

## Virgin Atlantic Response to CAA CAP3201: Regulatory Treatment of Early Expansion Costs at Heathrow

### Introduction

1. Virgin Atlantic ("VAA") welcomes the opportunity to respond to the Civil Aviation Authority's ("CAA") consultation on the treatment of early expansion costs at London Heathrow Airport (the "Proposals").
2. VAA has consistently and strongly argued that Heathrow Airport Limited's ("HAL") significant market power must be constrained through robust and effective regulation. This latest consultation, and nature of Proposals, reinforces the need to fundamentally reform the economic regulatory framework for London Heathrow Airport ("Heathrow"). VAA endorses the submissions made to the CAA on early costs by British Airways ("BA"), IAG and the Heathrow AOC Limited ("AOC")<sup>1</sup> to date and it remains clear that many of those arguments previously raised have not been adequately addressed in the Proposals.
3. This submission, therefore, places on record VAA's concerns with the CAA's Proposals, setting out our fundamental objections to the approach, alongside our view on procedural errors in the assessment of risk and efficiency, deficiencies in the proposed guardrails, and suggested measures that would be required should the CAA choose to proceed. We do so strictly on a without prejudice basis and reserve all legal rights and recourse in respect of the CAA's final decision.
4. We are concerned that the Proposals are inconsistent with the CAA's statutory duty to 'protect the interests of users of air transport services...by ensuring the range, availability, continuity, cost, and quality of airport operation services' and to promote competition in the fulfilment of that duty. In our view, the Proposals unduly prioritise both a delivery timetable and the financial position of HAL – a regulated monopoly with SMP – over the interests of airlines and consumers. By enabling cost recovery ahead of delivery certainty, the proposals increase user charges without clear and proportionate consumer benefits.
5. The CAA's treatment of early costs must do more to protect consumers from speculative and inefficient costs or costs borne due to risk misallocation between HAL and users of Heathrow. The Proposals set out in the CAA's consultation fail to do so.

### Opposition to Early Cost Recovery

6. VAA opposes any regulatory proposals that enable HAL – or any other Promoter – to recover any costs associated with, or related to, proposals for a third runway

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<sup>1</sup> As published by the CAA [www.caa.co.uk/commercial-industry/economic-regulation-and-competition-policy/heathrow-airport/capacity-expansion/](http://www.caa.co.uk/commercial-industry/economic-regulation-and-competition-policy/heathrow-airport/capacity-expansion/)

at Heathrow until a Development Consent Order ("DCO") is granted. Such an approach would enable HAL, a commercial entity with Significant Market Power ("SMP"), to recover £320m (expected to increase further given this is expressly stated to apply for costs through to the end of 2026 only) without carrying any risk or being required to demonstrate efficiency of spend. There is no risk share, management or shareholder risk related to spend. The CAA's Proposals transfer all risk to consumers – a position that is incompatible with its statutory duties. It is worth noting that this would be incrementally added to the RAB in addition to more than £500m already applied for similar development costs prior to 2019.

7. The Proposals as currently set out would mean consumers would be carrying unjustified, speculative (and likely duplicative) early expansion costs and risk, whilst removing incentives for efficient spending from HAL. The CAA Proposals have not conditioned efficiency in capital allocation and give too much headroom to HAL to allocate capital (without a full business plan) up to a notional spending cap that is already unlikely to be maintained. HAL's cost forecasts have already shifted materially over a short period. In July 2025, it estimated £20m in early spend through to the end of September 2025, yet by year end this figure had risen to £71m. The £320m cap proposed for 2025/26 is already in question, with HAL having requested (9 December) an increased capital envelope to c£400m, plus flexibility to allow for higher expenditure. This compares to Arora Group's application for £3.5-4m in the same period.<sup>2</sup>
8. The CAA has provided no evidence, or sound justification, for allowing HAL to be uniquely insulated from normal commercial discipline in this way. Nor has the CAA provided sufficient assurance that those costs are fully justified, what the total pre-DCO costs are likely to be, or whether they are truly incremental to the £500m already capitalised in the RAB. Furthermore, in comparator sectors, for example the Thames Tideway Tunnel<sup>3</sup>, precedent suggests that the risk should remain with the Promoter until delivery is secured. The CAA's argument that not allowing cost recovery would deter HAL from progressing is contradicted by HAL's own public statements<sup>4</sup> and fails to discharge its primary duty to 'further the interests of users of air transport services'.
9. We also strongly contest the CAA's suggestion that allowing other Promoters to recover early costs 'has created pressure on Promoters to put forward more efficient plans and...greater scope for optioneering', since the HAL expansion proposals are near identical to the M5 scheme developed pre-2019 and the cost estimates largely represent a simple inflation-linked update on its original 2014 prices.

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<sup>2</sup> [CAP3201 Proposals on regulatory treatment of early costs of capacity expansion at Heathrow Airport](#), Appendix C

<sup>3</sup> [Tideway | Funding](#)

<sup>4</sup> [Expansion | Heathrow](#)

10. We further note that the CAA appears to regard £320m as a 'relatively modest' sum, which we dispute. Not only is this a significant cost in its own right, to be borne by airline customers through airport charges, it ignores more than £500m of Category B<sup>5</sup> costs already spent in the period to 2019, which has already been added to the RAB and is being paid for by passengers today (despite the total collapse of the prior expansion project and now a second tranche of costs to be paid by consumers without certainty of outcome (substantively or at an efficient level of spend). It also disregards the significant further costs likely to be incurred from 2027 and beyond, which is yet to be quantified.

**CAA's overall approach is insufficient and lacks due regard to statutory duties**

11. The CAA's approach to early cost recovery is fundamentally flawed and fails to uphold its statutory duties. Throughout the CAP3201 document, the CAA repeatedly talks to the 'timely delivery' of expansion, noting explicitly the need to 'meet the challenging timetable...set by Government'. This clearly indicates an approach by the CAA that prioritises alignment with the Government's expansion timetable over its own duties to protect consumers, promote competition, and ensure value for money. This is not consistent with the CAA's own statutory duties.

12. This approach risks subordinating long-standing regulatory principles and legislative obligations on the regulator, such as rigorous cost control and meaningful consumer protection, to political or programme pressures. In doing so, the CAA risks undermining the credibility of the regulatory framework while creating long-term consequences for airport users at the most expensive airport in the world.

13. Equally concerning is the CAA's acceptance of HAL's benefits case without sufficient scrutiny. In CAP3201, the CAA appears to rely on information provided by HAL, including sponsored analysis such as a widely discredited report from Frontier Economics, which argues the benefits case for expansion. Without having commissioned an independent assessment of whether HAL's analysis is credible, the CAA is allowing HAL to frame the case for expansion – and therefore cost recovery in pursuit of that goal. We believe the CAA should show clear evidence of how it has validated HAL's cost proposals to ensure they are accurate, capital efficient and provide value for money. There should also be clear assessment of how these costs – and the overall capital costs for expansion – impact passenger charges and how consumers will be affected.

14. The CAA has an obligation to apply a much higher level of independent validation, benchmarking and regulatory challenge to HAL. The CAA suggests that, despite its own recognition that there is significant uncertainty around

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<sup>5</sup> Defined in CAP1819, Category B costs are those incurred by HAL in seeking the runway expansion DCO, including technical design work, environmental assessments, planning consultations, and related preparatory activities. [CAP1819 \(link\)](#)

expansion costs and benefits, there are 'plausible scenarios where there would be significant net benefits' to consumers of allowing early cost recovery to HAL to advance the delivery of expansion.<sup>6</sup> The CAA provides no detail of the underlying evidence supporting this claim, which we believe rests on HAL analysis and raises serious concerns about the objectivity and robustness of the conclusions reached in the Proposals. It risks justifying the allowance of significant capital spending on an uncertain premise – that expansion is uniquely beneficial to consumers and must be recoverable.

15. Another major shortcoming is the CAA's failure to take account of the cumulative impact of HAL's proposals on airport charges. CAA has chosen to treat early cost recovery as a standalone, isolated issue. Heathrow already has some of the highest airport charges in the world, [*Information pertaining to competitive positioning of Virgin Atlantic – redacted*]. Despite this, the CAA has evaluated the proposed early expansion costs in isolation, without assessing their cumulative impact alongside other known cost pressures — including the projected cost of expansion, HAL's H8 charging proposals<sup>7</sup>, and other inflationary factors (such as APD and environmental obligations). This fragmented, siloed analysis obscures the cumulative pressure on airport charges, ignores the wider regulatory landscape and its own review of economic regulation<sup>8</sup>, and fails to assess the full consumer impact of these layered costs. A more holistic assessment is urgently required.
16. Further, the decision-making process lacks appropriate levels of transparency and clarity. Key elements of the CAA's evaluation of costs have not been disclosed in detail, making it difficult for stakeholders to assess the basis of its conclusions. The reasoning presented in support of cost recovery lacks rigour in several places, and the consultation document does not adequately address the extensive concerns raised by stakeholders in previous consultations, including around risk, cost duplication and consumer harm.
17. In fact, the CAA issued its 'minded to' position just two weeks after the initial consultation closed, which simply cannot be consistent with full and proper consideration of stakeholder's responses. That the 'minded to' outcome also substantively replicated the CAA's earlier preferred position, strongly indicates a degree of predetermination. Together, these deficiencies in process, reasoning and stakeholder engagement weakens the legitimacy of the current proposals and seriously undermines confidence in the process.
18. The CAA has also failed to undertake a thorough review of whether the c£500 million of pre-COVID expansion costs incurred by HAL were spent efficiently, whether the proposed costs risk duplication of that earlier spend or if work

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<sup>6</sup> [CAP3201 Proposals on the regulatory treatment of early costs of capacity expansion at Heathrow airport](#), para 3.2

<sup>7</sup> CAP3195 acknowledges that HAL proposed charges in H8 are likely to result in 'significantly exceed current charges at other airports'

<sup>8</sup> [CAP3195: CAA working paper on regulatory models](#)

commissioned within those earlier Category B costs could be updated rather than re-commissioned, given Heathrow's expansion proposal is near identical to the previous scheme. We note that these Category B costs were also subject to a 'cap' of £265m yet HAL was permitted a 'very significant escalation' to £500m<sup>9</sup>.

19. Furthermore, the CAA does not appear to have completed any benchmarking to test HAL's development cost estimates against similar DCO schemes — either within the aviation sector, such as Gatwick's Northern Runway project, or across other regulated infrastructure sectors.
20. By allowing early cost recovery under these conditions, the CAA risks pre-empting the outcome of its own wider regulatory review and without sufficient assurance on the cost estimates. This could lock in precedent-setting decisions before more appropriate models of risk-sharing, efficiency incentives and consumer protection have been considered. The cumulative effect of these failings is a process that neglects the CAA's statutory duties, fails consumers and airlines, while potentially distorting the competitive and regulatory landscape for Heathrow's future development.

### Specific concerns with CAA proposals

21. The CAA's proposals represent a material departure from established regulatory practice and the CAA's own findings. In no other major regulated UK sector is a monopoly provider with SMP permitted to recover speculative project development costs from end users without certainty of delivery. For example:
  - *Water (Ofwat)*: Ofwat's five-year price reviews set allowed expenditure, but revenue recovery is conditional on delivery and efficiency. Actual returns are tied to performance, and penalties/clawbacks apply for under-delivery. The PR24 regime<sup>10</sup> (2025–30) introduces even stricter performance commitments, and companies are not allowed to pass through speculative or non-delivered project costs to customers.
  - *Rail (ORR)*: The Office of Rail and Road's Rail Network Investment Framework<sup>11</sup> (RNIF) insists on clear roles, explicit risk allocation, and robust contractual frameworks before investment costs are recovered from access charges. There is no precedent for the unconditional pass-through of early costs to users without delivery certainty and regulatory oversight.
22. These approaches reflect the cross-sector principles of accountability, predictability, and consumer protection. The CAA's proposals depart from established practice, and we urge the CAA to apply comparable delivery-linked safeguards and avoid a regime in which HAL can recover forecasted

<sup>9</sup> [Economic regulation of capacity expansion: CAP1819](#)

<sup>10</sup> [2024 price review - Ofwat](#)

<sup>11</sup> [Investment Framework Consolidated Guidelines](#)

early costs from airlines and passengers without demonstrable and verifiable delivery milestones.

23. A particular concern is the misapplication of the 'fair bet' principle. The current approach effectively guarantees HAL cost recovery at the most uncertain phase of the project, regardless of whether development consent is achieved or the scheme proceeds. This shifts material downside risk onto consumers and airlines, contrary to the intent of the fair bet framework, which is designed to incentivise efficient investment through risk-sharing – not to insulate monopoly providers from commercial exposure. We urge the CAA to revisit the application of this principle in this context, recognising that unlike these Proposals (where full cost recovery is possible in all circumstances), HAL were conditioned under pre-2019 arrangements by an incentive framework that limited cost recovery to 85% in the event of withdrawal from the process of delivery or failure to obtain consent.
24. Furthermore, the CAA's own assessments, along with independent reviews, have recognised the problem of information asymmetry in HAL's favour. HAL retains superior access to internal planning, costing and delivery data. In the absence of a transparent, detailed and externally audited cost breakdown, there remains a high risk of inefficiency, cost duplication, and limited cost control. As a reminder, airlines are yet to receive the full breakdown of HAL's scheme costs, charging profile or phasing programme. Appendix B in the CAP3201 consultation reveals just 5 lines of data to illustrate the detail of HAL's justification for £320m in recoverable costs in 2025/26, which is wholly inadequate. As with the wider capital expenditure process in H8, there is no demonstrable incentive for HAL to drive efficiency in this spending. The CAA must, therefore, demonstrate fully and transparently how it has assessed and verified information submitted to it by HAL to provide assurance to airlines that consumer interests are being adequately considered.
25. Finally, we are concerned that the proposals introduce structural regulatory risks that will become increasingly difficult to reverse. Allowing early cost recovery before a DCO is secured creates a path dependency that could bias future regulatory decisions – for example, introducing a hold-out risk, whereby HAL could implicitly or explicitly make further investment contingent on continued cost recovery, thereby exerting undue leverage on the regulatory process and upwards pressure on the spending 'cap'.
26. These risks are particularly pronounced in relation to land and property acquisition, where there the CAA has not included reference to governance or value-for-money safeguards to ensure a proportionate approach is being taken that does not prejudice other potential scheme developers. This is particularly relevant since HAL's H8 proposals intend to remove commercial property assets (paid for by the consumer) from the boundary of the single till. We believe that

allowing such costs into the RAB at this stage, without robust clawback mechanisms, exposes consumers to unnecessary and avoidable risks while potentially compromising competitive forces in scheme delivery.

27. For these reasons, we strongly recommend that the CAA reconsider its Proposals and move to a position that allows early cost recovery only once key delivery milestones – including a DCO – are secured, and full transparency and efficiency safeguards (outlines below) are in place.

### **CAA’s proposed Incentives and regulatory safeguards are inadequate**

28. VAA does not believe the safeguards proposed in CAP3201 offer genuine protection for consumers or airlines because they rely on mechanisms that, in practice, are unlikely enforce cost discipline or hold HAL sufficiently to account. While the CAA states its intention to protect consumers from ‘inefficient and unnecessary costs’, the structure of the safeguards limit its ability to achieve this objective.

29. Crucially, the proposal to apply an ex-post efficient test on early costs – framed around excluding costs that are ‘demonstrably inefficient and/or wasteful’ (the DIWE standard) – sets an unusually high evidential threshold for disallowance, even where costs far exceed forecasted spend. Under this test, the CAA must prove inefficiency *after* costs have already been incurred, which is inherently difficult given the complexity and specialist nature of planning, land, property and enabling costs. The reliance on a retrospective review makes the actual disallowance of inefficient costs highly unlikely in practice and offers limited deterrence against wasteful or poorly scoped expenditure.

30. This point was acknowledged by the CAA itself when it moved from ex-post to ex-ante scrutiny of HAL’s capital costs in the H7 price control framework from 2022, where it said:

*An ex-post regime does not offer any incentive to find efficiencies in the delivery of a project to outperform budget expectations. Nor does it provide appropriate incentives for HAL to manage capital risks effectively.<sup>12</sup>*

31. The 2022 framework highlighted limitations that still persist in the current regulatory regime and would be worsened by returning to an ex-ante approach – including the absence of downside risk (exacerbated by the CAA proposals here to allow 100% early costs up to the ‘cap’), the lack of transparency and asymmetric information, and the ineffectiveness of retrospective clawback once costs were embedded in the RAB, limiting options for consumer protection. These remain compelling reasons to withdraw the Proposals presented in CAP3201.

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<sup>12</sup> CAA, CAP2365 [Economic regulation of Heathrow Airport: H7 Final Proposals – Summary](#)

32. Ex-post reviews also mean there is no forward-looking mechanism to ensure HAL's early cost claims are proportionate or appropriately scoped before they are incurred. HAL's historic capital delivery record reinforces these concerns. For example, its Cargo Tunnel project was budgeted at £44.9 million but ultimately cost approximately £197 million, while the Terminal 3 baggage system exceeded its budget by over £200 million (to £435m). These failures illustrate why reliance on HAL's internal controls or retrospective assessment is inadequate — ex-ante regulatory oversight is essential.
33. The CAA's proposals for independent assurance and reporting obligations does not satisfactorily replicate the discipline of at-risk capital and we do not believe that these proposals for independent assurance can be *truly* independent if HAL is responsible for procurement, even if notionally in consultation with airlines. This lacks the robustness of a regulator-led, independently managed process and the CAA should take back control of this process.
34. This would also acknowledge ongoing concerns from airlines about the limits and effectiveness of the Independent Fund Surveyor ("IFS") in the context of H7/H8 and frustrations of the IFS itself. In recent findings from the IFS on HAL's 'Modernising Heathrow' programme, it highlighted inadequate governance and poor cost transparency, which meant it could not effectively validate as value-for-money more than £35m of programme spending.
35. Given this lack of confidence in HAL's ability to self-regulate expenditure, it cannot be logical to rely on HAL for the procurement and management of an 'independent' assessor. We urge the CAA to reassert its role in cost assurance and apply learning from its own decision to shift from ex-post to ex-ante cost assessments for H7.
36. The proposals also do not set clear criteria for what constitutes acceptable or efficient early-stage spend. The consultation document outlines that costs should be necessary and efficient, but it does not provide objective, granular benchmarks or thresholds against which HAL's forecasts will be tested. Without such criteria embedded in the regulatory framework or licence conditions, HAL can define scope and scale of early costs with broad discretion, leaving limited ability for stakeholders or the CAA to challenge whether proposed activities are proportionate or inherently required. The lack of detail shared with airlines to date – and absence of information in the appendices to the consultation – compound this problem.
37. For pre-DCO costs, which are inherently speculative, the absence of at-risk capital discipline means HAL faces little downside exposure before those costs are locked into the RAB, while the current regulatory regime continues to incentivise inefficient spending by HAL to maximise the size of the RAB and subsequent investment returns.

38. The weaknesses of the proposed framework are already evident in practice. HAL's forecast of early costs has materially increased since its initial submission to the CAA, rising from around £320 million to at least £400 million<sup>13</sup>. This increase demonstrates that the proposed guardrails do not effectively enforce cost discipline. The CAA's admission in the consultation that it will 'continue to assess HAL's early cost forecasts...to allow flexibility in the cap' while also building in a 'reopener provision' in the license provides no confidence that cost-efficiency will be achieved under the Proposals.
39. Finally, the CAA has not proposed to embed true-up protections directly in HAL's licence as part of the modifications set out to implement early cost recovery. Absent definitive licence conditions important constraints and enforcement powers are not binding, which serves to weaken the proposed guardrails further.
40. Taken together, these deficiencies mean that the Proposals do not provide the robust consumer protection the CAA intends. They rely on retrospective assessment rather than upfront checks, lack explicit definition and quantification of acceptable early costs, fail to replicate the economic discipline of at-risk investment, and are not fully set out in enforceable licence changes. As written, the safeguards fall short of what is required to protect airlines and passengers from bearing the cost of inefficient or poorly justified early expansion expenditure, contrary to the CAA's duty to further the interests of consumers.

### **Recommendations if the CAA proceeds**

41. VAA restates its strong opposition to the Proposals, which we believe the CAA should withdraw ahead of a thorough review of HAL's proposals and cost-benefit analysis. Notwithstanding and strictly without prejudice to that position, significant strengthening of the framework in the Proposals is essential to provide meaningful protection to airport users. This should include:
42. *Mandatory ex-ante CAA approval:* All early cost proposals should be subject to rigorous, ex-ante scrutiny by the CAA, including a transparent breakdown of cost categories, robust benchmarking against comparable projects, and independent validation. This is essential to ensure that only efficient, necessary and appropriately phased costs are approved, and to replicate the discipline typically imposed by at-risk private capital.
43. *Independent, CAA-commissioned assurance:* The CAA insists that it will require HAL to produce a full business plan and justification for pre-DCO spending in 2027 and beyond, yet the same requirement is not placed on costs in 2025/26 – where the CAA acknowledges the risk profile and certainty around project delivery is highest. We are not assured by the CAA's justifications for an allowance of £320m during this period. Independent (ex-ante) assurance must be commissioned by and report directly to the CAA — not HAL. Relying on HAL's

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<sup>13</sup> [HAL letter to CAA, 9 December](#)

internal modelling or its appointed advisors undermines objectivity and transparency. The CAA should adopt a more active role in capital governance, with independent experts empowered to secure clear business plan for all early costs, challenge assumptions, assess value for money, and provide impartial advice to inform regulatory decisions. Furthermore, funding should be available to provide airlines with subject matter expertise to scrutinise and validate HAL proposals.

44. *Review of HAL's proposed £320m costs against £500m Category B costs already embedded in the RAB:* Before any further early costs are allowed into the RAB, the CAA must require HAL to demonstrate that these costs are entirely incremental, do not duplicate work previously funded under the £500m of Category B costs, are necessary, and represent value for money. This is not only a matter of cost efficiency but also regulatory credibility. The CAA must ensure HAL's new proposals genuinely build upon – rather than repeat – work previously funded to avoid double recovery and to protect consumers from paying twice.
45. *Clarity on full DCO development costs:* The CAA does not present any information that sets out the potential full extent of 'early costs' associated with the DCO process. Considering only costs to the end of 2026, albeit with a requirement for a full business plan for 2027 and beyond, provides no confidence that the CAA has a clear understanding of, or control over, HAL's total expenditure ahead of DCO consent.
46. *Transparency reporting and oversight, including clarity on the role of stakeholders:* HAL must be required to publish regular, detailed reports on its early cost programme, including scope, spend, forecasts, and performance. These reports should be accessible to the CAA, stakeholders and include clear definitions of their roles in oversight. Transparency is essential to ensure confidence in the process and to enable meaningful airline engagement.
47. *A binding cap with high threshold for increases:* Any cost cap must be fixed and enforceable, with increases permitted only under exceptional, unforeseen, well-justified circumstances. The current proposal — a £320m cap for 2025–26 — lacks credibility as HAL can (and has already attempted to) seek increases through an undefined process. A strong cap backed by licence conditions is vital to prevent uncontrolled cost inflation.
48. *Reinstatement of incentives to condition spending:* If the CAA continues to enable early cost recovery as planned, the CAA must ensure HAL bears a share of project risk by reintroducing a conditional recovery mechanism whereby a maximum of 85% of efficient, verifiable spend is recoverable if the scheme is abandoned or fails to secure development consent. This would help align HAL's incentives with efficient delivery and safeguard consumers from exposure to failed investments, while maintaining consistency with pre-Covid early costs determinations.

49. *Further consideration of the treatment of airline community costs:* There is no reference, recognition or regard for the significant costs that airlines will incur to support the delivery of capacity expansion. Under these Proposals, HAL are immunised from any risk associated with capital spending to develop their expansion programme – a 100% cost recovery regardless of programme delivery. Yet no equivalent protections are given to airlines – no mechanism to recover the significant and legitimate costs incurred to engage fully and faithfully with HAL and the CAA to ensure a deliverable, operational plan for expansion. These costs, it should be noted, are incremental to payment, via passenger charges, of all HAL's and CAA's costs, which is unreasonable and disproportionately burdens airport users.

50. *[Information pertaining to competitive positioning of Virgin Atlantic – redacted]*

51. *If permitted, early cost recovery to the RAB should be limited to the cost of debt:* If pre-funding is allowed at all, the allowed return on capital should be limited to the cost of debt. Applying the full H7 WACC overstates the financial burden on HAL and unnecessarily increases consumer exposure. A debt-based return reflects the low-risk nature of regulated recovery and aligns with precedent in other regulated sectors.

52. *All proposals captured fully in HAL's licence, including efficiency assessments and claw-back mechanisms:* All key cost control measures — including caps, efficiency standards, assurance mechanisms, and claw-back provisions — must be embedded in HAL's licence. Only by incorporating these directly into the licence can the CAA ensure enforceability, accountability, and long-term regulatory certainty.

## **Conclusion**

53. VAA remains supportive of Heathrow expansion, but only if there is regulatory reform to ensure development is affordable. Proposals for early cost recovery in CAP3201 place unacceptable and unjustifiable levels of risk on airport users, compounding problems that we believe are inherent in the way Heathrow Airport is regulated. The CAA has recognised in its working paper that there is sufficient evidence to revisit the current model and, within CAP3201, also commented on the significant uncertainty around HAL's costs and the reported benefits of expansion. On that basis, we cannot accept Proposals for early cost recovery – or for the expansion programme itself – that exposes consumers and airlines to speculative or duplicative costs, weak incentives and high levels of risk.

54. VAA urges the CAA to reconsider its proposals on early cost recovery and take a new approach following a thorough and balanced analysis of HAL's proposed costs and benefits. Without prejudice to our stated opposition to these Proposals, should the CAA choose to proceed despite ours and other stakeholders'

misgivings, it must work to substantially strengthen the regulatory framework to provide greater assurance of consumer protection, full transparency and accountability. This should sit alongside its review of Heathrow regulation, where we have urged the CAA to seize this once-in-a-generation opportunity to implement a comprehensive package of fundamental reforms to reset the harmful regulatory incentives the insulate HAL from risk and damages consumers.

55. VAA remains committed to working constructively with the CAA to develop a regulatory approach to early costs and wider economic regulation of Heathrow that harnesses competition and strengthens capital governance to ensure proportionate, evidence-based judgements in pursuit of achieving the best outcomes for passengers and the wider UK aviation sector.

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