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British Airways response to CAA policy options on the H8 passenger forecast – shock factor issues

Dear Judith

British Airways (BA) welcomes the opportunity to respond to the CAA's policy options on the passenger forecast shock factor for the H8 regulatory period at Heathrow, following stakeholder responses to the H8 Initial Proposals. We support a number of the CAA's proposed options for the shock factor, in particular the CAA's proposal to exclude the 1991 Gulf War (Operation "Desert Storm") from the calculation and not to include year 2026.

The proposal to exclude Desert Storm represents a clear improvement relative to previous approaches to deliver a more accurate traffic forecast and reflects concerns raised by airlines and Skylark at Initial Proposals regarding the relevance of historic events and the risk of embedding short-term market conditions in the H8 settlement.

However, the consultation does not address the more fundamental question of whether the shock factor remains justified as a matter of regulatory policy, nor does it provide evidence that the adjustment has delivered its original objective of improving forecast accuracy. We also disagree with the proposal to include the March 2025 power outage as a shock event, given Heathrow's subsequent outturn traffic far exceeded the CAA's H7 forecasts, as well as the evidence of significant resilience demonstrated by the airline industry in its response to the incident (such as reaccommodating passengers).

More fundamentally, the CAA should ensure that its approach is grounded in observed evidence. The increasingly resilient traffic outcomes seen following recent disruptions, including the strong traffic performance during the 2026 Middle East conflict as evidenced by Heathrow itself, suggest that the shock factor may no longer provide a realistic estimate of likely future downside risks. In particular, it does not adequately reflect the resilience empirically demonstrated by airlines in recent years. The Irish Aviation Authority's recent July 2026 draft determination is instructive in this regard, in that it rejected a similar shock factor

requested by Dublin Airport, concluding that the centreline traffic forecast already provides a fair bet as it balances upside and downside risks at an overall level.

Our detailed comments are set out below.

1. Length of the shock factor event series: exclusion of Desert Storm

BA supports the CAA's proposal to exclude the 1991 Desert Storm event from the shock factor calculation and considers that the preferred approach is Option C, beginning the series in 2002.

The exclusion of the 1991 Desert Storm event represents a material improvement relative to previous approaches. As BA, the airline community and Skylark noted in response to the H8 Initial Proposals, the CAA has itself recognised that the 1991 traffic decline was "contaminated" by a concurrent economic downturn and therefore does not represent a purely non-economic shock event intended to be captured by the shock factor. The largest shock in the historical dataset should not continue to drive the calculation where it has been accepted that it does not satisfy the underlying conceptual basis for inclusion.¹

BA therefore welcomes the CAA's proposal, which reduces the shock factor materially and acknowledges the limitations of relying on very old precedent when estimating future risks. The consultation also recognises the evidence that more recent shocks have generally been significantly smaller than those observed in earlier decades.

BA considers that the logic supporting removal of the 1991 event points towards a more fundamental reassessment of the relevant historical period. The airline industry, airport operations, traffic management systems, network planning, fleet flexibility and disruption management processes have evolved substantially since the early 1990s and even since the early 2000s. Traffic outcomes following recent geopolitical events increasingly demonstrate a level of resilience that is not reflected by historic events used in the existing dataset.

For that reason, BA supports Option C, using 2002 as the starting year following the structural changes associated with 9/11. According to the CAA's calculations, this option would reduce the shock factor by 25 basis points to 0.56% (we do not consider year 2025 as a "shocked year" due to Heathrow's power outage, as explained below).

This approach is also consistent with positions previously advanced by HAL itself. During the Q6 review, HAL argued that more recent experience provided a better basis for assessing future traffic risk and that *"2000 to date [2013] was the appropriate base period for consideration and inclusion as Heathrow had effectively been capacity constrained since 2000/2001"*². It is therefore difficult to justify reliance on pre-2001 events when assessing likely shocks during H8.

¹ See, for instance, BA response to H8 Initial Proposals, paragraph 5.25.

² See CAP1103, CAA Q6 Final Proposals, Paragraph 3.21.

Alternatively, the CAA's Option B would adjust for excluding Desert Storm and align with the fixed 30-year period argued by Skylark during Initial Proposals, which for H8 would be 1992-2019 and 2024-2025. This approach would reduce the shock factor to 0.57%.

In addition, the consultation leaves open the broader question of whether other historical observations remain appropriate inputs. For example, some events classified as shocks appear difficult to reconcile with the objective of identifying genuinely non-recoverable traffic losses. For example, it is difficult to see a conceptual basis for treating the 2016 EU referendum as a shock event when outturn traffic was 3 million passengers higher than the CAA Q6 forecast for that year (75.7 million outturn vs 72.2 million forecast). The CAA should therefore continue reviewing the composition of the dataset rather than treating all remaining historical observations as automatically representative of future risk.

2. Exclusion of 2026 data from the H8 shock factor calculation

BA supports the CAA's proposal not to include 2026 data in the H8 shock factor calculation. The CAA is correct that a full year's data will not be available before Final Proposals and that the effects of the Middle East conflict are still evolving. Including partial-year evidence would risk embedding short-term and potentially unrepresentative effects in the shock factor.

The proposal is also consistent with emerging evidence on the resilience of passenger demand. Heathrow's Half-Year 2026 results show that the airport handled a record 40 million passengers despite the conflict and wider geopolitical uncertainty. Heathrow reported that demand to the Middle East weakened substantially, but that traffic adapted through growth in other markets, including North America and Asia-Pacific, alongside higher transfer traffic. Overall passenger volumes increased year-on-year notwithstanding the conflict.³

"Despite geopolitical headwinds, we welcomed a record 40 million passengers in the first half of the year while delivering strong customer service, culminating in passengers ranking Heathrow as one of the best airports in the world. I'm proud of the work colleagues have done to achieve this in the face of these challenges."
Thomas Woldbye, Heathrow CEO.⁴

Heathrow's results are significant because they provide a contemporary example of how modern airline networks respond to geopolitical shocks. Rather than generating a large, lasting reduction in overall traffic, demand is increasingly reallocated across routes and markets. This is fundamentally different from the assumptions implicit in a methodology that places substantial weight on events occurring several decades ago.

BA therefore agrees that 2026 should not form part of the H8 shock factor calculation. We further argue that they are not representative of wider airline resilience and as such should not be included in the baseline traffic forecast for 2026.

³ See Heathrow (SP) Limited, Results for the Six Months ended 30 June 2026 [here](#) and results presentation [here](#).

⁴ See Page 1 of HAL results above.

3. The shock factor is no longer justified

While the specific methodological changes consulted upon will drive improvements to the calculation of the shock factor, the consultation does not address the more fundamental question of whether the shock factor remains justified.

As BA noted in its response to the H8 Initial Proposals, the stated purpose of the shock factor is to improve forecast accuracy. Regulatory policy should therefore be assessed against whether it has delivered that objective.

The consultation does not provide evidence that the shock factor has materially improved forecasting accuracy. In fact, Skylark has found that the application of the shock factor in the most recent regulatory periods has widened the under-forecasting of traffic. Nor does it address the concern raised by airlines that the central forecast already incorporates a range of downside and upside risks, with further risk allocation occurring through the Traffic Risk Sharing (TRS) mechanism.

Similarly, there is a separate concern regarding duplication between the shock factor and the TRS, recognised by the CAA itself in Initial Proposals⁵. The application of an additional downside adjustment to a forecast that already feeds into a TRS framework risks systematically biasing charges upwards in favour of HAL. The consultation does not address this issue.

BA also notes the wider regulatory precedent emerging internationally. In its recent Draft Determination for Dublin Airport, the Irish Aviation Authority (IAA) rejected proposals for an asymmetric traffic risk allowance for both extreme and transient traffic shocks.

Among other things, the IAA found **that the centreline traffic forecast already provides a fair bet as it balances upside and downside risks at an overall level**. This is demonstrated by Dublin Airport's historical ability to manage/offset changes in demand, such as by reducing operating costs in response to shocks or generating additional revenues to offset additional opex at times of increased demand.⁶

*"Risk allocation does not exist only within the traffic forecast building block. **Instead, the outcome of materialised risk results from performance across all elements of the determination as a collective.** Asymmetric risk would arise if outturns systematically diverge from forecasts in one direction as a whole, not by looking at one building block, such as passenger traffic, in isolation. For example, a negative traffic shock is likely to be accompanied by a positive cost shock relative to the cost forecasts, which will at least significantly mitigate the impact of the former. **In relation to the historic transient shocks identified by Oxera, in some cases these were in fact outweighed by the cost reductions achieved in response, such that Dublin Airport still outperformed on a net basis.**"⁷ (our emphasis added)*

⁵ See Initial Proposals, paragraph 10.93.

⁶ See IAA Draft Determination on the Maximum Level of Airport Charges at Dublin Airport for 2027-2031, 14 July 2026, paragraphs 6.85-6.99 – available [here](#).

⁷ *Ibid*, paragraphs 6.93-6.94.

Those observations are directly relevant for Heathrow. Risk should be assessed across the regulatory settlement as a whole rather than by focusing on passenger traffic in isolation. Airports can and do adapt to changing conditions through expenditure management, operational flexibility and commercial performance. A traffic shock does not automatically translate into an equivalent reduction in overall financial performance.

For these reasons, BA continues to question whether a separate shock factor remains necessary, particularly given increasing evidence of industry resilience and the existence of alternative risk-sharing mechanisms within the H8 framework. We therefore ask the CAA to consider this issue carefully as part of its Final Proposals and to reassess whether the continued inclusion of a shock factor remains supported by the evidence.

4. Treatment of the March 2025 Heathrow power outage

BA does not consider that the March 2025 power outage should be treated as a shock event for the purposes of calculating the H8 shock factor. The comments below are made solely for the purposes of the CAA's assessment of whether the outage should be included within the shock factor calculation and are without prejudice to any wider issues arising from the event.

The shock factor is intended to capture non-recoverable reductions in passenger volumes arising from unexpected external non-economic events. The available evidence does not demonstrate that the March 2025 outage resulted in such an outcome. The CAA's own analysis shows that Heathrow handled 84.5 million passengers in 2025, far exceeding the CAA's H7 forecast of 80.7 million passengers for 2026, and recorded the highest ever Passenger Air Transport Movements at 475.6k, equivalent to around 99.1% of the annual movement cap.

A shock factor should be concerned with outturn traffic relative to the relevant forecast baseline. Where actual passenger volumes far exceeded forecast volumes and the airport utilised almost its entire annual movement allowance, there is limited basis for concluding that a material non-recoverable traffic shock occurred.

We are also concerned that the March 2025 outage differs fundamentally from the types of events historically included within the shock factor series. Unlike geopolitical events or wider market disruptions, the outage was an airport-specific operational incident linked to Heathrow's infrastructure and resilience arrangements, with any passenger impacts substantially mitigated through recovery actions. This is consistent with the findings of the National Energy System Operator (NESO), which concluded that the wider electricity system operated within applicable standards and that the outage arose from asset management and resilience failures specific to Heathrow's electrical arrangements⁸.

⁸ See North Hyde Review Final Report by National Energy System Operator (NESO) <https://www.neso.energy/document/363891/download>.

Furthermore, the CAA's consultation acknowledges that the estimated impact is highly sensitive to methodological assumptions, including whether March 2026 is itself considered a shock period and the method used to construct the counterfactual traffic forecast. The estimated impact ranges from approximately -0.10% to -0.30%. This demonstrates the uncertainty associated with any estimate of permanent passenger loss and reinforces the importance of focusing on actual outcomes.

More fundamentally, the outage illustrates the increasing operational resilience of the airline industry. Passengers were re-accommodated and annual traffic exceeded forecast levels. The event therefore demonstrates the industry's adaptation and resilience rather than a persistent traffic loss requiring a permanent forecast adjustment. As noted above, the IAA concluded that risk allocation should be considered at an overall level rather than through the traffic forecast in isolation, recognising that any reduction in traffic (which in any event is doubtful in this case), can be offset through mitigations and better management in other building blocks. It would be useful for the CAA to demonstrate whether HAL nonetheless outperformed its overall regulatory settlement in the year for which it now seeks the addition of a shock event adjustment.

For these reasons, BA does not support the inclusion of the March 2025 power outage within the shock factor calculation.

5. Recognition of increasing airline resilience

BA considers that the consultation provides further evidence of the increasing resilience of airlines to external disruptions. This is relevant to all three issues considered in the consultation, namely the relevance of historic events such as Desert Storm, the treatment of the March 2025 power outage, and the implications of the 2026 Middle East conflict. The 2025-2026 sustained traffic performance demonstrates the significant improvements in resilience and recovery by airlines as well as the adaptability of demand, leading to record-breaking passenger numbers compared to the early 1990s and early 2000s.

This is consistent with regulatory developments in airports. In its recent Draft Determination for Dublin Airport, the IAA rejected Dublin Airport's request for asymmetric traffic risk allowances. The IAA concluded that the central forecast should represent a fair balance of upside and downside risks and noted that airports have a range of mechanisms available to mitigate the effects of traffic shocks, including operating cost flexibility and commercial revenue performance. The IAA also recognised the resilience of the airline industry, including during the recent US/Israel-Iran war, such as fuel hedging by airlines and alternative jet fuel sources. The IAA notes that an allowance such as the one proposed by Dublin Airport would be uncalibrated, against the IAA's statutory duties and could be potentially duplicative.⁹

In BA's view, the evidence of airline resilience at Heathrow in both 2025 and 2026 reinforces these conclusions. Traffic shocks should not be assessed in isolation, nor on the basis of historic events that may no longer be representative of the modern aviation sector. The growing resilience demonstrated by airlines and airports supports a more cautious approach

⁹ See IAA Draft Determination above, paragraph 6.98.



to applying downward adjustments to the central traffic forecast and strengthens the case for removing the shock factor altogether.

We welcome the opportunity to discuss these issues further with the CAA and remain available to provide any additional information or clarification that may assist the development of the policy for the Final Proposals.

Yours sincerely,

Michael Petrides

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