer Lingus welcomes the opportunity to respond to the Civil Aviation Authority's ("CAA") Initial Proposals for the H8 price control for Heathrow Airport Limited ("HAL") covering the period 2027-2031. Aer Lingus is the flag carrier airline of Ireland and a significant operator at Heathrow Airport, providing essential connectivity between Heathrow and Ireland, including services to Dublin, Cork, Shannon and Knock. Heathrow is an important hub for Irish consumers and businesses, supporting onward global connectivity. The effectiveness of Heathrow's regulatory settlement therefore has implications well beyond the airport itself, shaping affordability, resilience and service quality for consumers.

This response should be read alongside submissions made by our sister airlines British Airways, Iberia and Vueling, and our parent company International Airlines Group ("IAG"). Aer Lingus fully supports those submissions and does not restate all points made therein.

Aer Lingus recognises and supports the CAA's objective of strengthening the regulatory framework relative to previous price controls. In particular, Aer Lingus acknowledges the improvements in methodology, including more structured Constructive Engagement, a clearer analytical framework for operating expenditure and capital expenditure, and the use of independent expert advice. However, Aer Lingus is concerned that the overall package, taken as a whole, remains insufficiently challenging and risks entrenching outcomes that do not represent good value for consumers.

In our view, the Initial Proposals do not yet strike an appropriate balance between cost efficiency, service delivery and investor returns. The combined effect of generous cost allowances, conservative assumptions on commercial revenues and an overstated allowed return risks over-compensating a regulated monopoly airport that benefits from substantial protections and limited exposure to competitive or volume risk. The H8 determination represents an important opportunity for the CAA to recalibrate this balance in a way that better reflects Heathrow's risk profile and delivers tangible benefits to passengers.

Our grounds and key points are set out below.

Yours sincerely,



Marta Drozd  
Airports Commercial Manager

## 1. Charges and connectivity

Aer Lingus is concerned that the CAA's presentation of the H8 Initial Proposals understates the true scale of the increase in airport charges by relying on a comparison with the average H7 price cap. While the CAA notes that its proposed H8 average cap of around £28.80 per passenger (2024 CPIH) is only marginally higher than the H7 average, this comparison is misleading because the H7 average is inflated by years in which passenger demand remained well below pre-pandemic levels. In those years, suppressed traffic mechanically increased unit charges, meaning the H7 average does not represent a steady-state benchmark. A more appropriate comparison is with the later H7 years where traffic had substantially recovered. On this like-for-like basis, the H8 proposals imply a materially larger increase in charges, of the order of 7% in real terms, rather than the modest headline uplift cited by the CAA. Aer Lingus therefore considers that the CAA must recognise the full impact of its proposals on charges and connectivity and reflect this more transparently in its Final Proposals.

Aer Lingus is concerned that the Initial Proposals do not sufficiently assess the implications of the proposed settlement for connectivity and affordability. For airlines such as Aer Lingus, Heathrow charges are a material input cost that directly influences network and capacity decisions. For example, in 2025, Aer Lingus carried nearly 600,000 passengers connecting to/from other flights at Heathrow, mainly long haul - around 1 in 25 of all connecting passengers at the airport. Higher charges disproportionately affect routes and services with thinner margins, particularly short haul and regional. In time, Aer Lingus would respond to higher charges by reducing capacity and focussing on more profitable point to point customers, reducing the number of connecting passengers and thereby weakening the overall network at the airport. This can weaken the overall attractiveness of Heathrow as a hub, threatening high frequency feeder services, and ultimately reducing choice and increasing fares for consumers.

Heathrow's charges do not exist in isolation. The overall level of charges must be assessed in the context of cumulative cost pressure faced by airlines and passengers. These include not only the H8 settlement itself, but also expansion related costs, regulatory true ups, the transition to sustainable aviation fuels and wider fiscal measures (e.g. Air Passenger Duty) affecting aviation.

## 2. Constructive Engagement and the Business Plan

Aer Lingus supports the CAA's objective of strengthening Constructive Engagement and the move to a single Business Plan framework, which was intended to address shortcomings identified in previous price controls. However, EI shares concerns that the effectiveness of Constructive Engagement has been materially constrained by deficiencies in the quality, transparency and consistency of information provided by HAL.

A central issue has been the absence of a clear and coherent "golden thread" linking consumer research to identified needs, proposed outcomes, investment priorities and the associated operating and capital costs. Without this linkage, it is difficult for stakeholders to assess whether the Business Plan represents an efficient and proportionate response to consumer priorities, or to meaningfully challenge prioritisation decisions.

Aer Lingus also considers that information asymmetries have persisted throughout the process, limiting effective scrutiny. In this context, Aer Lingus is concerned about the potential for substantive new information or revised justifications to be introduced after the conclusion of Constructive Engagement. Allowing material late submissions would undermine the integrity of the process, reduce the ability of users to engage meaningfully, and create perverse incentives for regulated entities to withhold or refine evidence outside the agreed framework.

Aer Lingus therefore considers that a very high bar must apply to the acceptance of any late submissions, limited strictly to narrow clarifications that demonstrably improve consumer outcomes and can be subject to proportionate scrutiny. The CAA should be explicit that material new evidence

submitted late will not be afforded the same weight as information provided in accordance with the agreed process.

### **3. Customer outcomes and service incentives**

Aer Lingus supports the CAA's emphasis on delivering improved outcomes for passengers and recognises the central role that the H8 price control should play in strengthening service quality, resilience and overall customer experience at Heathrow. Given Heathrow's position as a regulated monopoly airport, it is essential that the regulatory framework ensures that passengers receive tangible and sustained benefits in return for the charges they pay.

Aer Lingus agrees with the CAA that service performance at Heathrow has been inconsistent over recent years and that there remains a material gap between passenger expectations and delivered outcomes. While some progress has been made since the acute operational disruptions experienced earlier in the H7 period, performance has not yet demonstrated the level of resilience, predictability and quality that is expected of a global hub airport operating at premium charge levels. For Terminal 2, Aer Lingus passengers have continued to experience variability in performance across key touchpoints, including baggage handling, security processing and overall operational recovery following disruption. Aer Lingus considers that the scale and persistence of outages affecting HAL's departing baggage systems warrant treatment as a key priority within the H8 framework.

Aer Lingus therefore considers that the H8 framework must move beyond incremental improvement and place a stronger emphasis on embedding reliability and resilience across the airport system. This is fundamentally about reducing the frequency and severity of major service failures and ensuring that the system performs robustly during periods of stress, not merely improving average performance metrics.

#### **Service quality framework**

Aer Lingus broadly supports the continuation of a service quality framework that links regulatory allowances and incentives to passenger-facing outcomes. However, Aer Lingus is concerned that the proposed calibration of targets and incentives remains insufficiently stretching and does not fully reflect the consumer harm associated with persistent underperformance or major operational failures.

In particular, Aer Lingus considers that the framework places too much weight on average or steady state performance and does not adequately capture the impact of occasional but severe failures, such as baggage system outages or terminal specific disruptions. For passengers, these events disproportionately shape perceptions of service quality and value for money. A framework that fails to respond meaningfully to such failures risks normalising unacceptable outcomes rather than incentivising their prevention in the first place.

Aer Lingus is also concerned that some measures, as currently specified, may not be sufficiently sensitive to terminal-level performance. It is important that the regulatory framework captures the reality of the passenger experience in that terminal, rather than relying on airport-wide averages that may mask underperformance in specific locations.

#### **Incentives and accountability**

Aer Lingus recognises the CAA's intention to balance incentives and penalties within the service quality regime. However, Aer Lingus considers that the continued use of service quality bonuses remains inappropriate in the context of Heathrow's market position and performance history.

As a regulated monopoly airport, Heathrow must be expected to deliver an acceptable standard of service as a baseline. Providing upside rewards for meeting, or only marginally exceeding, target levels risks weakening accountability and diluting the deterrent effect of penalties for underperformance. As the CAA confirms in its Initial Proposals, over the period 2023-2025 HAL earned £3.5m more in bonuses than it paid out in rebates, despite the theoretical exposure to rebates being almost five times higher

than the exposure to bonuses. This outcome indicates that the rebate regime lacks sufficient ambition and is not operating as an effective deterrent to poor service delivery. In the context of ongoing service issues at Heathrow, including persistent outages affecting departing baggage systems, Aer Lingus considers that there is a clear case for tightening rebates so that they more effectively target underperformance and better reflect the consumer benefits that should be delivered in return for substantial capital expenditure.

Year	Rebate (£m)	Bonus (£m)
2023	1.4	2.2
2024	2.5	2.8
2025	2.6	5.0
<b>Total paid</b>	<b>6.5</b>	<b>10.0</b>
<b>Exposure to airport charge revenues</b>	<b>7%</b>	<b>1.44%</b>

Source: CAA Initial Proposals

Aer Lingus therefore supports a re-balancing of the incentive framework towards stronger downside incentives with penalties that are meaningful, proportionate to consumer harm and clearly linked to failures in service delivery or resilience. Where bonuses are retained, they should be limited to genuinely exceptional performance that demonstrably exceeds passenger expectations and delivers sustained benefits.

### **Baggage performance and system resilience**

Baggage handling remains a critical area of concern for Aer Lingus and its passengers. Recurrent baggage system failures at Heathrow have resulted in significant disruption, including delayed and mishandled bags, operational knock-on effects and reputational damage for airlines. These issues have been particularly acute during periods of system stress and recovery, highlighting weaknesses in resilience rather than isolated performance shortfalls.

Aer Lingus is concerned that the proposed regulatory measures do not adequately capture the full scale or impact of these failures. In particular, performance metrics that are triggered only when failures exceed certain thresholds risk excluding many significant incidents that nonetheless cause substantial passenger detriment. From a regulatory perspective, this creates a misalignment between the incentives faced by HAL and the outcomes experienced by passengers.

Aer Lingus notes that during the ORC 2026 consultation held in September last year, HAL referenced throughout the consultation (including in the consultation materials) that there were “provisions for increased resilience and futureproofing” in both the Baggage and Hold Baggage Screening (HBS) budgeted costs. Given that significant baggage system failures have continued into 2026, Aer Lingus considers that HAL has not demonstrated what resilience benefit the airline community received in exchange for those cost increases.

Aer Lingus therefore considers that baggage performance measures should be strengthened to ensure that major system outages and repeated failures are fully reflected in regulatory outcomes. This should include a clearer linkage between resilience failures and financial consequences, as well as stronger incentives to invest in preventative maintenance, system redundancy and effective recovery arrangements.

### **Passenger experience and fairness**

Aer Lingus welcomes the CAA’s focus on fairness and inclusivity within the passenger experience, including support for passengers with reduced mobility and those requiring additional assistance. However, Aer Lingus notes that delivery in this area has been inconsistent and that improvements have not always been sustained over time.

Aer Lingus therefore considers it critical that service quality measures are strengthened and designed to ensure consistent, reliable delivery across all terminals and passenger groups, supported by robust contractual frameworks and proactive performance management. In particular, Aer Lingus would value clear monthly reporting by HAL on how the service provider is performing versus the SLA framework. For passengers, particularly those transferring or connecting, variability and unreliability in this area undermines confidence in the airport and significantly detracts from overall value for money.

#### **4. Traffic forecast**

Aer Lingus welcomes the CAA's decision to commission an independent traffic forecast as part of the H8 price control and recognises the importance of traffic forecasting to the overall calibration of airport charges. Forecast passenger volumes are a critical determinant of per-passenger charges, and even relatively small forecasting biases can have material consequences for airlines and passengers over the course of a five-year regulatory period.

Aer Lingus notes that Heathrow's traffic forecasting history demonstrates a pattern of systematic under-forecasting in previous price control periods. In a capacity-constrained environment, such under-forecasting has the effect of inflating allowed charges and transferring value from passengers to the airport. Given this history, Aer Lingus considers it essential that the H8 forecast is subject to particularly robust scrutiny and that any methodological conservatism is carefully justified and proportionate.

#### **Skylark independent expert advice**

As discussed in further detail in the below sections, Aer Lingus notes that the airline community has commissioned independent expert advice from Skylark to review the passenger forecast produced for the CAA by Steer and to assess both the key modelling inputs and the continued application and calculation of the shock factor. Skylark's review indicates that while Steer's core approach is broadly reasonable, a number of assumptions remain conservative in a capacity-constrained environment: Skylark considers Steer's ATM assumptions to be cautious (including around recovery back towards 2025 levels by 2031), with any near-term dip in 2026 movements from geopolitical disruption likely to be transitory. Skylark also considers that, although Steer's aircraft size assumptions are broadly reasonable, Steer's load factor trajectory remains conservative relative to the scope for optimisation at a slot-constrained hub, and estimates a higher seat factor by 2031. Taking these input adjustments together (ATMs, aircraft size and seat factor), Skylark estimates that 2031 passengers could be higher than Steer's base case (92.2m vs 90.2m) and that total H8 passengers could be higher overall (447.6m vs the CAA/Steer base case of 442.0m). Aer Lingus considers this reinforces the risk that the CAA's current forecast remains biased to under-forecast demand, which would increase allowed charges.

#### **Core demand assumptions**

Aer Lingus recognises that the CAA's independent advisers Steer have adopted a structured and evidence-based approach to modelling demand, incorporating macroeconomic drivers, aviation market trends and Heathrow-specific constraints. However, Aer Lingus is concerned that a number of underlying assumptions continue to bias the forecast towards a conservative outcome.

In particular, Aer Lingus notes that assumptions relating to load factors, traffic mix and the evolution of demand at a constrained hub airport may not fully reflect recent outturn performance or the structural strength of demand for Heathrow. For airlines operating point-to-point and connecting services, Heathrow's role as a primary gateway and hub airport continues to support strong demand, even in the presence of higher charges and wider cost pressures.

Aer Lingus considers that forecast assumptions must be grounded firmly in observed trends and should avoid embedding downward bias that is not supported by evidence. Where uncertainty exists, the implications of that uncertainty should be assessed symmetrically, rather than in a manner that systematically favours lower demand outcomes.

## **Treatment of risk and uncertainty**

Aer Lingus is particularly concerned about the continued application of the “shock factor” within the traffic forecast. While Aer Lingus recognises the CAA’s objective of accounting for uncertainty and downside risks, it is not clear that the shock factor, as applied, achieves this objective in an efficient or proportionate manner.

The shock factor appears to overlap with other elements of the regulatory framework, most notably the Traffic Risk Sharing mechanism. In practice, this layering of mechanisms risks double-counting downside risks while providing limited additional protection to consumers. Moreover, the application of the shock factor increases complexity and reduces transparency, making it more difficult for stakeholders to understand how forecast volumes translate into allowed charges.

From Aer Lingus’ perspective, the material impact of the shock factor on the resulting price cap underlines the importance of reassessing its role. Where resilience has improved and where other regulatory mechanisms already provide protection against traffic volatility, the continued application of a blunt downward adjustment to demand risks perpetuating the historical pattern of under-forecasting.

Aer Lingus therefore calls on the CAA to withdraw the shock factor for reasons set out above. At a minimum, the CAA must significantly recalibrate it to exclude contaminated economic events, reflect improvements in industry resilience and remove the overlap with the TRS.

## **Capacity constraint and forecasting bias**

Aer Lingus emphasises that Heathrow’s status as a capacity-constrained airport fundamentally alters the implications of forecasting error. Unlike unconstrained airports, where higher-than-forecast traffic may require additional investment or operational response, at Heathrow higher demand primarily results in higher utilisation of existing capacity. In this context, persistent under-forecasting does not expose the airport to commensurate downside risk but instead increases the likelihood of over-recovery through higher charges.

This asymmetry reinforces the need for caution in applying conservative forecasting assumptions. Aer Lingus considers that the regulatory framework should not embed systematic bias that favours the airport where capacity constraints already limit risk exposure. Forecasting approaches should therefore be tested explicitly for bias and adjusted where necessary to ensure that expected outcomes are centred, rather than skewed towards downside scenarios.

## **Interaction with other regulatory mechanisms**

Aer Lingus also considers it important that the traffic forecast is assessed in the context of the wider regulatory package. Mechanisms such as traffic risk sharing, asymmetric risk allowances and inflation indexation all interact with forecast demand to shape the overall risk and reward balance.

In this context, Aer Lingus is concerned that a conservative traffic forecast, combined with multiple protective mechanisms elsewhere in the framework, risks producing an outcome that is not aligned with the “fair bet” principle. The CAA must therefore consider the traffic forecast holistically, taking account of how forecast volumes interact with other elements of the H8 settlement to determine charges and returns.

## **Transparency and scrutiny**

Finally, Aer Lingus considers that transparency around the traffic forecast is essential to effective stakeholder scrutiny. This includes clarity on the drivers of differences between alternative forecast scenarios, the sensitivity of the price cap to key assumptions, and the rationale for selecting particular modelling approaches where expert views differ.

Greater transparency would not only improve confidence in the forecast but also help ensure that the Final Proposals are robust, defensible and aligned with consumer interests.

## **Aer Lingus proposal on traffic forecast**

***Based on independent analysis commissioned by the airline community and carried out by Skylark, Aer Lingus proposes that the traffic forecast for H8 be set at 447.6 million passengers, compared to the CAA's base case estimate of 442.0 million.***

### **5. Operating expenditure**

Aer Lingus welcomes the methodological improvements in the CAA's Initial Proposals for operating expenditure and in particular supports the overall base-step-trend framework, with bottom-up analysis forming the primary basis for setting an efficient baseline and top-down benchmarking used as a cross-check. This is a more credible approach than that applied in earlier price controls and is consistent with the CAA's stated intention to apply tighter evidential standards to cost allowances.

Aer Lingus also supports the CAA's clearer and more disciplined approach to overlays, including the application of need, additionality and efficiency tests. In Aer Lingus' view, the CAA's rejection of a significant proportion of unsupported overlays is an important safeguard for consumers and provides the right incentives for HAL to put forward well-evidenced proposals from the outset.

Notwithstanding these improvements, Aer Lingus is concerned that the Initial Proposals remain insufficiently challenging overall, and that the cumulative effect is likely to result in an opex allowance that is materially higher than an efficient level of costs. The underlying issue is not confined to one category of spend: it arises from a combination of (i) persistent information asymmetry and incomplete transparency, (ii) conservative choices made in areas where the available evidence supports a stronger efficiency challenge, and (iii) the risk that one-off or non-recurring items are embedded in the baseline and rolled forward inappropriately.

#### **Transparency and information quality**

Aer Lingus considers that the poor quality and lack of transparency of HAL's opex information has been a central constraint on users' ability to effectively scrutinise these costs. The CAA has itself identified shortcomings in HAL's Business Plan and in the granularity of the information provided on operating costs. In addition, the CAA's consultants have noted repeated instances where requested information was not provided, requiring assumptions to be made in areas that can materially affect conclusions on efficiency. Aer Lingus is concerned that these assumptions, by necessity, may bias outcomes towards caution and thereby understate inefficiency.

It is our strong view that where evidence is incomplete, the burden should sit with HAL to demonstrate efficiency. Where HAL cannot or does not provide the information required to support its position, the CAA needs to apply a more precautionary approach in the interests of consumers, including by applying stronger efficiency challenges or disallowing items that are not adequately evidenced.

Aer Lingus also emphasises the importance of process discipline. Acceptance of substantive new opex evidence late in the process, particularly where it seeks to revive overlays that have already been rejected for lack of evidence, would undermine the integrity of the settlement and weaken incentives on HAL to provide timely, complete and testable information. Aer Lingus therefore supports applying a high threshold to any late opex submissions, limiting such submissions to narrow clarifications that demonstrably improve consumer outcomes and can be scrutinised proportionately.

#### **Baseline setting and the efficiency challenge**

Aer Lingus supports the CAA's conclusion that HAL's baseline year costs should not be assumed efficient. Multiple strands of evidence indicate that Heathrow's costs remain materially above an efficient frontier. Aer Lingus notes, in particular, the benchmarking evidence showing Heathrow performing poorly relative to comparator airport. The CAA's own benchmarking places Heathrow 39th out of 43 airports in 2019 and 40th out of 43 in 2022, close to the worst performers in the sample. Multiple

independent lines of bottom-up evidence confirm the scale of its inefficiency. Against that weight of evidence, however, the CAA is only applying a catch-up adjustment of 4%. Aer Lingus also notes that the reported 4% gap is expressed as a ratio involving log differences rather than a percentage difference in cost levels; when fitted log costs are converted back into cost levels, the implied gap appears to be in the range of 50%-60%, which is far more consistent with Heathrow's persistent bottom-quartile position in the comparator set.

However, Aer Lingus is concerned that there is a potential inconsistency between (a) Heathrow's position in the benchmarking results and (b) the size of the resulting "catch-up" adjustment applied. Where an airport is persistently close to the poorest performers in the comparator sample, the implied efficiency gap would typically be expected to be material. Aer Lingus therefore considers the CAA should (i) update benchmarking with the most recent data available, and (ii) present the implied gap in a manner that is transparent and readily interpretable for stakeholders (including where the transformation from logged values to cost levels affects the implied scale of the gap).

While Aer Lingus agrees that top-down benchmarking should be used primarily as a cross-check (given the limitations of any econometric approach), it remains a key piece of evidence. The CAA should ensure that the cross-check is not used in a way that systematically compresses the implied gap where other bottom-up evidence points to material inefficiency.

### **Key cost categories where a stronger challenge is warranted**

Aer Lingus considers that, while the CAA's methodological approach to opex represents an improvement, there are several material cost categories where the evidence supports a stronger efficiency challenge than is currently reflected in the Initial Proposals. In a number of cases, conservative judgements appear to have been applied despite available evidence pointing to more substantial inefficiencies.

Security staff costs represent a key example. Analysis using HAL's own Security Programme business case demonstrates a gap of at least £114.7 million over H8 between the efficiency savings implied by that business case and the allowances set by the CAA in the Initial Proposals. This gap is material and unjustified, arising from four specific and remediable flaws in the consultants' (EE/YA) methodology.

- First, EE/YA excluded the productivity improvement from the transition from ATiX to CTiX lanes on the grounds that installation completes before H8; however, because 2024 costs are used to set the H8 baseline, this embeds the pre-CTiX cost level and ignores efficiency gains that will be operative from the start of H8.
- Second, EE/YA did not remove one-off transition costs (including "security: inefficiency during build" of approximately £8.2m) from the 2024 baseline, so consumers would fund non-recurring costs throughout H8.
- Third, a comparator airport showing HAL to be more than 30% inefficient was dropped without the CAA seeking to obtain data from it. This understates the challenge the evidence supports.
- Fourth, the CTiX familiarity efficiency range was identified as 8%-36%, yet EE/YA applied only 40% of the lowest end (3.2%) with no substantive justification.

Aer Lingus requests that the CAA conducts a deep dive on security costs for its Final Proposals, correcting each of these issues and ensuring the allowance reflects the full efficiency opportunity evidenced in HAL's own programme materials. Transitional and one-off costs associated with implementation should not be embedded in the baseline and rolled forward into H8 as this would overstate efficient steady-state costs and dilute the benefits of significant capital investment for consumers.

Aer Lingus has similar concerns in relation to wider staff costs. Where there is a material divergence between prior regulatory expectations and outturn costs, the appropriate response is not simply to assume that earlier targets were overstated. Rather, the CAA ought to require robust evidence explaining the drivers of the increase and apply challenge where inefficiency cannot be ruled out. Limited transparency from HAL should not result in higher allowances by default.

In facilities, maintenance and cleaning, Aer Lingus supports the application of efficiency challenge but notes that benchmarking approaches must reflect the underlying cost drivers. Benchmarking solely on a per-passenger basis risks understating inefficiency at a highly utilised, capacity-constrained airport. Comparisons with other airports should also be treated with caution where independent regulatory assessments have identified inefficiencies in those comparator cost increases.

Aer Lingus is also concerned about the treatment of insurance and utilities costs. Significant uplifts to baseline insurance costs require strong justification, particularly in light of evidence pointing to easing market conditions. Similarly, utilities allowances should reflect demonstrable reductions in consumption and the impact of energy efficiency initiatives, rather than assuming cost growth by default through indexation.

Finally, Aer Lingus notes that several material operating cost lines, cumulatively amounting to more than £320m, have not been subject to detailed bottom-up scrutiny, nor have they been subject to an efficiency challenge. Where the CAA's own analysis identifies inefficiency in assessed categories and benchmarking indicates Heathrow performs poorly overall, it is not credible to assume that unassessed cost lines are fully efficient. A proportionate efficiency challenge should therefore be applied to avoid implicitly endorsing inefficiency. In this context, Aer Lingus considers that a 5% efficiency challenge applied to these unassessed lines is reasonable and consistent with the evidence of inefficiency observed across the categories that have been subject to bottom-up scrutiny. The CAA must apply such a challenge in its Final Proposals.

Across all categories, Aer Lingus reiterates that one-off, exceptional or service-failure-related costs (including MTI-related provisions) must be excluded from the baseline. Consumers should not fund, through recurring allowances, costs that arise from underperformance or non-recurring events.

### **Overlays and protection against late re-litigation**

Aer Lingus supports the CAA's disciplined approach to overlays, including the rejection of poorly evidenced proposals, notably in areas such as technology, resilience and digital where the evidence presented has not met the required standard. Aer Lingus considers it particularly important that the CAA maintains this rigour into Final Proposals.

Aer Lingus is concerned that HAL may seek to re-introduce or re-argue rejected overlays through late evidence. A determination that permits such re-litigation would materially weaken incentives on the regulated entity to provide complete evidence in its Business Plan and would undermine the purpose of the strengthened H8 process. Aer Lingus therefore supports strict limits on late submissions in the opex space and clear CAA signalling that late evidence will not be afforded equivalent weight.

### **Bespoke costs: business rates and related protections**

Aer Lingus recognises the materiality of business rates to the opex building block and the CAA's decision to apply bespoke treatment. However, the pass-through nature of business rates creates an inherent incentive problem: HAL does not bear the cost of poor outcomes in negotiations or challenges to rateable value assessments because the cost is ultimately recovered from users. In these circumstances, Aer Lingus considers the CAA should strengthen requirements on HAL to demonstrate robust, proactive engagement with the relevant authorities to minimise liabilities, and provide transparency to airlines on the actions undertaken and outcomes achieved.

Aer Lingus also considers it important that the treatment of business rates is consistent across the package, including interactions with commercial revenues where relevant (for example where rate burdens are effectively recovered through rents charged to commercial tenants). The CAA should ensure that these interactions do not create systematic over-recovery from aeronautical charges.

## Aer Lingus proposal on OPEX

***Based on independent analysis commissioned by the airline community and carried out by CEPA, Aer Lingus proposes that the opex allowance for H8 be set at £7,480m, compared to the CAA's base case estimate of £7,790m. A reduction of £310m reflects a stronger efficiency challenge, the removal of one-off costs from the baseline, and a 5% challenge applied to unassessed cost lines.***

### **6. Commercial revenues**

Aer Lingus supports the CAA's decision to retain a single-till framework and welcomes the more structured approach adopted in the Initial Proposals for assessing commercial revenues. In particular, Aer Lingus agrees with the use of a base–step–trend methodology, with bottom-up analysis used to establish an efficient baseline and top-down benchmarking applied as a sense-check. This represents a clear improvement on previous price controls and, in principle, should allow the benefits of Heathrow's commercial activities to be shared appropriately with passengers through lower aeronautical charges.

However, Aer Lingus is concerned that the commercial revenue baseline adopted in the Initial Proposals remains overly conservative, with the cumulative effect of understating Heathrow's revenue-raising potential and inflating the burden placed on aeronautical charges. As with opex, this concern is driven by a combination of limited transparency, cautious modelling choices and insufficient recognition of Heathrow's underperformance relative to comparable airports.

#### **Transparency and information asymmetry**

Aer Lingus considers that effective scrutiny of commercial revenues has been constrained by the quality and completeness of information provided by HAL. As with operating costs, limitations in the granularity of data and the absence of a clear link between operational drivers, pricing strategies and outturn revenues have made it difficult for stakeholders to assess whether proposed baselines reflect efficient and realistic performance.

In this context, Aer Lingus reiterates the importance of applying a consistent regulatory principle: where information is incomplete, HAL should not benefit from conservative assumptions. If the evidence base does not support the conclusion that Heathrow is already operating efficiently across its commercial portfolio, the baseline should not be set at a level that assumes away scope for improvement. Greater transparency is also essential to ensure that commercial revenues evolve in a way that genuinely reflects passenger behaviour and market conditions rather than being driven by modelling simplifications.

#### **Setting the efficient baseline**

Aer Lingus supports the removal of revenues associated with off-RAB activities from the baseline where those activities fall outside the scope of the regulated airport. However, scope adjustments must be applied consistently and should be aligned with regulatory precedent to avoid overstating revenue removals in H8 relative to earlier determinations.

More generally, Aer Lingus is concerned that the baseline for several major commercial revenue streams does not fully reflect Heathrow's underperformance relative to peer airports. Heathrow is a mature, high-footfall hub airport with strong demand characteristics. Where revenue per passenger or per square metre remains below that achieved at comparable hubs, this should not be treated as an immutable feature of the airport. Rather, it indicates scope for efficiency and improvement that should be reflected in the regulatory settlement for the benefit of consumers.

#### **Retail, catering and advertising**

Aer Lingus supports the CAA's decision to examine retail, catering and advertising revenues in detail and to apply explicit efficiency challenges where evidence indicates underperformance. However, Aer

Lingus considers that the scale of the efficiency challenge applied is modest relative to the observed gap between Heathrow and more efficient comparator airports.

In Aer Lingus' view, the approach taken risks locking in a large proportion of the existing performance gap by closing only a limited share of the difference to comparators. This is particularly concerning given that Heathrow benefits from scale, passenger mix and dwell time characteristics that should, in principle, support strong commercial performance. Where structural differences are cited as justification for conservative adjustments, these should be clearly evidenced and quantified, rather than assumed. Aer Lingus therefore considers that a more ambitious-but still proportionate-closing of the observed gap is warranted, with the onus on HAL to demonstrate why it cannot reasonably be expected to converge further towards peer performance over the H8 period.

### **Surface access–related revenues**

Aer Lingus recognises the complexity of forecasting surface access revenues and supports the CAA's attempt to model these systematically. However, Aer Lingus is concerned that certain elements of the modelling may understate outturn revenues and therefore under-deliver benefits to consumers.

In particular, Aer Lingus notes that Terminal Drop-Off Charge (TDOC) revenues appear sensitive to assumptions around passenger behaviour, compliance and enforcement. Where there is evidence that modelling approaches materially under-predict recent outturn revenues, this should prompt reassessment of the underlying assumptions rather than acceptance of a conservative baseline. Aer Lingus considers it important that all material revenue streams associated with TDOC, including penalty and enforcement related income, are properly reflected, to avoid systematic under recovery in the baseline.

Aer Lingus also emphasises the importance of safeguarding consumers against tariff-driven revenue upside. Where Heathrow has the ability to increase charges for services such as TDOC during the regulatory period, the framework should ensure that any additional revenues arising from such price increases are fully returned to users, rather than retained by HAL.

### **Service revenues, including Fast Track**

Aer Lingus is concerned that the baseline for service revenues, including Fast Track, may not fully reflect the impact of pricing and product changes introduced during the baseline year. Where significant changes take effect part-way through the year, a simple annualised baseline may understate the steady-state revenue position entering H8.

In Aer Lingus' view, it is important that the baseline is adjusted to reflect the full-year effect of such changes, rather than locking in a temporarily suppressed revenue level. Failure to do so risks embedding an artificially low starting point and transferring value from passengers to the airport through higher aeronautical charges.

### **Property and other commercial revenues**

Aer Lingus notes that the assessment of property revenues has been particularly affected by information asymmetry, with limited disclosure on asset characteristics, lease structures and utilisation. In these circumstances, applying only a partial efficiency challenge risks understating the scope for improvement.

Where HAL has not provided sufficient evidence to justify maintaining a material gap to comparator performance, Aer Lingus considers it reasonable for the CAA to apply a stronger assumption that closes a greater proportion of the observed gap, with the opportunity for HAL to justify a different outcome through improved transparency.

Aer Lingus similarly supports a cautious approach to other smaller commercial revenue lines, ensuring that baselines reflect realistic performance expectations and that interactions between different revenue streams are properly considered.

## **Interaction with business rates and other costs**

Aer Lingus considers it important that the treatment of commercial revenues is assessed consistently with the treatment of costs, particularly business rates. Where increases in business rates are effectively passed through to commercial tenants via higher rents, this should be reflected in higher commercial revenues rather than recovered solely through aeronautical charges. Failure to recognise this interaction risks double recovery from passengers.

The CAA should therefore ensure that the commercial revenue forecast appropriately reflects the likelihood that a share of increased non-domestic rates will be recovered through commercial income streams over H8.

## **Aer Lingus proposal on Commercial Revenues**

***Based on independent analysis commissioned by the airline community and carried out by CEPA, Aer Lingus proposes that the commercial revenue forecast for H8 be set at £5,905m, compared to the CAA's base case estimate of £5,493m; an increase of £412m reflecting a stronger efficiency challenge on retail, catering and advertising revenues, a corrected POD revenue scope adjustment, and the pass-through of business rates increases into commercial rents.***

## **7. Other regulated charges (ORCs)**

Aer Lingus recognises that Other Regulated Charges were originally intended to provide a transparent and proportionate mechanism for recovering the costs of certain ancillary services while allowing for collaborative governance and appropriate airline engagement. However, Aer Lingus is concerned that, in practice, the ORC framework has progressively deteriorated and now operates largely as a cost pass-through mechanism, with weak incentives for efficiency and limited protection for consumers.

Aer Lingus considers that the current operation of ORCs does not sit comfortably with the CAA's wider objective of strengthening cost discipline and accountability across the H8 settlement. Without material reform, the framework risks allowing inefficient costs to be recovered with insufficient scrutiny, ultimately increasing charges to passengers without commensurate benefits.

### **Governance, transparency and incentives**

Aer Lingus' primary concern is that the governance arrangements underpinning ORCs do not provide effective incentives for cost control. Although ORCs are notionally subject to consultation and airline engagement, the practical ability of airlines to influence scope, specification or cost outcomes is limited. In many cases, airlines are presented with costs once decisions have largely been taken, reducing engagement to a largely informational exercise rather than meaningful scrutiny.

This governance weakness is compounded by the low-powered incentive structure inherent in ORCs. Because costs are largely passed through, HAL has limited financial exposure to inefficiency, and there is a corresponding reduction in the incentive to minimise costs or explore alternative delivery options. Aer Lingus considers this to be misaligned with the CAA's statutory duty to further the interests of users of air transport services.

### **Visibility and cost recovery risks**

Aer Lingus is also concerned about the limited visibility airlines have over the underlying drivers of ORC costs. In several areas, cost increases have been proposed or implemented without sufficient

transparency around unit costs, productivity assumptions or alternative options. This lack of visibility makes it difficult for airlines to assess whether costs are efficient or whether expenditure represents the best use of consumer funds.

From a regulatory perspective, this creates a material risk that inefficient or avoidable costs are recovered through ORCs without adequate challenge. Over time, this risks normalising cost escalation within the ORC framework and undermining confidence in the broader regulatory settlement.

### **Scope of ORCs and structural concerns**

Aer Lingus supports the CAA's decision not to expand the scope of ORCs further. However, Aer Lingus considers that this decision alone does not address the underlying structural issues with the framework. In particular, the continued inclusion of material operational services within ORCs is problematic where those services have a direct impact on passenger experience and system resilience.

The inclusion of such services within a pass-through framework weakens accountability and risks creating perverse incentives. Where service failures or resilience shortcomings give rise to additional costs, recovery through ORCs can dilute responsibility and shift the financial burden onto users rather than incentivising improved performance by the airport operator.

### **Alignment with service quality and efficiency objectives**

Aer Lingus considers that the current ORC framework sits uncomfortably alongside the service quality and efficiency objectives of the H8 price control. In particular, there is a risk that costs incurred to remedy service failures-or to meet service targets-are recoverable through ORCs, even where those failures arise from inefficient design, maintenance or operational decisions.

This interaction risks undermining the effectiveness of service quality incentives by insulating HAL from the financial consequences of underperformance. Aer Lingus therefore considers it important that services which are central to passenger experience and operational resilience are subject to stronger efficiency incentives and accountability mechanisms than those currently provided by the ORC framework.

### **Treatment of specific ORC cost categories**

Aer Lingus considers that reform of the ORC framework should be accompanied by targeted scope changes and stronger cost discipline, particularly where the current arrangements operate as a low-powered pass-through mechanism with limited incentives for efficiency.

1. **Reclassification of baggage-related costs out of the ORC framework** and into aeronautical charges, where stronger regulatory incentives and scrutiny apply. Aer Lingus considers that £123.4 million of baggage ORC costs should be excluded from ORCs on the basis that these costs would be more appropriately recovered through aeronautical charges. The continued inclusion of baggage within ORCs risks inefficient cost pass-through and weak accountability, particularly given the history of service failures and the material consumer impact of baggage system performance. Reclassification would better align incentives, reinforce accountability for outcomes, and avoid embedding inefficient costs in a low-challenge framework.
2. **PRM should be treated as a bespoke revenue line**, rather than remaining within the standard ORC framework. PRM is a highly material and sensitive service with distinct cost drivers, significant recent cost growth and important service quality implications for consumers. Treating PRM as a bespoke line would allow for clearer transparency, targeted scrutiny and more appropriate regulatory oversight, reducing the risk that inefficient cost increases are passed through automatically to users under a low-powered incentive regime.
3. Aer Lingus **does not support the inclusion of Business Rates within ORCs**. Business Rates are a highly material cost item and are not meaningfully influenced by short-term airline behaviour. Passing these costs directly through ORCs would further weaken incentives for HAL to manage liabilities efficiently and would transfer risk inappropriately to airlines and passengers. Aer Lingus considers that Business Rates should continue to be addressed within the broader aeronautical

charges framework, where regulatory scrutiny and accountability are stronger and where interactions with other building blocks can be assessed coherently.

4. **A clear efficiency challenge should be applied to the residual ORC cost base.** Even where certain costs remain within ORCs, it is not credible to assume full efficiency in a framework characterised by limited transparency, weak airline influence and largely ex-post controls. Aer Lingus therefore supports the application of a proportionate efficiency adjustment to remaining ORC costs, alongside strengthened governance and reporting requirements, to reduce the risk of inefficient cost pass-through and better protect consumers.

### **The need for reform**

In light of the above, Aer Lingus considers that structural reform of ORCs is required to ensure alignment with the objectives of the H8 settlement. This should include:

- a clearer delineation of which services are appropriate for recovery through ORCs and which should be included within the aeronautical charges framework, where stronger efficiency incentives apply;
- enhanced transparency and reporting requirements to allow airlines and the CAA to scrutinise cost drivers effectively;
- governance arrangements that enable meaningful airline engagement at an earlier stage, before costs are effectively committed; and
- safeguards to ensure that costs arising from inefficiency or service failure are not automatically passed through to users.

Without such reform, Aer Lingus is concerned that ORCs will continue to function as a weakly regulated cost recovery mechanism, undermining cost discipline and increasing the risk that consumers bear the cost of inefficiency.

### **8. Commercial revenue incentives**

Aer Lingus supports the CAA's decision to retain the single-till framework which remains a fundamental mechanism for protecting consumers at a monopoly airport such as Heathrow. Single till ensures that commercial revenues are shared with passengers through lower aeronautical charges and prevents Heathrow from exploiting pricing power in non-aeronautical activities. Aer Lingus does not consider that the evidence supports any weakening of single till in H8, particularly given Heathrow's scale, market power and the already high level of charges faced by users.

Within a single-till framework, Aer Lingus agrees that incentives should encourage efficient commercial performance. However, such incentives must be carefully calibrated to avoid rewarding revenue growth driven primarily by tariff increases rather than genuine efficiency or improved consumer value. Given Heathrow's low-risk profile as a capacity-constrained monopoly benefiting from multiple regulatory protections, there is limited justification for allowing Heathrow to retain upside arising from price-led revenue growth.

Aer Lingus is therefore concerned about areas where Heathrow may be able to increase tariffs during H8, most notably in relation to Terminal Drop-Off Charges and premium passenger services such as Fast Track. In these cases, revenue growth is highly sensitive to pricing decisions and consultation requirements alone are unlikely to provide effective consumer protection. Aer Lingus considers that any incremental revenues arising from tariff increases during H8 should be returned in full to users through the price control, ensuring that Heathrow does not benefit financially from unilateral price rises.

Overall, Aer Lingus supports the CAA's direction on commercial revenue incentives, subject to clear safeguards to ensure that single-till protections are not eroded in practice and that Heathrow is not rewarded for tariff-driven revenue increases that do not reflect efficiency or improved outcomes for passengers.

## 9. Capital expenditure

Aer Lingus welcomes the CAA's approach to capital expenditure for H8, in particular the move away from attempting to determine every individual scheme ex-ante and towards setting a broad, evidence-based capex envelope underpinned by a transparent needs assessment and independent cost benchmarking. Aer Lingus considers this framework, if coupled with robust governance and transparency, can better protect consumers by (i) constraining the overall scale of spend to what is deliverable and affordable, and (ii) ensuring that capital expenditure is demonstrably linked to consumer outcomes.

### **Overall capex envelope: Aer Lingus supports the CAA's midpoint and method**

Aer Lingus supports the CAA's proposed efficient H8 capex envelope of £5,895 million (2024 CPIH) (i.e., approximately £5.9 billion) and the accompanying range of £5,500 million to £6,139 million (2024 CPIH). This envelope is materially lower than HAL's plan as submitted and reflects a more disciplined assessment of need and deliverability. The CAA's summary explains that HAL's H8 capex plan was around £9.4 billion (in 2024 price terms, with the CAA setting out CPIH figures in its summary) and that the CAA removed projects associated with "Modernising Heathrow" expansion and certain reclassifications, reducing the plan before applying its needs and deliverability assessment to arrive at a lower envelope.

Aer Lingus supports the key elements of the CAA's method, including:

- **Needs assessment:** scoring projects on consumer benefit, impact and likelihood of delivery to determine which parts of the portfolio have a sufficiently strong need case to be included in an efficient envelope.
- **Deliverability calibration:** explicitly recognising that there are practical constraints on what HAL can deliver efficiently in a live, capacity-constrained environment, especially alongside other pressures such as supply chain constraints and parallel work associated with expansion planning.
- **Independent benchmarking:** testing the efficiency of the programme through independent benchmarking of major projects, which the CAA indicates supports the conclusion that cost forecasts for the envelope are broadly consistent with efficient costs.

In Aer Lingus' view, these elements collectively represent the right direction for H8: a constrained envelope, focused on consumer value and deliverability, rather than a large, unconstrained programme whose scale creates risks of disruption, inefficiency and weak prioritisation.

### **The importance of deliverability and operational disruption**

Aer Lingus considers the CAA is right to emphasise that deliverability should be a binding constraint in setting the envelope. The CAA's analysis recognises that delivering an envelope above £7.5 billion (2024 CPI) would likely be very challenging and notes that HAL has only delivered capex above this level historically during the construction of Terminal 5 and Terminal 2, where there was physical ring-fencing that facilitated delivery - conditions that do not apply to H8's proposed portfolio. The CAA also notes two key constraints for H8 deliverability: supply chain limitations and the coincidence of H8 projects with planning for expansion, both of which can increase delivery risk.

From a consumer perspective, Aer Lingus considers this deliverability lens is essential because the risk from an oversized capital programme is not only financial. It also manifests through:

- **Operational disruption** from multiple parallel projects in a constrained campus, potentially affecting punctuality, queueing, baggage performance and passenger experience; and
- **Efficiency dilution**, where rapid ramp-up in year-one or concurrent delivery of too many schemes creates resource contention, weaker procurement outcomes and higher unit costs.

Aer Lingus therefore agrees that the CAA should treat deliverability as a core consumer protection tool. Where HAL proposes additional schemes or seeks to push spend toward the upper end of the envelope, the CAA should require a clear demonstration that disruption risks are understood, mitigated and justified by consumer benefits.

## **Scope discipline and separation from expansion**

Aer Lingus supports the CAA's approach to focus H8 on a two-runway operation and to separate expansion-related projects from the H8 capex envelope. The CAA's summary explains that it removed projects associated with HAL's expansion programme ("Modernising Heathrow") when setting the capex envelope for H8. Aer Lingus considers this separation important to prevent consumers funding speculative expansion-related activities through the two-runway price control and to avoid contaminating the H8 investment programme with scope that is inherently uncertain and would materially increase deliverability pressure.

However, Aer Lingus also considers that "scope creep" risk remains material. Even where expansion-related capex is excluded formally from the H8 envelope, the coincidence of H8 delivery with expansion planning and enabling activity can still create constraints on labour, contractor capacity, logistics and airport access. Aer Lingus therefore encourages the CAA to maintain a holistic view of deliverability, considering not only the projects inside the H8 envelope but also the practical impact of other major programmes being pursued in parallel.

## **Needs assessment and prioritisation: strengthening the "golden thread"**

Aer Lingus supports the principle that projects should be prioritised based on a clear "golden thread" from consumer research to identified needs, options, and outcomes. The CAA's capex methodology is explicitly designed to secure that the reasonable demands of consumers are met, promote efficiency and economy, and (where appropriate) enable environmental mitigation.

In practice, Aer Lingus considers that prioritisation must be strengthened in three ways:

1. **Clearer articulation of consumer outcomes:** projects should specify measurable outcomes that matter to passengers—reliability, resilience, queueing reduction, wayfinding, baggage performance and accessibility—and not rely on generic statements of improvement.
2. **Consistency across terminals and the campus:** Heathrow's terminals are not homogeneous. Aer Lingus operates from Terminal 2, and it is important that prioritisation is not implicitly biased toward the needs of one terminal or one operating model. Where projects are terminal-specific, the consumer case should be explicit and the cost justification particularly clear.
3. **Treatment of discretionary scope:** where projects include discretionary components (e.g. scope that is not safety-critical or compliance-driven), Aer Lingus considers those elements should face a higher evidence threshold and be more readily de-scoped if the consumer case is weak or deliverability constraints tighten.

Aer Lingus notes that the CAA's overall approach—setting an envelope and allowing prioritisation within it—creates an opportunity to improve outcomes if governance is robust. But it also creates risk if prioritisation becomes a mechanism for late additions or if weaker business cases are used to "fill the envelope".

## **Asset management and compliance: necessary, but must remain tightly defined**

Aer Lingus supports prioritisation of asset management and compliance within the envelope. These categories are often where the consumer risk from under-investment is most acute, because failures can lead directly to disruption and resilience problems. However, Aer Lingus considers that "asset management" can sometimes be used as a broad label that obscures discretionary enhancements. For that reason, Aer Lingus considers the CAA should:

- Require clear distinction between safety-critical / compliance scope and discretionary enhancements;
- Require evidence that the proposed intervention is the least-cost option to achieve the required outcome; and

- Ensure benefits are not double-counted (e.g., where opex savings are asserted but not clearly reflected in opex allowances).

### **Capacity and terminal occupancy: risks from delayed delivery**

Aer Lingus considers that capacity-related programmes and terminal occupancy improvements warrant careful treatment because they directly affect passenger experience (congestion, queues, resilience) and enable demand to be accommodated efficiently. The CAA's initial proposals recognise that HAL's forecast assumes capacity constraints will be addressed through capital expenditure projects, and that these are integral to its view of how Heathrow can accommodate traffic over H8.

Aer Lingus is concerned that delay to critical capacity programmes - such as those associated with terminal occupancy - could constrain growth and harm consumers through increased congestion and reduced resilience. It can also create incentive issues when set alongside the broader regulatory package (for example where traffic mechanisms interact with delivery performance). This is one reason why Aer Lingus considers that the envelope approach must be accompanied by strong delivery accountability in the governance framework.

### **Efficiency assessment: benchmarking is helpful, but incentives must bite in delivery**

Aer Lingus supports the CAA's use of independent benchmarking in assessing the efficiency of major projects and its conclusion (at this stage) that the costs within the proposed envelope are broadly consistent with efficient costs. However, Aer Lingus emphasises that ex ante benchmarking is only one layer of consumer protection. The greatest risks to consumers often arise during delivery: scope drift, change control, procurement outcomes, and the dilution of delivery obligations.

Accordingly, Aer Lingus considers that the CAA should ensure the capex incentive framework and governance arrangements used during H8 (including budget setting and delivery obligations) are sufficiently robust to prevent the efficient envelope becoming inefficient spend in practice. The CAA's summary notes that these governance arrangements were supported by the CMA in H7 and are intended to incentivise efficiency through shared over/underspend against agreed budgets. Aer Lingus welcomes further strengthening of these mechanisms, which is addressed in more detail in the capital governance section of this response.

### **Late submissions, re-prioritisation risk and keeping the envelope fixed**

Aer Lingus considers it essential that the CAA avoids a dynamic where the envelope is treated as provisional and can be increased through late submissions or incremental re-justifications. Where material information was missing from business cases during Constructive Engagement, it should not be remedied after the fact in a manner that materially increases allowances. The CAA should apply a high threshold to late capex submissions, limiting them to narrowly defined clarifications that provide demonstrable consumer benefit and can be subject to effective scrutiny. Aer Lingus particularly supports the principle that the CAA must avoid increasing the envelope and must test any further spend against deliverability, affordability and wider concurrent constraints (including parallel programmes outside H8).

### **Aer Lingus proposal on CAPEX**

*Based on the above, for its Final Proposals, Aer Lingus recommends that the CAA:*

1. **Retains the proposed efficient capex envelope midpoint of £5,895 million (2024 CPI) and maintains the integrity of the associated range.**
2. **Maintains the needs-assessment framework and requires a clear golden thread from consumer priorities to project outcomes.**
3. **Keeps deliverability as a binding constraint, explicitly considering supply chain and expansion-planning interactions in portfolio assessment.**
4. **Applies strict scope discipline, preserving the separation between two-runway H8 capex and expansion-related activity.**

5. **Strengthens protections against late re-litigation**, applying a high bar to late capex evidence and avoiding any increase in the envelope absent exceptional justification in the consumer interest
6. **Ensures that prioritisation within the envelope supports consistent passenger outcomes across the airport campus**, including where terminal-specific investments are proposed.

## 10. Capital governance

Aer Lingus considers that capital governance and incentives are the decisive factor in determining whether the proposed H8 capex envelope delivers value for consumers in practice. While Aer Lingus supports the size of the envelope and the CAA's high-level capex assessment methodology, experience from H7 demonstrates that weak governance, late information and poor change control can materially undermine otherwise sound ex ante decisions. The effectiveness of H8 will therefore depend less on the headline envelope and more on how capital projects are governed, assured and incentivised throughout the control period.

### Lessons from H7 and the need for stronger governance

Aer Lingus notes that the CAA itself has recognised shortcomings in capex governance during H7, including delays to the full implementation of forward-looking capex incentives following appeals, weaknesses in early-stage business case quality, and limited airline influence over scope evolution once projects were in delivery. These issues contributed to outcomes where airlines and passengers bore the cost and disruption risks of capital delivery without commensurate ability to influence decisions or hold HAL to account.

Against this background, Aer Lingus strongly supports the CAA's intention to rely on a structured governance framework, rather than ex post efficiency reviews, as the primary mechanism for protecting consumers in H8. However, Aer Lingus considers that this framework must be strengthened and applied rigorously, particularly given the scale of investment proposed and the operational constraints of a live, capacity-constrained airport.

### Early and meaningful airline involvement

A central weakness of past governance has been late airline engagement, with airlines often presented with near-final scopes or cost estimates, limiting their ability to influence options or challenge assumptions. Aer Lingus considers that airline engagement must occur earlier and more consistently, particularly at the stages where the greatest value is created or destroyed - option selection, scope definition and phasing. In practice, this requires:

- early airline involvement at defined investment gates, engagement before projects reach advanced maturity, rather than after preferred options have effectively been locked in;
- formal "pause / escalation" mechanisms
- independent assurance frameworks
- portfolio-level transparency and reprioritisation
- access to genuine option appraisals, including lower-cost and lower-disruption alternatives; and
- sufficient time and information for airlines to provide informed challenge, rather than compressed consultation windows.

Without these elements, governance risks becoming procedural rather than substantive, and airlines' role risks being reduced to retrospective commentary rather than effective scrutiny.

### Business case quality and the "golden thread"

Aer Lingus supports the CAA's emphasis on the need for a clear "golden thread" linking consumer research, identified needs, proposed interventions, and measurable outcomes. However, Aer Lingus remains concerned that many business cases continue to lack sufficient clarity on this linkage.

For H8, Aer Lingus considers that the CAA should insist that business cases:

- clearly articulate the specific problem being addressed and why it matters to consumers;
- demonstrate that the proposed solution is low-cost and a less disruptive way of addressing that problem;
- quantify expected benefits in operational and passenger terms, not just qualitative narratives; and
- identify clear delivery milestones and outcome metrics that can be tracked over time.

Where business cases do not meet this standard, Aer Lingus considers they should not be permitted to progress through the governance process, regardless of whether there appears to be “headroom” within the capex envelope.

### **Scope control, change management and re-prioritisation**

Aer Lingus considers scope control to be one of the most critical elements of capital governance. In a constrained environment such as Heathrow, incremental scope changes, each seemingly modest in isolation, can cumulatively drive material cost increases, operational disruption and delivery risk.

Aer Lingus therefore supports a strong presumption against scope expansion once projects are approved, except where changes are demonstrably required to protect safety or comply with statutory obligations. Where scope changes are proposed, they should be subject to:

- explicit re-testing of the consumer case;
- transparency on cost, disruption and schedule impacts; and
- consideration of whether alternative projects should be de-prioritised to remain within the overall envelope.

Crucially, Aer Lingus considers that re-prioritisation must be real, not theoretical. If new or expanded projects are brought forward, other projects should be delayed, reduced in scope or removed, rather than allowing the envelope to become a soft constraint.

### **Deliverability, phasing and operational resilience**

Aer Lingus supports the CAA’s focus on deliverability but considers this must be embedded more deeply within governance decisions at project and portfolio level. In particular, governance should explicitly consider:

- cumulative disruption from multiple concurrent projects across terminals and airside areas;
- interactions between H8 delivery and other activities, including expansion planning and commercial property development; and
- HAL’s organisational and supply-chain capacity to manage multiple complex projects simultaneously.

Aer Lingus notes that aggressive front-loading of spend, or simultaneous initiation of many schemes, can create inefficiencies and heighten operational risk. Governance arrangements should therefore actively challenge delivery profiles that appear unrealistic or that prioritise nominal progress over efficient sequencing.

### **Capital efficiency incentives and risk sharing**

Aer Lingus supports the principle of forward-looking capital efficiency incentives, whereby HAL shares in the benefits of efficient delivery and bears a proportion of the cost of overruns. Such incentives are preferable to reliance on ex post reviews, which are inherently backward-looking, resource-intensive and uncertain in their deterrent effect. However, Aer Lingus considers that incentives must be credible and symmetrical. Underspend should only be rewarded where it does not arise from scope reduction or deferral that undermines consumer outcomes; and overspend should not be insulated through scope re-characterisation or late adjustments to project baselines.

Aer Lingus also emphasises that incentives should operate at project level, not only in aggregate, to avoid cross-subsidisation between well-managed and poorly managed schemes.

## **Late submissions and protection against regulatory gaming**

Aer Lingus reiterates its strong concern about the acceptance of material new information late in the process, whether through revised business cases, new cost evidence or re-framed justifications. Allowing late submissions to materially influence allowances or project approval risks undermining the integrity of Constructive Engagement and incentivising strategic withholding of information.

Aer Lingus therefore considers that a very high bar should apply to late submissions in H8. Such submissions should be limited to narrow clarifications that demonstrably improve consumer outcomes and that airlines can meaningfully assess. Late material that seeks to reopen earlier decisions, expand scope or increase costs should be treated with scepticism and, in most cases, rejected.

## **Interaction with expansion-related governance**

Although expansion-related capex is excluded from the H8 envelope, Aer Lingus notes that governance of H8 capital expenditure cannot be considered in isolation from expansion planning. Shared resources, management attention and supply-chain capacity mean that weaknesses in expansion governance can spill over into H8 delivery.

Our objective is for the capital governance process to guarantee that capital investment is efficient, justified and aligned with the interests of users, ahead of potential bolder reforms for expansion such as the airlines' request for a Capital Investment Committee<sup>1</sup> to oversee and approve major capital investment at Heathrow.

Aer Lingus therefore supports a clear separation of governance processes and financial treatment, alongside transparency on how HAL is managing competing demands on its organisation. Where expansion-related activity creates material delivery risk for H8 projects, this should be explicitly recognised and reflected in prioritisation and phasing decisions.

## **11. Cost of capital**

Aer Lingus considers that the CAA's proposed WACC of 5.87% pre-tax CPIH-real is significantly overstated, inconsistent with Heathrow's risk profile, departs from regulatory precedent set by the CAA itself as well as other leading European regulators, and is not aligned with the CAA's own stated principles of regulatory stability and predictability. The CAA's approach therefore conflicts with its primary statutory duty under Section 1 of the Civil Aviation Act 2012 to further the interests of users of air transport services with respect to cost, quality and continuity.

Independent analysis by CEPA, commissioned by the airline community, estimates an efficient WACC for HAL of 4.68% pre-tax CPIH-real, approximately 120 basis points below the CAA's proposal. The application of this lower WACC would **reduce charges by around £3.02 per passenger** and implies that the CAA's proposed £6.5b financing cost allowance for H8 is overstated by more than £1.2b, delivering excess profits to HAL at the expense of consumers.

Aer Lingus fully supports the CEPA analysis and the independent academic advice from Professors Robin Mason and Professor Donald Robertson, also commissioned by the airline community.

## **The fair bet principle and Heathrow's risk profile**

Aer Lingus strongly supports the application of the fair bet principle, under which the allowed return should be sufficient to finance efficient investment but should not systematically over-reward the regulated entity. In Aer Lingus' view, the H8 Initial Proposals do not meet this test. The overall regulatory package is significantly imbalanced in favour of HAL; the compensation provided, both through the WACC and the financial framework, is materially higher than the actual level of risk HAL faces.

---

<sup>1</sup> As proposed by the Heathrow Reimagined campaign and acknowledged by the CAA in CAP3251, Para 1.32, 4.23 and 4.25

Heathrow remains a single capacity-constrained monopoly hub airport, with a stable and diversified demand base, strong liquidity, and extensive regulatory protections. These include, among other things, the single-till framework, price control protections, a traffic risk sharing mechanism, regulatory asset base protection, and the ability to defer or re-profile capital expenditure within a fixed envelope. Taken together, these features materially reduce Heathrow's systematic risk relative to the comparator airports used for the beta calculation. A temporary increase in interest rates or market yields does not, in itself, justify a step-change in the allowed return for a low-risk regulated monopoly.

### **The CAA has overstated HAL's systematic risk and departed from its own precedent**

The CAA proposes an equity beta of 1.14, implying that Heathrow is riskier than the average listed company. Aer Lingus considers this indefensible. Independent analysis by CEPA, Professor Robin Mason and Professor Donald Robertson all arrive at a post-adjustment asset beta of 0.42, compared to the CAA's 0.50; i.e. a potential overstatement of systematic risk of approximately 20%.

Aer Lingus also notes that the CAA's approach is inconsistent not only with its own previous determinations for HAL (at Q6 and H7) but also with its approach for NERL, where it has applied relative risk adjustments and been willing to deviate from a mechanistic application of comparator averages. The CAA has applied UKRN guidance and its own stated principles of stability and predictability selectively, in ways that consistently benefit HAL, to the detriment of consumers.

The overstatement arises from two compounding errors, each identified and quantified by the independent expert evidence.

First, the CAA relies on unadjusted 2-year and 10-year OLS regressions that are unstable, inconsistent and not aligned to the regulatory horizon. The 10-year window gives disproportionate weight to Covid-period outliers that artificially inflate the estimate and are not representative of Heathrow's risk going forward. Both Professor Mason and Professor Robertson identify this issue. CEPA demonstrates that outlier-mitigation techniques reduce the 10-year asset beta by around 0.07, and that the upward bias in long-window estimates is not offset by the shorter-window estimates. Professor Mason's proposed refinement produces a central pre-adjustment empirical estimate of approximately 0.53. The CAA's own approach at H7 rejected unadjusted OLS betas in light of the pandemic. The same reasoning applies here and the CAA has offered no explanation for why it has reverted to that approach.

Second, the CAA has failed to apply a relative risk adjustment for Heathrow's systematically lower risk characteristics relative to its comparators. The comparator airports AENA, AdP, Fraport and Zurich are diversified groups operating across multiple markets with unconstrained airports and international holdings. These characteristics expose them to risks that Heathrow does not face. The CAA's own consultants (FTI) acknowledge that HAL's risk profile "has lowered since H7 and is largely unchanged from Q6", and that Heathrow will remain capacity-constrained throughout H8. At Q6, the CAA applied downward adjustments to comparator betas for AdP and Fraport, and set different betas for Heathrow and Gatwick. Its H7 decision explicitly quantified the beta uplift for reduced excess demand during the pandemic. The logical roll-forward for H8, when capacity constraints are fully restored, is a downward adjustment. The CAA has also applied relative risk adjustments in setting the WACC for NERL. A departure from this precedent without clear justification would be inconsistent with the CAA's own stated principles of stability and predictability.

Professor Mason estimates that the CAA's failure to apply the TRS formula consistently, i.e. applying it to TRS alone rather than to all three risk-reducing factors (capacity constraint, single till and TRS) overstates the beta by an additional 0.11. This is compounding the OLS instability issue.

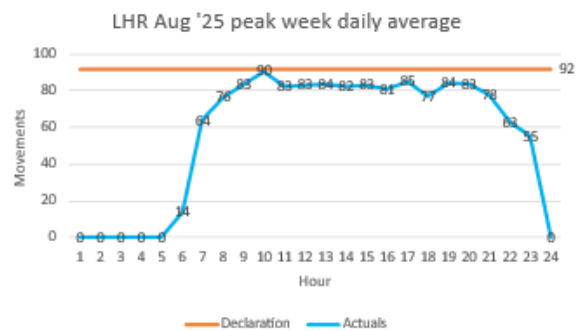
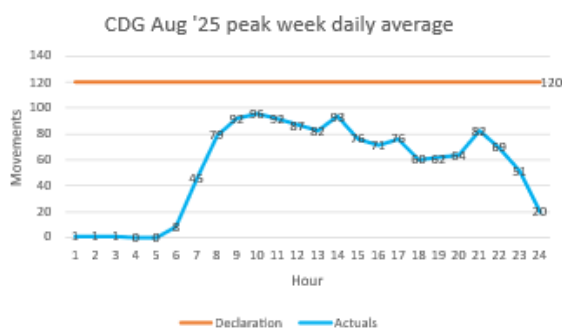
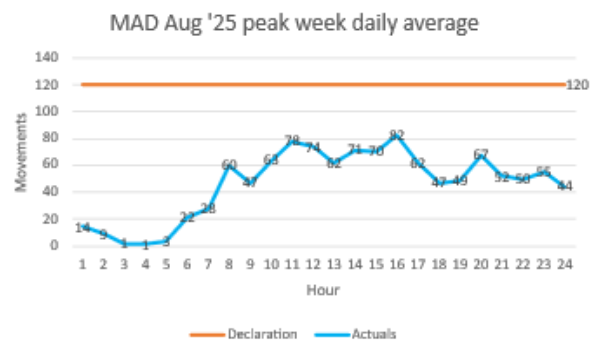
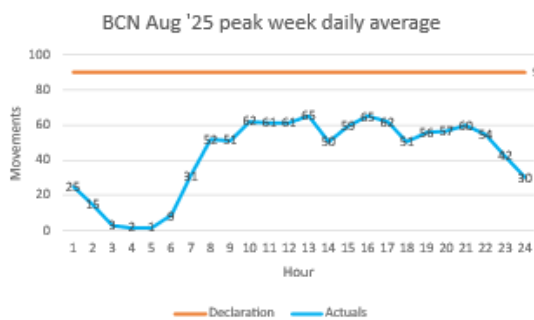
Aer Lingus also notes that the IAA's 2026 Issues Paper for Dublin Airport, citing S&P Global's published credit methodology, confirms that a single-till approach "provides more certainty to returns and earnings and is generally considered as more credit protective by reducing volatility, lowering downside but also limiting upside." This, in our view, further makes the case for a downward relative risk adjustment for Heathrow compared to dual- or hybrid-till comparators.

## The CAA's analysis of comparator capacity constraints contains factual inaccuracies

Aer Lingus is concerned that the CAA's decision not to apply a relative risk adjustment is partly grounded in a factual finding that is incorrect; that the European comparator airports face capacity constraints, similar to Heathrow. Analysis using OAG schedule data for August 2025 peak operations demonstrates that Madrid, Barcelona and Paris CDG all operate well below their declared runway capacity limits, in stark contrast to Heathrow which operates at or close to its declared limits throughout most of its operating day:

- London Heathrow (LHR): 90 movements per hour against a declared limit of 92 - consistently close to its limit throughout the operating day.
- Paris CDG: 96 movements per hour against a declared limit of 120.
- Madrid (MAD): 82 movements per hour against a declared limit of 120.
- Barcelona (BCN): 65 movements per hour against a declared limit of 90.

The following charts, based on internal IAG analysis of OAG schedule data for the August 2025 peak week, illustrate the contrast between Heathrow and each of the three comparator airports:



Source: IAG analysis, OAG schedule data. Declared capacities: COHOR (CDG), DORA II (MAD/BCN), CAA (LHR).

Furthermore, AENA operates 46 airports across Spain, the vast majority of which are unconstrained. Comparing Heathrow to the consolidated AENA group without adjusting for the risk profile of those non-core airports introduces a systematic upward bias into the beta estimate. Aer Lingus requests that the CAA shares the analysis underpinning its capacity constraint findings and reconsider its consideration in its Final Proposals.

## The French ART reached the opposite conclusion from the same comparators

In April 2026, the French Transport Regulatory Authority (Autorité de Régulation des Transports (ART)) issued its opinion on the upcoming regulatory agreement for Paris Airports (AdP) for the period 2027–2034. In doing so, the ART evaluated the beta estimation methodology for AdP using precisely the same four airport comparators that the CAA uses for HAL: AENA, AdP, Fraport and Zurich. The ART found that this comparator set produces an upwardly biased beta due to the diversified and international character of these groups, and recommended a broader sample to correct that bias.<sup>2</sup>

The CAA has not offered any detailed analysis explaining why its assessment of the same comparator airports reaches a different conclusion, nor why the upward bias identified by the ART does not apply to Heathrow's beta estimation. Aer Lingus considers this to be a significant gap in CAA's assessment and urges the Authority to reconsider its position.

## Cost of debt: the actual debt approach creates perverse incentives for HAL given its debt structure

Aer Lingus is concerned about the CAA's decision to depart from its previously standard methodology for calculating the Cost of Debt by opting to use HAL's actual cost of senior debt for the embedded debt allowance rather than a notional benchmark.

The CAA's own Initial Proposals acknowledge that this approach creates “a limited incentive on HAL to issue senior debt efficiently, since the cost of new senior debt would effectively be passed through to consumers once it became embedded debt in future price control periods.” Aer Lingus is concerned that the CAA seems to identify this risk but not adequately address it.

The problem is compounded by a lack of transparency. Despite repeated requests, the airline community has not been provided with access to HAL's underlying debt book, making it impossible to interrogate whether the resulting allowance reflects efficient financing. CEPA's analysis suggests the difference between the CAA's actual debt allowance and a properly calibrated notional benchmark could amount to more than £1 per passenger.

Aer Lingus also notes concerns about the internal consistency of the CAA's approach. The CAA retains a 60% notional gearing assumption which is high relative to comparable regulated utilities and well above HAL's peer airports while simultaneously moving to an actual debt approach. This combination transfers the consequences of HAL's specific financing choices onto consumers and is inconsistent with the underlying notional company framework. HAL's actual gearing materially exceeds the 60% notional figure, meaning the actual debt approach does not control for the higher costs associated with HAL's particular capital structure choices. The 60% gearing assumption itself is not justified by comparator evidence and should be reduced.

Aer Lingus therefore supports reversion to a notional debt allowance, as recommended by CEPA, which yields **an estimated cost of debt of 1.85% real CPIH**, compared to the CAA's figure of 3.14%. The difference is substantial and we urge the CAA to address this in its Final Proposals.

## Lack of internal consistency

Aer Lingus believes there is significant scope in improving the internal consistency of the regulatory package as a whole. If Heathrow's risks are being accounted for and managed throughout the regulatory framework, this should be reflected in the allowed return. Failing to do so risks undermining the coherence of the settlement and weakens the link between risk and reward that lies at the heart of the regulatory framework that applies to Heathrow.

---

<sup>2</sup> ART (April 2026), Avis Simple sur le Contrat de Régulation Économique d'Aéroports de Paris 2027–2034.

Within the WACC individual parameters, the consistent bias towards the upper end of plausible ranges, e.g. on beta, TMR, cost of debt and gearing, compounds into a materially overstated WACC that is not commensurate with Heathrow's risk profile.

Aer Lingus also considers that, even within the WACC range derived by the CAA, the appropriate remedy for the multiple layers of risk protection afforded to HAL by the wider regulatory package is to select a point estimate at the lower end of that range rather than at the midpoint or above. Where a regulatory package allocates multiple sources of risk to consumers through mechanisms such as the TRS, inflation indexation of the RAB, and the actual debt approach, it would be inconsistent to then set the cost of capital at the upper end of a range that was itself calibrated without reference to those protections. This approach is in line with recent precedent from leading airport regulators such as the French ART which has recently signalled that the extensive risk protections in the AdP's regulatory proposals should be reflected in a lower point estimate within the WACC range, rather than simply accepting the midpoint. The ART went on to state that it would only be willing to accept the higher end of its WACC range if the risk adjustment factors in ADP's proposals were significantly rebalanced between the operator and users. Aer Lingus urges the CAA to adopt a similarly balanced approach for its Final Proposals.

### **Data cut-off date: inconsistent and too early**

Aer Lingus also raises a concern about the CAA's choice of data cut-off date. The CAA used a headline cut-off of 1 November 2025 for Initial Proposals published on 31 March 2026 - a gap of 21 weeks. This is inconsistent with its own treatment of other parameters (the CAA used an OBR inflation publication dated 26 November 2025, after the headline cut-off) and materially longer than comparable regulators. For example, Ofwat used an 11-week gap for PR24 Final Determinations, and the French ART used just 8-weeks in its April 2026 opinion on AdP's proposal for January 2027 to December 2034.

The consequence of this is that the beta estimate captures older Covid-related data shocks that are no longer relevant to the regulatory period going forward for H8. A more recent cut-off, consistent with regulatory practice elsewhere, would therefore be more appropriate and requests the CAA to reconsider its approach.

### **Financeability and the absence of evidence of constraint**

Aer Lingus recognises the importance of financeability and supports the principle that Heathrow must be able to raise finance on reasonable terms to deliver its obligations. However, Aer Lingus has seen no persuasive evidence that Heathrow faces a financeability constraint at a lower WACC than that proposed by the CAA. Heathrow continues to enjoy strong access to capital markets, a diversified investor base, and investment-grade credit metrics. The regulatory framework provides significant downside protection, and the CAA has already limited capital expenditure to a deliverable envelope that is materially below HAL's original proposals.

In these circumstances, Aer Lingus does not consider it credible to suggest that a materially lower WACC, anchored at the levels supported by CEPA and the independent academic evidence, would jeopardise efficient investment or operational resilience. In our view, financeability should not be used to override an evidence-based assessment of the appropriate allowed return.

### **Interaction with expansion risk**

Aer Lingus also considers it important that the WACC for H8 reflects a two-runway operation, not an implicit allowance for expansion risk. Expansion-related uncertainty is being addressed through separate consultations on early expansion cost recovery and regulatory model review<sup>3</sup>, it would therefore be inappropriate for consumers in H8 to bear a higher cost of capital to compensate Heathrow for risks associated with speculative future expansion.

---

<sup>3</sup> Being CAP3238 and CAP3251 respectively

The WACC applied in H8 should therefore be firmly grounded in the risk profile of the regulated two-runway airport during the H8 period, without embedding expansion-related premia.

## Aer Lingus proposal on WACC

***Based on independent analysis commissioned by the airline community and carried out by CEPA, Aer Lingus proposes that the WACC for H8 be set at 4.68% pre-tax CPIH-real, compared to the CAA's proposal of 5.87%. This would reduce the financing cost allowance by more than £1.2 billion over H8 and reduce charges by around £3.02 per passenger.***

Aer Lingus therefore recommends that the CAA:

- **Adopt a materially lower WACC**, anchored to CEPA's estimate of 4.68% pre-tax CPIH-real, and supported by the independent academic evidence from Professors Mason and Robertson;
- **Apply a relative risk adjustment to the asset beta** to reflect HAL's capacity constraint, single-till regulation and TRS mechanism, consistently with its own Q6 and H7 precedent and in line with the approach taken by the French ART for the same comparator airports;
- **Correct the factual inaccuracies** in its assessment of comparator airport capacity constraints and apply a downward adjustment that properly reflects the risk differential between Heathrow and its comparators;
- **Replace the beta estimation approach** with shorter-window estimates that reduce the distortionary influence of Covid-period outliers, in line with its own H7 approach;
- **Revert to its previous policy on the Cost of Debt**, removing the pass-through risks associated with the actual debt approach and reverting to a notional approach, ensuring consumers are not exposed to the consequences of HAL's specific financing choices;
- **Reduce the notional gearing assumption** from 60% to a level consistent with comparator airport evidence and actual Dublin Airport and peer airport practice;
- **Adopt a later and consistently applied data cut-off date** in its Final Proposals, consistent with the practice of Ofwat and the ART;
- Ensure the H8 WACC is firmly grounded in the risk profile of the two-runway operation and does not embed expansion-related premia or create pass-through expectations for future expansion financing; and
- **Ensure internal consistency** between the risk-mitigating features of the wider regulatory package and the allowed return, such that the WACC reflects a fair bet rather than compounding HAL's multiple layers of protection with a generous cost of capital.

Aer Lingus considers that a recalibrated cost of capital, aligned with these principles, is essential to delivering a balanced and credible H8 settlement that protects consumers and supports the long-term competitiveness of Heathrow as a global hub.

## **12. Financial framework**

Aer Lingus considers that the financial framework is a key part of the H8 settlement because it determines how costs are recovered over time and how risk is allocated between HAL and users. The CAA's stated objective is to support efficient financing and ensure charges are no higher than necessary, while having regard to HAL's financeability. Aer Lingus supports that objective. However, Aer Lingus is concerned that the framework still contains material opacity and potential overlap between protective mechanisms, which risks outcomes that are not fully aligned with the fair bet principle. Where the wider package already reduces HAL's exposure to downside risk through multiple channels, the financial framework should be calibrated to avoid providing additional, duplicative protection at consumers' expense.

Aer Lingus supports the continued use of a notional company approach, and the CAA's intention to maintain a simplified notional capital structure (including notional gearing). The notional framework remains the appropriate basis for assessing efficient financing, rather than importing features of HAL's actual structure. Aer Lingus' key point is that the notional approach must be applied consistently across the framework - WACC, tax, inflation treatment and financeability - so that risk allocation remains coherent.

On regulatory depreciation, Aer Lingus recognises the CAA's emphasis on sustainability of the RAB and stable charges and notes the CAA's consideration of alternative approaches (including illustrative run-off rates). However, Aer Lingus considers that the current approach remains constrained by insufficient transparency, particularly where the CAA relies on Heathrow's Fixed Asset Register (FAR) as the basis for depreciation while airlines have not been provided the underlying FAR information necessary to scrutinise the assumptions. Aer Lingus therefore requests that the CAA requires improved disclosure (or a structured substitute disclosure package) so stakeholders can understand the key drivers of depreciation (asset lives, categories, remaining balances and the interaction with indexation). On corporation tax, Aer Lingus supports the principle that allowances should reflect efficient tax costs under the notional company and should not enable systematic over-recovery. The CAA has indicated it intends to retain the H7 approach of making an allowance for tax costs (subject to checking reasonableness). Aer Lingus requests that the CAA provides sufficient transparency on the effective tax assumptions and the key drivers and places the burden of proof on HAL where additional allowances are sought.

On inflation indexation, Aer Lingus welcomes the CAA's recognition that inflation policy can create windfalls and distort risk allocation. Aer Lingus considers that the Final Proposals must demonstrate clearly how the chosen approach avoids systematic over-compensation in high-inflation scenarios, including explaining how residual exposure is managed for any portion of the RAB that remains linked to outturn inflation.

Finally, Aer Lingus considers that the CAA must address the combined effect of TRS and the asymmetric risk allowance (ARA) as part of a single package, rather than as discrete mechanisms. The CAA's framework includes both TRS and an ARA within the financial framework. Aer Lingus' concern is that, when layered on top of other protections, these mechanisms can become duplicative unless the CAA explains (i) what residual risk each mechanism is compensating, (ii) why that risk is not already covered elsewhere, and (iii) why the calibration is proportionate given Heathrow's structural characteristics as a regulated, capacity-constrained monopoly.

#### **Aer Lingus therefore requests that the Final Proposals:**

- improve transparency on depreciation (including FAR-related drivers),
- evidence tax assumptions more clearly,
- demonstrate that inflation policy limits windfall risk, and
- set out explicitly how TRS and ARA interact with the wider package to avoid duplicative protection and preserve a balanced allocation of risk and reward.

### **13. Aer Lingus proposal on the overall price cap**

Based on the above recommendations across the cost of capital, operating expenditure, commercial revenues and traffic forecast, Aer Lingus proposes an average price cap of £24.48 in 2024 CPIH terms over H8, 15% lower than the CAA's proposed average of £28.80 per passenger.

Aer Lingus considers that a price cap at this level is both financeable and consistent with the weight of evidence assembled by the CAA itself, and that the CAA's proposed £28.80 represents a material overstatement that would deliver excess profits to HAL and undermine the affordability and competitiveness of Heathrow as a global hub.