Heathrow response to CAA's draft decision on the regulatory treatment of early costs of capacity at Heathrow airport (CAP3238)

CAA-H7-891

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Contents

1. Executive Summary

1. Heathrow welcomes the opportunity to respond to the CAA's consultation on the regulatory treatment of early costs (CAP3238). A robust and predictable framework for early cost recovery is essential to enable timely delivery of expansion and realisation of substantial consumer benefits.

2. We agree with the CAA's central premise that allowing recovery of efficiently incurred early costs is important to unlocking investment. We also welcome the Government's prioritisation of timely delivery and the timetable this creates.

3. We recognise the CAA's duty to ensure consumers are protected from inefficient or premature expenditure. However, the current proposals place too much weight on this risk relative to the cost of delay. As a result, several elements of the draft decision weaken financeability, increase regulatory uncertainty, and may delay delivery, to the detriment of consumers.

4. The central question for the CAA is not whether consumers should be protected from inefficient expenditure — they should — but how to do so without creating avoidable financeability, delivery and implementation risks that are themselves adverse to consumers.

Table 1: Key issues in CAP3238 and required changes

Issue with CAP3238	Recommended change	Consequences if unchanged
WACC set at 3.3% (RPI-real) is too low and recovery from 2027 is unclear	Apply H7 WACC methodology updated for current cost of new debt (c. 6.5% pre-tax), clarify approach to recovery for 2027 onwards	Return below cost of debt undermines financeability, weakens investment incentives, and creates a material risk of slowing or stopping expansion → consumer harm from delay or non-delivery
Uncertainty around withdrawal rights and cost recovery	Provide additional clarity in the licence to codify policy position on early costs recovery	Reduced investor confidence constrains investment and slows delivery → consumer harm from delay
Recovery of HWL costs via Heathrow licence	Do not recover HWL costs by reassessing legal basis and consumer interest test	Consumers fund a non-credible scheme; licence-based recovery introduces additional cost and complexity and tax issues; CAA acting outside its powers resulting in consumer harm
£320m cap	Reset cap to reflect evidenced requirement (£449m) and allow flexibility for critical-path activities (particularly property acquisitions)	Artificial constraint creates a material risk to activities on the DCO critical path, increasing risk of delay to 2029 and beyond → consumer harm from delay
Broad, discretionary efficiency tests	Introduce clearer, objective, evidence-based tests with defined scope and proportionate process coherent with CAP1819[1]	Increased regulatory uncertainty raises governance burden, likely discouraging or slowing investment → consumer harm from delay

[1] CAA, CAP1819: Economic regulation of capacity expansion at Heathrow airport: consultation on early costs and regulatory timetable (July 2019).

5. **Consumer case and urgency**
   The economic case for expansion is well established and reaffirmed by the CAA:

   - Heathrow is capacity constrained, generating **scarcity rents that increase fares and harm consumers.** Passengers pay on average ~£30 more per ticket today, within ten years this will increase to ~£70[2].
   - Expansion would deliver **substantial consumer and wider economic benefits**, including increased competition, improved connectivity, and reduced inefficiencies. Reduced fares relative to not expanding will generate ~£3bn of consumer benefit a year[3].
   - **Delay to expansion would result in a loss of consumer benefit**, rather than a simple deferral.

   Against this backdrop, the early cost framework should be assessed not only against the risk of inefficiency, but also against the ongoing consumer detriment associated with capacity constraint.

6. **Assessment of the CAA's approach**
   We recognise the CAA's concern to protect consumers from inefficient or premature expenditure. However, several elements of CAP3238 may themselves be adverse to consumers, including:

   - **Investability risk**: The proposed WACC is below the cost of new debt and is difficult to reconcile with the CAA's duty to ensure Heathrow is able to finance its activities. We do not agree with the CAA's view that expansion investment is lower risk because a significant proportion of the costs have already been incurred. No supporting evidence or analysis was provided for this position. The WACC should reflect the expected risk of return on and recovery of costs at the time the investment decision was taken, when recoverability was subject to greater uncertainty. Including clarification that the H8 WACC will be used from 2027 onwards. The approach adopted by the CAA is therefore not consistent with established principles for setting a fair return.

   - **Regulatory uncertainty**: Wide discretion in efficiency tests and unclear processes increase perceived risk and slow investment. The CAA should also ensure that the efficiency tests take proper account of legitimate constraints which may arise in cooperation with competing promoters (including contractual obligations to third parties, commercial sensitivity and the risk of conferring a competitive advantage).

   - **Delivery risk**: The proposed cost cap and treatment of key expenditures constrain activities on the DCO critical path.

   - **Implementation inefficiencies**: Proposals such as recovery of third-party costs introduce legal, tax and cash-flow distortions without corresponding consumer benefit and raise questions as to whether they fall within the CAA powers set out under section 19 of the Civil Aviation Act 2012 (***CAA12***).

   Taken together, these risks weaken investment incentives and increase the likelihood of delay or non-delivery.

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[2] Frontier Economics' Expansion CBA, 2025 - heathrow-expansion-cost-benefit-analysis.pdf
[3] Frontier Economics' Expansion CBA, 2025 - heathrow-expansion-cost-benefit-analysis.pdf

7. **Path to a workable framework**
A small number of targeted revisions would improve the draft decision:

- Set a fair, evidence-based WACC consistent with H7 principles, established regulatory finance principles and current market conditions .
- Avoid inappropriate recovery of third-party costs which only results in increasing charges without associated consumer benefit.
- Increase the cost cap to allow for well-evidenced projects and ensure the cost cap for the remainder of 2026 is sufficiently flexible to enable acquisition of property where it is in the consumer interest to do so.
- Provide additional clarity on withdrawal and cost recovery policy.
- Define efficiency tests clearly, with objective criteria and proportionate assurance processes.

8. **Conclusion**
The design of the early cost recovery framework is important. A framework that is predictable, financeable and proportionate will support timely investment and delivery of a 2029 DCO, while helping secure the consumer benefits of expansion. If the issues identified in this response are not addressed, there is a risk of delay or pause to expansion, with continued capacity constraints, higher prices, and reduced service quality for consumers.

2. Introduction

9. The Government's announcement in November 2025[4] supporting Heathrow's third runway scheme was a pivotal milestone for expansion. We look forward to the next milestone, the Government's output from its review of the ANPS.

10. The Government's objective to obtain DCO approval in 2029 will deliver significant benefits to consumers, but the timeline is challenging and will require a regulatory framework that supports timely investment as well as ensuring that consumers are appropriately protected.

11. A key element of this support is to give investors clear rules around recovery of early costs, including protections where Heathrow may need to withdraw from the project for genuine business reasons. We are pleased that the CAA recognises this point in their draft decision.

12. Investors expect the appropriate returns on their investment aligned to the "fair bet" principle. The CAA's draft decision on a lower WACC has undermined investor confidence. The proposed lower WACC is an outlier against regulatory precedent and is a marked step away from previous practice of using the WACC that would have occurred if the expenditure had been anticipated at the time of the previous decision. We ask the CAA to carefully re-examine this and we set out our position in the "Allowed Return on Early Costs" section of this response.

13. We have outlined that Expansion early costs will be significant with works commencing in 2025 and 2026. This will include various stages to prepare the DCO documentation that we have outlined before and to work towards achieving approval by 2029. Our response addresses the CAA's draft decision with this overarching timeline in mind.

14. This response addresses the following areas:

- Section 3: Recovery of early costs by Heathrow
- Section 4: Regulatory arrangements to protect consumers
    - Section 4.1: Incentive arrangements based on success of a DCO application
    - Section 4.2: Scope of early costs to be recovered
    - Section 4.3: Cap on early costs incurred in 2025 and 2026
    - Section 4.4: Approach to review of early costs and ex-post review
    - Section 4.5: Ongoing cost reporting
    - Section 4.6: Independent cost expert
    - Section 4.7: Cessation rights
    - Section 4.8: Reopener provisions
    - Section 4.9: Allowed return on early costs
- Section 5: Proposed recovery of HWL's early costs
- Section 6: Implementing CAA policy and making changes to the Licence

[4] Heathrow expansion: selection of a scheme for ANPS review purposes - GOV.UK

3. Recovery of early costs by Heathrow

Consumer benefits of expansion

15. Heathrow welcomes the CAA's independent assessment of the consumer benefits of expansion. As the CAA noted, there has been an extensive body of work that has investigated scarcity rents and estimated the consumer benefits of expansion, including the independent studies from the Airports Commission (2017) and ITS Leeds (2019).

16. The independent research on expansion benefits has found:
    - scarcity rents exist at Heathrow and demand for aviation will continue to grow in London and the Southeast;
    - the effect of these rents is to increase the market power of airlines, which raises prices, reduces frequency, increases passenger journey time, and dampens demand;
    - Commercial aviation delivers a range of wider economic benefits and constraining the market is an economic harm; and
    - If more capacity were unlocked at Heathrow, the capacity would mitigate consumer and market harms.

    With this in view, the CAA has raised a number of key questions and areas for further investigation, which we discuss below.

17. The CAA noted that there have been significant aviation and UK market developments since the pre-pandemic studies were conducted. It is important to note that downward adjustments in UK long-run growth forecasts strengthen, rather than weaken, the economic case for expansion. A lack of infrastructure investment has been identified as a significant barrier to economic growth in London and the South East. Reductions in growth prospects point to increasing consumer harm from underinvestment. This is aligned with Green Book guidance, which notes that standard partial equilibrium appraisal approaches are not sufficient to capture the market impacts of 'transformational' investments.[5]
    We note that the aviation market has recently exhibited symptoms of capacity constraint as the Airports Commission (2017) predicted:
    - the UK has experienced high airfare inflation compared with the EU since the pandemic
    - British Airways achieved a 15% operating margin in 2025, twice the global IATA average

18. The CAA noted that the Frontier Economics cost benefit analysis of expansion omitted certain consumer benefits (frequency and reduced delays), but also the cost passthrough of airport charges to airfares. Heathrow has identified that the incremental aeronautical revenue to fund expansion is less than the quantum of scarcity rent that airlines earn at Heathrow; therefore it will be profitable for Heathrow to continue to operate at capacity during the peak of the charge profile. Given this capacity, airlines will adjust airfares to maximise revenue. If they choose to pass through some portion airport charges, this will increase their total revenue relative to the case where they chose not to pass through any of the charge increase. Frontier has not underestimated the costs of expansion.

[5] "Some proposals have the objective of bringing about transformational change. A proposal brings about transformational change if it causes a radical, permanent and qualitative change in a particular subject, such that the subject has very different properties and behaves in a different way." [The Green Book – UK government guidance on appraisal]

19. The CAA referenced the Oliver Wyman study on expansion affordability that IAG commissioned. We consider that this analysis has a number of material limitations, including:
    - The approach relies on input assumptions available to IAG only which cannot be replicated independently
    - The estimated margins for non-IAG airlines (~5%) are not consistent with observed airline behaviours
    - The estimated affordable increase in charges (£4.50-£5.50) is difficult to reconcile with observed airline behaviours
    - The proposed limit on the expansion capital plan (£30bn) appears arbitrary and rests on opaque building block assumptions
    - Contextual information in the report is inaccurate or misleading

20. IAG has stated that scarcity rents do not exist at Heathrow. As detailed in the letter sent[6] to IAG following the publication of their report, we do not consider that IAG's reasoning is persuasive. IAG evidenced that British Airways can charge more in airfares on a flight from Heathrow than a flight from Gatwick to the same destination (average of £36 per short haul passenger). This is evidence of a scarcity rent[7]: in the absence of the capacity constraint this magnitude of price difference would be competed away. The report does not explain how slots at Heathrow could command high prices in the absence of scarcity rents.

21. We agree with the CAA that an efficient and effective early cost recovery mechanism is essential to delivering the benefits of expansion, and that delay to expansion would result in a loss of consumer benefit. The practical implication is that an early cost framework should be calibrated not only to avoid inefficient spend, but also to avoid avoidable delay to a project whose consumer benefits the CAA has itself recognised.

Support for Recovery Mechanism

22. Heathrow welcomes and supports the CAA's view that explicit allowance for efficient early cost recovery is "essential to support timely delivery of expansion and the earlier realisation of consumer benefits" (see para 2.21 of CAP3238). We also agree with the CAA that "…allowing the recovery of early costs in 2025 and 2026 is consistent with the general principles that a regulated entity should expect to be able to recover efficiently incurred costs" (see para 2.23 of CAP3238).

23. Without regulatory certainty, Heathrow's investors may not have the confidence needed to undertake these activities, with a consequential risk that expansion is delivered more slowly than it otherwise would be, delaying consumer benefits. We therefore support the mechanism to allow Heathrow to recover its efficiently incurred costs and financing costs, which in our view assists the CAA in discharging its primary duty to consumers.

24. However, Heathrow does not support the proposed approach to the cost of capital. The CAA has adopted the lower end of the WACC applied in the H7 Final Decision, which departs from both the CAA's earlier proposal to apply the prevailing H7 WACC and Heathrow's view of the appropriate cost of capital. This change will weaken investor confidence and regulatory certainty at an important stage of the process. Heathrow therefore asks the CAA to reconsider this position. Further detail is set out in the "Regulatory arrangements to protect consumers" section of this response.

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[6] CAA was sent a copy of this letter on 26th March 2026 which is also attached as Appendix 891a of our response

[7] Letter sent to IAG on 9th April evidencing our position in relation to this key benefit unlocked by Expansion. CAA copied at the time of correspondence and letter attached as Appendix 891b of our response.

"Fair Bet" Principle

25. Heathrow also welcomes the reconfirmation by the CAA that its adopted approach should be consistent with the "fair bet" principle, ensuring Heathrow can reasonably finance activities in a regulated environment. Heathrow agrees with the CAA that comparisons with purely commercial projects are limited due to Heathrow's price regulation, which restricts commercial freedom.

4. Regulatory arrangements to protect consumers

4.1 Incentive arrangements based on success of a DCO application

26. Heathrow agrees with the CAA's decision not to include a success/failure incentive for 2025 and 2026 costs. We note our previous comments on incentive arrangements that can lead to unintended consequences and may not result in a fair balance of risk and reward.

27. A DCO success incentive would be "inconsistent with the desired outcome: to enable timely delivery of expansion to bring consumer benefits online and meet the Government's timetable".[8] Adding an incentive of this nature to the measures already set by the CAA on early costs would be disproportionate and would not create a balanced set of incentives.

28. Furthermore, Heathrow agrees with the CAA that the work undertaken in 2025 and 2026 has been in response to Government policy, so it would be inappropriate to expose Heathrow to further risks in relation to matters that will ultimately be decided by Government.

4.2 Scope of early costs to be recovered

29. We welcome the CAA's confirmation that the scope of early costs includes enabling and property costs. Their inclusion appropriately reflects the activities required to support the delivery of expansion for the benefit of consumers. In particular, the recovery of land and property costs is an essential component of maintaining a credible path to a 2029 DCO and the timely delivery of an operational runway.

30. Notwithstanding this, we note that property related early costs are required irrespective of the delivery date of a new runway. Under the Planning Act regime, a successful DCO requires Heathrow to demonstrate that it has engaged meaningfully with affected landowners and pursued reasonable voluntary acquisition routes in advance of seeking compulsory acquisition powers. These activities must be undertaken during the pre-application and examination stages and cannot be deferred without increasing the risk of delay, challenge or refusal of compulsory acquisition powers.

31. We will work with the CAA to present our forecast beyond 2026 on property and enabling costs.

4.3 Cap on early costs incurred in 2025 and 2026

32. Heathrow recognises the rationale for a cap in principle. However, it is important that the cap is set at an appropriate level, with sufficient flexibility to respond to the fast paced and uncertain nature of the DCO planning process, including costs that may not have been foreseen, driven by external factors or arise from strategic opportunities that enable earlier realisation of consumer benefits.

33. Heathrow's position is that the CAA has not set the cap at a level that will enable the successful delivery of a DCO submission and subsequently the timely delivery of an operational runway. A £320m cap would constrain activities on the DCO critical path by forcing deferral of property acquisition that is both time-critical and lower-cost if undertaken early.

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[8] Heathrow Response to CAP3173 - Update on the regulatory treatment of the early costs of capacity expansion at Heathrow Airport, October 2025, Page 9.

34. Heathrow remains confident that this position can be addressed through reassessment of the evidence already provided to the CAA, together with the further evidence set out in this response, which supports an appropriate cap of £449 million.

35. Heathrow's response to CAP3201 set out its latest view of early costs at £363 million, reflecting the reallocation of £44 million of 2026 funds that had been allocated to Modernising Heathrow programme. This is in the context of Heathrow now pursuing a single Expansion plan. We also requested up to £30 million relating to commercial property. Heathrow's position is that these costs should be treated as part of the early costs allowance because Heathrow is pursuing a single DCO integrated delivery plan, rather than treating the Modernising Heathrow funding as separate or additional scope.

36. We also requested that the cap reflect the acquisition of the CLC, now agreed at £56.5 million. The business case and acquisition price were supported by airlines at the December 2025 Capital Portfolio Board. The inclusion of the CLC acquisition at £56.5 million, together with up to £30 million for commercial property, results in an overall cap requirement of £449 million. The acquisition of the CLC cannot be accommodated within the H7 capex cap. Heathrow has already accelerated a number of schemes, with the support of the airline community, to deliver earlier consumer benefits, and as a result there is no available headroom within the existing cap. Accommodating the CLC acquisition within the H7 cap would therefore require the slowing or deferral of current projects, which would in turn delay the delivery of consumer benefits and have a detrimental impact on cost efficiency for the schemes delayed.

37. Setting the cap at £449 million, rather than £320 million, is important because the 2026 Expansion Programme is explicitly structured around a series of interdependent, time critical activities that sit on the critical path to a 2029 DCO submission. As illustrated by the 2026 programme plan[9], early property engagement, land options and access agreements must be progressed in parallel with consultation, surface access modelling and environmental assessment.

38. If funding constraints prevent Heathrow from securing land options or access agreements in 2026, these sites cannot be released in time for construction planning, increasing the likelihood of delay at examination and pushing the overall programme beyond the 2029 DCO target.

39. A £320 million cap would require Heathrow to defer or slow these property activities in 2026, affecting the critical path and increasing the risk that the DCO timetable cannot be met. In contrast, a £449 million cap enables these activities to proceed concurrently, maintaining optionality, reducing downstream delay risk and supporting delivery in line with the Government's timetable.

40. We do not agree with the CAA's view that limited information has been provided on the additional cost requests or that these costs should not form part of the cap. Further detail on these costs is provided in the sections covering Modernising Heathrow, Commercial Property, and the CLC.

Modernising Heathrow

41. We do not agree with the CAA's view that there is not a compelling case to reallocate the "funding" related to the DCO and programme management activity for Modernising Heathrow to early costs.

[9] High level 2026 Expansion Programme Plan shared during Capita Portfolio Board meeting (slide 28) held in February 2026

42. The inclusion of the DCO and programme management “funding” that was allocated to Modernising Heathrow to the early cost envelope reflects the fact that Heathrow is pursuing a single, integrated DCO for Expansion rather than parallel or sequential consenting processes. In that context, the relevant funding should be considered as part of one combined programme for a single DCO, rather than as a separate or additional cost stream.

43. Our initial cost estimate in July 2025 assumed a single DCO and a combined programme. Our request for a £320 million Expansion cost allowance was based on the assumption that Expansion would be regulated via an increase to the H7 cap and that the combined funding for the programme would subsume the cost allowance previously assumed for Modernising Heathrow.

44. On that basis, the funding previously associated with Modernising Heathrow was not additional scope, but funding for early DCO development under a different regulatory and programme assumption. Heathrow is therefore seeking to reallocate that funding to support the same core activities, now required to deliver a single, integrated Expansion DCO.

45. Our subsequent review of 2026 costs confirmed that the overall level of funding required to support a single DCO and combined programme remains broadly consistent with our initial estimates, but that the funding now needs to be allocated differently to reflect the integrated approach.

46. In practice, the absence of an increase to the cap has already required Heathrow to deprioritise property and delivery planning activities in order to fund DCO development to the minimum level required within the £320 million cap. This resequencing is cap-driven rather than efficiency-driven and increases delivery risk by constraining activity on the DCO critical path. It also increases the risk to achieving a DCO grant in 2029 and affects the delivery of an operational runway. Any delay would defer the realisation of consumer benefits.

47. Progressing the integrated programme at the required pace is essential to securing a DCO by 2029. The schedule for a single DCO is not readily separable between “Modernising” and “Expanding” Heathrow because it is, by nature, a holistic consent for a long-term masterplan in which construction logistics, environmental effects and mitigation interact across all elements of the scheme.

48. The CAA has also noted observations from the Independent Funds Surveyor (IFS) in relation to Modernising Heathrow, but Heathrow considers these have been addressed through a close down report issued to airlines and the IFS in April 2026, which captures lessons learned and identifies how these will be applied to Expansion and other programmes where relevant.

49. Airlines are scheduled to provide feedback on this report in the coming weeks, alongside the IFS’s P4 Programme closure report, with a draft issued in mid-May and a final report expected by 30th June.

50. The IFS has supported Expansion to date through governance and assurance during programme close-down. Going forward, governance and cost control for the DCO will be addressed through dedicated Expansion governance, which is in the process of development.

51. If the CAA maintains its position and does not include this funding within the early cost cap, Heathrow will be required either to slow the integrated DCO programme or to further

defer enabling and property activities. Either outcome would increase the risk to the 2029 DCO milestone and delay consumer benefits from timely delivery of expansion. Conversely, treating this expenditure as early costs aligns with the integrated Expansion programme, avoids artificial funding constraints, supports a more robust DCO and reduces overall programme risk.

Commercial Property

52. We welcome that the CAA has noted Heathrow's points on the justification for this cost, but we do not agree that the requested allowance was insufficiently justified for inclusion within the cap.

53. The £30 million allowance for commercial property reflects activity that goes beyond previously budgeted 2026 costs and has now become necessary to support a credible path to DCO consent. In the Nationally Significant Infrastructure Project (NSIP) context established by the Planning Act 2008, engagement with commercial property interests is a statutory requirement and an important component of progressing a credible DCO application. Where compulsory acquisition[10,11,12] may be required, such engagement includes early commercial negotiations and the funding of reasonable option and access arrangements, in line with government guidance and Planning Inspectorate practice.

54. As set out in our response to CAP3201, engagement with commercial property interests is a statutory requirement under sections 42, 47 and 49 of the Planning Act 2008[13]. Furthermore, Heathrow must demonstrate that it has undertaken meaningful early engagement and exhausted reasonable voluntary acquisition routes before compulsory acquisition powers can be sought. The allowance requested will help secure land options enabling these sites to continue their activities despite the progress of capacity expansion. Being able to present these options to these major displaced users will support our positive engagement with these stakeholders.

55. In the context of complex commercial property interests, "engagement" cannot be limited to dialogue alone. For high-value, operationally important sites, credible engagement requires Heathrow to present deliverable commercial propositions (including funded land options, replacement site commitments and access agreements) that allow affected parties to continue operations with confidence while statutory processes progress. For several such "property major" sites, this requires Heathrow to underpin engagement with time limited option agreements and access arrangements. These instruments are not acquisitions, but proportionate mechanisms that preserve programme optionality, provide commercial certainty to affected occupiers, and reduce the risk of adversarial compulsory acquisition. [redacted]. As outlined in our response to CAP3201, our approach is driven by the Planning Act 2008, which means any ex-post review should be undertaken by a party with expertise in large and complex DCO applications. In the meantime, we welcome discussing this with the CAA.

56. As illustrated in [redacted], the requested allowance comprises modest deposits (typically around 10% of asset value) across a small number of strategically important sites. Securing these options reduces the risk of programme delay, legal challenge and inflated compensation outcomes; risks that have historically driven significant cost overruns in comparable NSIP schemes. Front-loading these engagement costs therefore helps protect consumers from higher future expenditure.

[10] Planning Act 2008: procedures for the compulsory acquisition of land
[11] Powers of compulsory acquisition under the Planning Act 2008, DLA Piper
[12] Planning Act 2008, Section 122
[13] Planning Act 2008, Section 42, 47 and 49

57. The expenditure is incremental to earlier forecasts because the scale, sequencing and timing of required deposits has now crystallised as the programme mobilises and moves towards statutory consultation. The consumer impact of timing is illustrated by the worked example in Table 2. If a representative commercial site is acquired voluntarily in 2026, the net acquisition cost is approximately £35.6 million after allowing for transaction costs. Applying the WACC Heathrow proposes at 6.56% over the four-year period to 2030 results in a financing cost of approximately £7.98 million, giving a total consumer cost of around £35.6 million once netted against rental income. By contrast, acquisition of the same site in 2030 through compulsory purchase results in a total cost of approximately £38.1 million, reflecting statutory compensation, professional fees and interest. Even after accounting for financing costs, early acquisition reduces total consumer cost and also reduces delivery and legal risk.

Table 2: Comparing voluntary acquisition in 2026 vs compulsory acquisition in 2030[14]

	Voluntary acquisition (2026)	Compulsory acquisition (2030)
Market value (2026)	£33.3m	£33.3m
Acquisition & statutory costs	£2.3m	£4.8m
Net asset cost	**£35.6m**	**£38.1m**
Financing cost to 2030 (6.56% WACC)	£8.0m	–
Rental income (2027–2030)	–£8.0m	–
Total cost to consumers	**£35.6m**	**£38.1m**

58. Absent this allowance, Heathrow would face a risk of deferring important engagement, increasing the likelihood of later delay, adversarial acquisition processes and higher overall costs to consumers.

Colnbrook Logistics Centre

59. We welcome the CAA's recognition that Heathrow's arguments are reasonable in relation to the early purchase of the CLC, but we do not agree that the requested allowance should not be reallocated to early costs.

60. While the acquisition of CLC has been endorsed through H7 governance, its primary purpose is to enable Expansion. The site is located directly within the third runway footprint, comprises approximately 19 acres[15] and sits on the critical path for expansion.

61. Heathrow followed the H7 governance approvals process because the opportunity to acquire the CLC arose unexpectedly and required prompt action. Heathrow acted transparently by adhering to established governance arrangements and securing airline approval in advance of completing the acquisition. This approach is consistent with normal market practice, where suitable property opportunities can arise at short notice and require swift decision making. Following this governance process should not in itself be a reason to refuse Heathrow's request to include the CLC within the early costs cap.

62. As Heathrow set out in response to CAP3201, the strategic rationale for acquiring the CLC at this stage is that early purchase is more cost efficient than compulsory acquisition later, as it avoids the need for a new long-term lease and mitigates the risk of rising land values.

[14] Acquisition costs estimated at 7% compounded with an extra 6.8% in case of compulsory acquisition.
[15] Site composed of 178,000 sq ft of internal accommodation plus 175,000 sq ft of external yard. Heathrow has occupied this site under a tenancy since the construction of Terminal 5 and uses it as a logistics centre for capital works.

The acquisition also delivers benefits to consumers in both expansion and non-expansion scenarios, as ownership of the CLC would provide long-term access to strategically important logistics capacity at a lower and more certain cost. On this basis, acquiring the asset now[16] at its most efficient price is in consumers' interests and has been approved by the airline community.

63. The CLC cannot reasonably form part of the H7 capex programme for the following reasons:
    - Within "business as usual" activity under H7, Heathrow has already accelerated several schemes, supported by the airline community, to deliver earlier consumer benefits. As a result, there is no scope within the H7 capex cap to accommodate the CLC acquisition cost.
    - Since the Government's decision in November 2025, Heathrow has budgeted the acquisition of the CLC as part of its early costs, and it now forms a core component of the expansion cost estimate.

64. Taken together, there is a strong consumer case and justification for treating the CLC acquisition as part of early costs, over and above the proposed cap. Reallocating the cost in this way avoids disruption to H7 delivery, significant and inefficient disruption, and helps preserve the consumer benefits of that approach.

65. If the CAA maintains its position that the acquisition must form part of the H7 capex cap, Heathrow would be required to pause or slow existing projects to remain within the cap. This would be adverse to consumers, as it would delay the delivery of passenger improvement propositions including check in, coaching gates and connection enhancements and retail upgrades

66. Alternatively, if the CAA concludes this cost should form part of H7 but recognises that consumer benefits should not be delayed by slowing or pausing existing projects, Heathrow then requests that the H7 cap is increased accordingly. Heathrow considers this to be an exceptional circumstance, for which comprehensive evidence on the needs case has already been provided and airline support has been secured, such that no further consultation is necessary and the adjustment can appropriately be addressed as part of the CAA's Final Decision on early costs.

Flexibility of the cap

67. Heathrow supports the principle of a flexible cap, as flexibility is necessary to accommodate the inherently uncertain and time-sensitive nature of DCO-related expenditure and to ensure that efficient investment can be made when required to protect and advance consumer interests. A flexible approach supports the timely preparation of a high-quality DCO application, reduces the risk of rework, delay and challenge, and helps avoid the deferral of important activities that could otherwise affect delivery of expansion and the associated consumer benefits.

68. However, based on the CAA's draft decision, it appears that the CAA may intend to apply a relatively high threshold for permitting cap increases. Looking ahead, it is important that the process for seeking such increases - and the CAA's assessment of them - is proportionate, clearly defined and capable of being determined within a prompt and predictable timetable that reflects the maturity and pace of the DCO process and supports the Government's objective of securing a DCO in 2029.

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16 [redacted]

69. Heathrow also supports the use of an appropriately qualified independent assessor to review forward-looking costs and will work with the CAA to establish a suitable framework for that role.

Future commercial opportunities

70. Notwithstanding the comments on the flexibility of the cap, the CAA will be aware that the expansion footprint includes hundreds of commercial properties, including a number of major commercial sites, that may need to be acquired either voluntarily or through compulsory purchase powers. The scale and potential consumer benefit associated with these acquisitions underlines the importance of retaining sufficient flexibility to allow Heathrow to act when opportunities arise.

71. There are clear advantages, including consumer benefits, to acquiring commercial properties within the expansion footprint as and when they become available or through targeted acquisition strategies. Early acquisition avoids reliance on compulsory purchase, strengthening the DCO case by demonstrating reasonable efforts to secure land voluntarily, and reduces programme risk by increasing delivery certainty. It also mitigates exposure to land value inflation and speculative behaviour, allows interim revenue generation prior to redevelopment, and preserves optionality should expansion not proceed, with assets either supporting airport operations or being resold with proceeds returned to the RAB for the benefit of consumers.

72. Heathrow considers that CAP3238 raises two distinct issues. First, whether the flexibility of the cap can operate with sufficient pace and flexibility to reflect the market-driven nature of commercial property acquisitions. Second, that the efficiency tests applied do not adequately reflect this reality, instead encouraging deferral of purchases until they are strictly required, at a higher price[17].

73. On the first issue, Heathrow asks the CAA to adopt an approach that includes a backward-looking assessment of commercial property acquisitions, avoiding a lengthy approval process to increase the cap that would risk the loss of consumer benefits. This approach would apply to acquisitions in 2026 and the first half of 2027 (subject to the CAA's consultation on early costs covering 2027–2029). Alongside quarterly reporting, Heathrow proposes to submit a six-month forward-look outlining potential market opportunities, including the needs case, expected acquisition prices relative to compulsory purchase, and protections for consumers should expansion not proceed.

74. This would provide the CAA with the opportunity to review these submissions and to raise concerns on specific transactions by exception. In the absence of such concerns, Heathrow would be able to proceed to acquire properties at the appropriate time. These acquisitions would remain subject to the 2025 and 2026 early cost arrangements, including addition to the RAB, recovery of a return, and subsequent ex-post review. This can either form part of the cap, subject to there being sufficient funds available or in addition to the cap. We welcome a discussion with the CAA on this approach, and how to introduce agility into the process.

75. On the second issue, it is important that the ex-post efficiency review of early property costs has sufficient agility to reflect the realities of the commercial property market. This includes recognising circumstances where opportunities arise unexpectedly, where comparable benchmarks may be limited or unavailable, where Heathrow may be the sole credible buyer, potential special purchaser effects, and how consumer interests are

[17] Mitigating compulsory acquisitions leads to a premium paid to the unwilling seller which experts evaluate at 6.8% (corresponding to a compensation for the SDLT [5%], the agent fees [1%], the legal fees [0.5%] and VAT on fees [0.3%]. Assumptions used in Table 2 & 3 above.

protected should expansion not proceed. These are important considerations against overly simplistic assessments based solely on market benchmarks.

76. Across both issues, an independent technical property advisor can play an important assurance role, particularly given the commercial sensitivity of live negotiations, which may limit Heathrow's ability to disclose details to stakeholders.

77. For these reasons, Heathrow asks the CAA to consider this proposal in its Final Decision, adopting an approach that provides the necessary pace and agility to support efficient property and land acquisitions while safeguarding the interests of consumers.

4.4 Approach to review of early costs and ex-post review

78. Heathrow agrees that efficient early costs should be included in the RAB and subject to an ex-post review. We welcome the CAA's confirmation that this review will not be conducted in a mechanistic manner, recognising that early costs are different from business-as-usual expenditure.

79. Notwithstanding the above, the CAA's proposed tests for the ex-post review should be proportionate, clear and directly relevant to the assessment of early costs. As currently framed, the proposals do not consistently achieve this and, in some cases, extend beyond it by introducing requirements that are neither directly related to cost efficiency nor proportionate, particularly in relation to information sharing with other promoters. We also agree that any assessment must be undertaken by parties with relevant expertise in DCO applications, ensuring a proper understanding of the planning requirements associated with a project of Heathrow's scale, complexity and nature.

80. The proposed framework also gives rise to significant discretion in how efficiency will be assessed, creating uncertainty over cost recoverability and introducing a risk of disproportionate governance that may slow decision-making along the DCO path.

81. The consequences of this risk may be significant relative to the early costs envelope. Given that a one-year delay in runway opening would reduce consumer benefits by approximately £3 billion, even a short delay could outweigh the potential benefit of identifying inefficiencies within a relatively limited early cost envelope of £320–£449 million. This highlights the importance of avoiding approaches that add unnecessary uncertainty or complexity. It is therefore important that the ex-post framework is applied in a proportionate, delivery-focused manner that protects the 2029 DCO timetable and the timely realisation of consumer benefits.

82. While Heathrow acknowledges the CAA's broad intent, the proposed tests introduce uncertainty that may undermine both DCO and wider programme delivery. We set out our concerns on specific tests, alongside targeted proposals for how these can be addressed in a proportionate and practical manner, in Table 3.

Table 3: Heathrow's feedback on tests proposed by CAA

Test proposed in CAP3238	HAL's feedback
"*are not incremental to the cost allowances made in setting the H7 price control and/or that have been inappropriately allocated to expansion activities.*"	This is central to setting the appropriate cap, and we reiterate our position that the cap should be set at £449 million. Notwithstanding this, the CAA has also set reporting requirements that provide an additional layer of assurance.
"*were incurred earlier than appropriate/necessary*"	This requires that the party assessing costs has appropriate expertise in DCO applications. Heathrow proposes that cost assessments are undertaken with reference to DCO programme timelines, with this approach subject to assurance by an independent assurer.
"*are duplicated and so would otherwise be recovered twice, such as (i) any duplication of costs funded through the H7 price control, (ii) costs duplicated between potential promoters and (iii) cost duplicated from activities completed prior to the covid-19 pandemic. In assessing this, we will consider whether HAL has responded promptly and appropriately to requests from other promoters to share relevant analysis or studies which are not commercially confidential and fully cooperate with the independent assessment of these matters*"	We have concerns with assessing this test by reference to whether Heathrow has responded to and shared information with other promoters. As set out in Table 4, there are circumstances in which information cannot reasonably be shared due to commercial sensitivity and contractual restrictions. As currently framed, this element of the test extends beyond an assessment of efficiency, as it does not directly evaluate whether costs are efficiently incurred or necessary for delivery of the DCO, and it risks introducing factors that are not within Heathrow's control. We therefore propose the following wording. "*are duplicated and so would otherwise be recovered twice, such as (i) any duplication of costs funded through the H7 price control, and (ii) costs cost duplicated from activities completed prior to the covid-19 pandemic.*" Heathrow expects to take reasonable steps to avoid duplication but, if the CAA maintains its position, we seek greater clarity on the process by which this will be assessed and applied in practice.
"*unduly reduce potential competition where HAL has not taken appropriate steps to avoid these costs*"	This test is not sufficiently clear in its purpose or in how it is intended to operate. It therefore creates uncertainty as to how it would be assessed and, in turn, uncertainty over the recoverability of costs. As currently framed, it extends beyond an assessment of efficiency, as it is unclear whether it directly evaluates whether costs are efficiently incurred or necessary for delivery of the DCO. On this basis, Heathrow considers that this element should not form part of a cost efficiency test unless the CAA provides greater clarity on its purpose and how it would be applied in practice.
"*could have been procured more efficiently" and "property purchase costs, where more efficient alternative approaches*"	Heathrow acknowledges the CAA's intent in this area but considers that clearer guidance is required on how this test will be assessed in practice. We therefore propose to work with the CAA to develop practical guidance, drawing on best practice, relevant planning legislation, and established approaches for DCO applications of this scale and complexity, to provide a clear and objective framework for assessment. This will ensure that expectations are transparent and that Heathrow's approach can be assessed in a consistent and proportionate manner. Any assessment should focus on whether established or agreed processes have been followed, rather than evaluating outcomes that may be influenced by factors outside Heathrow's control.

Information sharing

83. While Heathrow proposes that information sharing should not form part of the cost efficiency assessment itself, we agree with the CAA that it is not in consumers' interests to fund duplicative work and that, where information can reasonably be shared without undermining commercial confidentiality, legal obligations or delivery, consumers should benefit from that sharing.

84. Our concern is therefore not with the principle of avoiding duplication, but with how the proposed test would operate in practice. In Heathrow's view, information sharing should be addressed through a separate, clear and workable process rather than treated as part of the cost efficiency assessment, because any assessment of Heathrow's "co-operation" with competing promoters is inherently fact-specific and must reflect legitimate legal, contractual and commercial constraints. Treating such issues as part of the efficiency test would introduce uncertainty and could create delay, additional cost or distortions to competition.

85. Furthermore, it would be inappropriate for an independent arbiter to require Heathrow to disclose information where Heathrow is contractually prohibited from doing so or where disclosure would affect the transfer of liabilities and associated risk allocation. Similar considerations arise in relation to sharing information with other promoters until such time as a competing scheme has been found sufficiently credible by the Secretary of State.

86. It is also important that any threshold applied is appropriate and proportionate. Heathrow agrees that any independent assessors appointed must have demonstrable expertise in DCO applications and commercial property costs, so that assessments properly reflect the nature and context of early costs. Any independent party asked to arbitrate information-sharing questions must therefore be capable of distinguishing genuinely duplicative work from information that cannot be shared lawfully or safely and should not require disclosure where Heathrow is contractually or legally prohibited from doing so.

Table 4: Possible adverse impacts from information sharing with 3rd parties

Type of information	How it would breach confidentiality and cause harm
Commercial pricing information related to specific scope for goods, works or services.	Puts company confidential pricing information into the public domain inclusive of supply chain pricing. Highly likely to be specific to the scope of the contracting party and therefore limited value.
Estimate build up and detail.	Heathrow specific knowledge and commercial position.
Benchmarks for rates and facilities.	Commercially sensitive information.
Heathrow contract terms and conditions for expansion contract.	Confidential commercial contracts with suppliers – requires permission to release.
Heathrow commercial, contractual and procurement strategy documents.	Confidential commercial contracts with suppliers – requires permission to release.
Heathrow expansion design and masterplan information.	Heathrow intellectual property forms Heathrow's expansion plans. This would not include as built information as per today's layout.
Heathrow construction schedule information.	Forms significant part of Heathrow's proposal based on our intellectual property and commercially confidential information.
Other procured data, systems and information.	Procured to support Heathrow's bid and may provide improvement to other promotors proposals if shared at Heathrow's cost.

87. Heathrow therefore considers that the aspects of the proposed test in paragraph 3.68 of CAP3238 dealing with information sharing should be revised. Rather than assessing whether Heathrow has "*responded promptly and appropriately*" to requests from other promoters, the test should require Heathrow to have *"met, in a timely manner, requests approved by the independent arbiter as reasonable and capable of being shared, while remaining consistent with applicable legal restrictions and contractual obligations to third-party suppliers of information"*. This would provide a more objective basis for assessment and reduce uncertainty over the recovery of efficiently incurred costs.

4.5 Ongoing cost reporting

88. The CAA proposes that Heathrow should provide structured, ongoing reporting of early costs against its approved programme and forecast, to provide transparency and an early warning mechanism should early costs deviate materially from expectations. Heathrow agrees to implement transparent and proportionate reporting requirements for early costs and supports working collaboratively with the CAA and airline stakeholders to define the detailed specifications ahead of the final decision. Heathrow considers that an effective starting point would be baseline reporting against the December 2025 submission, supplemented to reflect subsequently agreed costs, including the CLC.

4.6 Independent cost expert

89. Heathrow welcomes the CAA's intention to appoint an independent cost expert and agrees that this role is important in providing assurance to stakeholders. Consistent with Heathrow's broader governance proposals for Expansion, Heathrow highlights the proposed Joint Independent Assurance (JIA) model as evidence of its commitment to expert-led, transparent and collaborative oversight. The JIA approach demonstrates Heathrow's willingness to share information, facilitate informed challenge, and support timely resolution of issues in the interests of consumers and efficient delivery.

90. Heathrow supports the approach proposed by the CAA in relation to the appointment of an independent cost expert, as set out in paragraphs 3.76 to 3.78 of CAP3238. Heathrow agrees that the use of a suitably qualified and independent expert, appointed with appropriate consultation and CAA oversight, provides a credible basis for assurance on cost efficiency. This approach provides an appropriate balance between transparency, robustness and pace, and supports informed regulatory scrutiny while enabling Expansion-related activities to progress efficiently in the interests of consumers.

91. Heathrow is working to develop a shortlist of possible candidates, together with proposed terms of reference for the independent assessor and will share these with the CAA within six weeks of its draft decision.

92. Furthermore, Heathrow considers that, if timelines had allowed, the independent assessor should ideally be jointly appointed with the airline community, to support transparency, build trust, and ensure alignment across stakeholders.

4.7 Cessation rights

93. Heathrow welcomes the CAA's proposal that its efficiently incurred costs will continue to be recoverable in the event Heathrow withdraws from expansion for "genuine business reasons". This confirmation is important in providing Heathrow's investors with confidence to continue to incur early cost expenditure to support the delivery of expansion.

94. Heathrow does not agree with the CAA's view that a licence amendment providing clarity on cost recoverability would not create sufficient certainty as to the framework for determining the appropriate amount to be recovered, or that such an amendment is of greater relevance only to the recovery of costs from 2027 onwards (given the CAA's proposal to address cost recovery for 2025 and 2026 through the RAB).[18]

95. As stated in Heathrow's previous response,[19] codifying the CAA's policy position on early costs recovery for 2025 and 2026 is necessary to provide confidence now in the framework that the CAA will apply to cost disallowance in these initial years. The suggestion that codification in the licence is unnecessary because it does not provide certainty as to the recovery amount misses the key point: what Heathrow requires for investment decisions is clarity as to the guardrails that will be applied to the assessment of costs, so that it can understand how the CAA will approach those costs when making its ex-post determination. The importance of such regulatory certainty in relation to the approach adopted for RAB adjustments in ex-post cost efficiency reviews has also previously been recognised by the CMA.[20]

96. As we have previously noted, such certainty is important to enable investment decisions to be taken at pace and to mobilise the capital required to fund expansion. Consumers benefit directly because such certainty supports more efficient progression of expansion planning. While we agree that the policy framework for the recovery of costs from 2027 onwards will also need to provide sufficient certainty to support investment, this is yet to be developed. The need for additional certainty in relation to future years does not diminish the importance of providing regulatory certainty now in respect of early costs incurred in 2025 and 2026.

97. Heathrow notes that the CAA states in its draft decision that it considers these matters "better addressed through policy statements in our draft and final decisions".[21] For the avoidance of doubt - while noting that Heathrow's proposed licence amendment remains its preferred approach[22] - if the CAA proceeds to make policy statements instead of making a licence amendment Heathrow will be taking action in relation to early cost expenditure in reliance on the CAA's stated policy position. On the basis that the CAA considers this policy position to provide sufficient certainty, we will therefore have a legitimate expectation that those costs will be recoverable in accordance with that policy and that the CAA will not subsequently depart from it.

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[18] CAA, CAP3238 (April 2026), paragraph 3.86.
[19] HAL, Response to CAP3201 (January 2026), paragraph 11 and 45.
[20] CMA NATS RP3 price control appeal (see paragraphs 9.44-9.66): in this case, the CAA had proposed a revised approach for considering RAB adjustments in ex-post efficiency reviews but, according to the CMA, "*the CAA had not codified the basis upon which it may apply a RAB disallowance to a sufficient degree, or in a sufficiently constrained manne*r". The outcome of this finding was that the CAA developed a Regulatory Policy Statement (***RPS***) to specify the approach that the CAA planned to take for disallowing capex on an ex-post efficiency review which "*should be referred to in the licence"* (see paragraph 9.66).
[21] CAA, CAP3238 (April 2026), paragraph 3.87.
[22] HAL, Response to CAP3201 (January 2026), paragraph 68.

4.8 Reopener provision

98. In relation to the proposed reopener mechanism, Heathrow welcomes the CAA's clarification that it "would allow efficient early costs already incurred but reopen the cap to limit the recovery of future efficient costs".[23] Heathrow agrees that this reopener must allow for costs already incurred, up to an agreed decision point. As set out in Heathrow's previous response,[24] such a decision point would need to be agreed between Heathrow and the CAA, as it may be contingent on decisions and/or information from third parties, such as Government or the CAA itself.
99. Heathrow has concerns with the CAA's view that this is not intended to provide a routine approach to revisiting the early cost cap, but rather a trigger for rapid and fundamental review of forward-looking allowances if there is a "very significant and material change of circumstances".[25] This issue is addressed further in the "Flexibility of the cap" section of this response.

100. Notwithstanding this, we note that the CAA refers to a "reopener mechanism in the regulatory arrangements for the recovery of early costs"[26] without explaining how this mechanism will be implemented in practice. It is also unclear whether the CAA intends to approach the reopener in the same way as cessation rights. Heathrow therefore requests that the CAA clearly sets out how it intends to implement its draft decision on the reopener.

4.9 Allowed return on early costs

101. Heathrow supports the CAA's decision in principle to allow a return on its early costs ahead of the DCO. However, Heathrow does not agree with the CAA's conclusion to set an allowed return of 3.30%. The CAA's approach appears to rest on three propositions:
    - that allowing only the cost of debt as proposed by the airlines would be disproportionate, particularly in the light of recent increases in the cost of debt finance;
    - that the risk profile of early costs is different and lower compared to forward looking capital programmes, as cost is already incurred; and
    - that it would therefore be appropriate to use the bottom end of its H7 WACC range to determine the return on expenditure in 2025 and 2026.

102. For the reasons set out below, Heathrow considers that this approach should be reconsidered. Without adjustment, the CAA's proposal may weaken investor confidence and slow investment, contrary to the CAA's consumer and financing duties.

103. In particular:
    - First, the allowed return of 3.30% (RPI-real) pre-tax (2.60% vanilla) is lower than Heathrow's current cost of debt, which disincentivises investment and means that the equity return for the investment is negative. This is difficult to reconcile with established regulatory finance principles and does not properly take account of the full risk of both equity and debt financing. It is also inconsistent with the CAA's stated aim of enabling efficient investment to proceed at pace in the interests of consumers;
    - Second, it is also inconsistent with the H7 methodology on cost of debt and the outcome that would have occurred had the expenditure originally been included in the H7 decision; and
    - Third, Heathrow does not agree with the CAA's view that expenditure is lower risk simply because it has already been incurred. Such a view also creates an incentive

[23] CAA, CAP3238 (April 2026), paragraph 3.80.
[24] HAL, Response to CAP3201 (January 2026), paragraph 47.
[25] CAA, CAP3238 (April 2026), paragraph 3.85.
[26] CAA, CAP3238 (April 2026), paragraph 3.85.

for Heathrow to minimise expenditure ahead of the full regulatory terms being available. This would not be consistent with the rationale set out by the CAA in its consultation to ensure the scheme can continue at an appropriate pace.

104. In order to address this, the WACC set by the CAA for early costs should be no lower than the WACC that would have applied if the expenditure had been anticipated at the start of H7. This would reflect the mid-point cost of equity and the cost of new debt, resulting in a pre-tax WACC of 6.31% (RPI-real) if based on the average cost of new debt for H7, or 6.56% if based on the cost of new debt for 2026. This approach would be consistent with the H7 decision, would avoid under-recognising Heathrow's risk, and would avoid the adverse consequences of unintended incentives.

The allowed return is below the cost of debt

105. Heathrow's 2046 Class A bond had a yield of 6.70% on 30 March 2026. Including a new issue premium of 15bp in line with the H7 decision indicates a cost of new debt for Heathrow of 6.85%. The March OBR forecast for RPI in 2026 is 3.1%, therefore the cost of new debt for Heathrow in 2026 is 3.75% real-RPI. This is higher than the 2.60% post-tax WACC proposed by the CAA. This means that the return received by Heathrow would be lower than the interest costs it incurred to deliver the early costs.

106. Moreover, Heathrow is concerned regarding the CAA's statement that it is sympathetic to airline views that returns should be capped at the cost of debt. Such an approach would not be consistent with finance theory, which requires the weighted cost of capital to be used in budgeting and discount calculations. In setting a return, the CAA must take into account the cost of equity finance as well as debt finance.

The approach is inconsistent with the H7 methodology on cost of debt

107. The H7 methodology for cost of debt included two elements that are important to take into account in setting the return on early costs:

- First, it used forecast inflation to convert nominal debt costs to real costs. The very high inflation in 2022 and 2023 therefore reduced the average cost of debt in H7 in a manner that is not applicable to the cost of debt in 2025 and 2026; and
- Second, the proportion of new debt was based on the capital expenditure forecast for H7 and would have been higher if H7 had anticipated additional expenditure.
- Given this, to properly reflect the cost of debt for early costs, the cost of debt used in the WACC should be based on:
    - The cost of new debt only; and
    - Be largely based on the assumed cost of new debt in 2026.

108. This approach leads to a cost of debt for early costs of at least 4.33% (the average real cost of new debt in H7 of 4.18% plus issuance costs of 0.15%[27]) or 4.75% based on the H7 decision for cost of new debt in 2026.

109. Together with the mid-point cost of equity of 6.96% real-RPI, this requires a pre-tax WACC of greater than 6.31% (RPI) or 6.56% based on the cost of new debt for 2026. This latter is the effective WACC that would have applied to this marginal expenditure had it been included in the H7 determination.

[27] The CAA allowed 25bp for issuance and liquidity costs at H7, however some of this related to additional liquidity required in the early years as a result of Covid. We have therefore excluded this element and applied the underlying liquidity cost adjustment.

The expenditure is not lower risk

110. The CAA states that the risk profile of early costs expenditure is lower than that of forward-looking capital programmes because a significant proportion of the costs have already been incurred. Heathrow does not agree:

- At the point of the consultation, the majority of the spend has not been incurred;
- The WACC should reflect the risk of cost recovery at the time the investment decision was taken, when recoverability was subject to greater uncertainty. In Heathrow's view, the approach adopted by the CAA in its draft decision is not consistent with established principles for calculating a fair return for investors;
- The risk profile of the revenue associated with the return on this capital is no different from the risk associated with the revenue associated with the return on other expenditure and therefore does not have a lower systematic risk;
- We note that all return on RAB is based on expenditure that has already been incurred, and that the CAA's approach will weaken investment incentives if not corrected;
- We note that the CAA has argued in its initial proposals that there is no element of systematic risk associated with uncertainty in capital expenditure. While Heathrow does not agree with that view, it would follow that the CAA should not adjust the WACC on the basis that the capex is lower risk; and
- The expenditure has not yet been assessed for capital efficiency, which is a key driver of capex risk. The CAA has set out its proposals for a challenging ex-post efficiency assessment. As such, Heathrow considers that the expenditure is subject to much higher risk than business as usual capex.

The allowed return in H8

111. In addition to the points set out above, Heathrow seeks confirmation from the CAA on the WACC that will be applied to these costs in H8, including from the start of 2027. This clarity is important to support regulatory certainty and financeability, given the scale and timing of these investments.

Conclusion

112. Taken together, Heathrow considers that this expenditure is subject to a higher level of risk than business as usual expenditure and should therefore attract a higher return than that proposed by the CAA.

5. Proposed recovery of HWL's early costs

113. In Heathrow's view, before allowing consumers to fund HWL's early costs, the CAA should be satisfied that doing so would be consistent with its statutory duties, in particular its duty to further the interests of present and future users, while having regard to economy and efficiency, financeability and proportionality. Those duties can be applied through three practical tests:

- **Deliverability test**: there must be a reasonable prospect that the scheme can be consented and delivered within the Government's timetable, including through a credible planning and compulsory acquisition pathway.
- **Better-outcomes test**: the scheme, or the competitive process it is said to support, must be likely to deliver better outcomes for users than the relevant counterfactual, rather than simply creating optionality in theory.
- **No-harm test**: allowing recovery must not create material offsetting harm to users through delay, duplication, inefficient implementation or disproportionate governance burden.

114. These are not freestanding tests. They are practical expressions of the questions the CAA must answer if it is to conclude that requiring users to fund HWL's costs is consistent with its statutory duties.

Deliverability test (not met)

115. In Heathrow's view, HWL does not meet the deliverability test because it depends on compulsory acquisition of Heathrow land and assets as well as a "piggyback" consenting approach that is untested, highly uncertain and may not be deliverable within the Government's timetable.

116. <u>Critical reliance on Heathrow land:</u> absent agreement, HWL would need compulsory acquisition (CA) powers over statutory undertaker land, which Heathrow would object to.

117. <u>"Serious detriment" barrier (Planning Act 2008, section 127):</u> CA powers cannot be granted in a DCO where acquisition (or acquisition without adequate replacement) would cause serious detriment to Heathrow's statutory undertaking. Impacts such as removal/replacement of MSCP5 (with consequences for Terminal 5 operability) and direct conflicts with Heathrow's own planned works support a serious detriment case.

118. <u>Not capable of being "designed out" late:</u> the parameters of the HWL scheme would, on the evidence available, continue to create serious detriment risk such that the CA/consenting pathway for HWL through the DCO process remains highly uncertain and may prove incompatible with delivery of the HWL scheme.

119. <u>Unprecedented "piggyback" consenting strategy</u>: creating split accountabilities and complex interfaces undermines a credible, examinable DCO narrative and delivery plan, both as respects the construction and operation phases, and creates a substantial risk of delay to Heathrow expansion with no clear workaround currently identified.

120. On the evidence currently available, there is not yet a sufficient basis to conclude that HWL can be consented and delivered on the required timeline. The CAA should therefore not allow recovery of HWL's early costs on deliverability grounds unless and until (a) further detail about the nature and components of the HWL scheme is available – expected to be when HWL applies to the Planning Inspectorate, as it must, for an EIA Scoping Opinion; (b) HWL can explain how its proposals would not cause serious detriment to Heathrow's statutory undertaking; and (c) HWL can explain how its consenting strategy

will work in relation to Heathrow's own DCO and, importantly, how HWL's DCO application could be considered to be in accordance with the holistic policies of the Airports National Policy Statement of 2018, which relate to Expansion as an integrated project.

Better-outcomes test (not met)

121. HWL fails the better-outcomes test because it has not evidenced deliverable, incremental consumer benefits versus the counterfactual, and its increased uncertainty risks later delivery and worse outcomes.

122. Counterfactual: absent HWL recovery, consumers fund only the early costs needed to progress a deliverable expansion scheme on the critical path to a 2029 DCO/2035 opening. HWL recovery should therefore be justified by incremental, deliverable consumer benefit (cost, timetable, service quality/resilience) versus that counterfactual.

123. Multi-Operator Airports do not lead to better outcomes: as presented to the CAA in response to CAP3195, evidence from fragmented comparator airports suggests weaker passenger outcomes, efficiency and resilience. Fragmented hubs such as JFK and LAX have materially lower passenger satisfaction, implying that if Heathrow's service fell to JFK/LAX levels, around 15 million passengers each year would rate their experience worse. Evidence also indicates multi-operator airports run lower terminal efficiency, driven by duplicated systems and weaker whole-airport optimisation; applying similar inefficiency would imply materially lower throughput for the same asset base (c.17–44m fewer passengers served).

124. Deliverable benefits are not evidenced: HWL's revised "piggyback" approach increases dependency on interfaces, land assembly and coordination with Heathrow's works, which (on its face) raises significant delivery and consenting risks rather than presenting a clear, credible route to earlier capacity or lower charges. Investors also price in these interface and dispute risks, increasing the cost of capital and ultimately charges.

125. Conclusion: Even where concepts appear attractive in principle, consumers are worse off if the pathway is materially later or more uncertain, prolonging scarcity rents and delaying benefits. Any assessment of "better outcomes" must therefore be anchored in (i) a realistic consent/programme plan and (ii) an evidence-based comparison of outcomes versus Heathrow's scheme, not high-level optionality. On that basis, the CAA should not allow recovery of HWL's early costs unless and until a better-outcomes case is evidenced on a deliverable basis.

No-harm test (not met)

126. HWL fails the no-harm test because the approach creates avoidable delay, duplication and implementation inefficiencies that increase consumer costs without improving deliverability.

127. Delay risk (process and interfaces): parallel promotion of a scheme that relies on "piggybacking" increases interface questions (scope boundaries, construction phasing, operational continuity, surface access responsibilities) that must be examined and resolved, increasing examination burden and raising the risk of delay to the deliverable scheme's timetable.

128. Duplication risk (what would be duplicated): without clear guardrails, consumers risk funding overlapping workstreams (e.g., alternative masterplanning and phasing, separate surface access strategies/model runs, duplicative consultation materials, parallel technical assurance) that do not advance the scheme on the critical path.

129. Governance burden / uncertainty: wide discretion over information sharing and third-party recovery can create material additional governance steps (arbiter processes, repeated reasonableness assessments, audit/true-up sequencing and dispute handling). These

activities consume management capacity and introduce stop–start decision-making, which increases schedule risk and cost.

130. Inefficient implementation impacts (consumer cost leakage): recovering HWL costs through Heathrow's licence/charges can create tax leakage risk (non-deductibility for corporation tax), VAT uncertainty and cash-flow timing asymmetry (HAL pays before recovery through charges). These distortions increase the all-in cost borne by consumers without improving deliverability. In these circumstances, the CAA should not allow recovery on a no-harm basis unless and until it is satisfied that such offsetting harms have been avoided.

Heathrow's asks ahead of the drafting of the Final Decision

131. For the reasons above, HWL does not currently meet the deliverability, better-outcomes or no-harm tests. In these circumstances, Heathrow does not consider it to be in consumers' interests to fund HWL's early costs. Separately, and in any event, recovery via Heathrow's licence/price control risks creating inefficient implementation effects (tax/VAT/cash-flow) that are not aligned with efficient, consumer-focused regulation (see below section).

132. As a logical framework to govern cost recovery, Heathrow proposes the below:

Table 3: Steps needed ahead of Final Decision regarding recovery of 3rd party costs

Steps the CAA should take upon drafting its Final Proposals	
Step 1	Apply an evidence threshold before any recovery Do not allow recovery of HWL costs unless and until HWL can demonstrate (to an objective standard) a credible consent/programme plan, land/CA pathway and deliverability case sufficient to pass the deliverability test. This cannot reasonably be done until HWL have completed its preapplication to the Planning Inspectorate and the scope of its scheme is known.
Step 2	Independent reassessment of deliverability/consentability (i) recommission Steer (or equivalent) to assess HWL's updated scheme benefits and deliverability against a realistic delivery plan and Heathrow's operational evidence (e.g., MSCP5/T5); and (ii) ensure the CAA fully understands the legal risk associated with whether or not the HWL plan is consentable within the NSIP regime.
Step 3	If any recovery is nevertheless contemplated, make it proportionate and workable Avoid recovery through Heathrow's price control/RAB. Instead, consider a one-off treatment with clear timing, audit and dispute guardrails, and an explicit approach to tax, VAT and cash-flow impacts so consumers are not exposed to avoidable leakage or asymmetry.

Recovery of HWL's Costs

133. Heathrow does not agree with the CAA's draft decision to allow HWL to recover costs up to the Government's November 2025 announcement, provisionally estimated at £4.3 million, by means of a price control decision addressed to Heathrow under Heathrow's licence.

134. Heathrow has previously outlined on numerous occasions why the CAA does not have the requisite powers to recover these costs via a price control condition under the CAA12.[28] Heathrow's position remains as articulated in those submissions. In summary, section 19(2) CAA12 confers on the CAA the power to impose price control conditions only where this is necessary or expedient having regard to the risk that Heathrow may engage in an abuse of substantial market power (SMP), as set out in section 18(1)(a) CAA12. The recovery of HWL's costs is plainly unconnected to any such risk.

135. On no occasion prior to the draft decision had the CAA elaborated on why it considered that it had the power to recover HWL's costs via Heathrow's licence.

136. The CAA has now advanced a rationale which appears to be based on the following propositions:

a) Section 19(2) CAA12 states what price control conditions must be included in the licence, but does not limit what such conditions may include.
b) Section 19(2) CAA12 is expressly subject to "the provision in this Chapter about the conditions that may be included in the licence" (section 19(3) CAA12). Although the CAA did not assert this directly, the CAA appears to imply that section 21(1)(b) CAA12 is the relevant provision to which the CAA is referring. Section 21(1)(b) CAA12 states that licences may include "provision requiring the holder of the licence to enter into a contract or other arrangement for a purpose specified in a condition and on terms specified in, or determined in accordance with, a condition".

137. Heathrow considers that this reasoning is incorrect.

a) First, section 19 CAA12 is clearly intended to be exhaustive as to the circumstances in which price control conditions may be imposed.
    i) While section 19(2) CAA12 addresses when a price control condition must be introduced, section 19(4)-(5) CAA12 already provides for when a price control condition may be introduced. Specifically, the CAA may introduce a price control condition for depriving Heathrow of an amount relating to an abuse of its SMP where it imposed unfairly high charges.
    ii) Under both section 19(2) and (4)-(5) CAA12, a price control condition must be connected to a possible abuse of SMP. There is no suggestion anywhere in section 19 that a price control condition may be applied free-reign in any other scenario where section 21 CAA12 potentially foresees that non price-control conditions can be applied.
    iii) The exhaustive nature of section 19 is reinforced by its heading, which expressly refers to price control conditions, and by the explanatory notes to CAA12,[29] which emphasises that price regulation is intended to protect consumers from the risk of firms exploiting market power by capping prices. Section 19 accordingly does not permit the CAA to impose a price control condition in situations unrelated to SMP.

[28] HAL, Heathrow Capacity Expansion – consultation on regulatory policy on early costs (CAP 3149) Response from Heathrow Airport Limited, 10 September 2025, pages 6-8; HAL, Letter from Heathrow to Selina Chadha (CAA), 17 October 2025, pages 10-12; HAL, Response to CAP3201, January 2026, paragraphs 50-53. See also, HAL, Economic regulation of Heathrow Airport Limited: Consultation on the Way Forward (CAP2139) Heathrow's response, 18 June 2021, pages 94-96.

[29] CAA12's explanatory notes provide for the need for regulatory measures that go beyond ordinary competition law in order "*to protect consumers from the risks of firms exploiting their market power…*" by " *cap[ping] the prices that dominant firms can charge in order to promote efficiency*", Explanatory notes to the CAA12, paragraphs 8 and 9.

The CAA's proposed decision is therefore seeking to confer upon itself an unfettered and disproportionate discretion to impose price control decisions which goes beyond its statutory authority.

b) Second, section 19(3) CAA12 does not expand the circumstances in which section 19(2) may be applied. Rather, it qualifies and constrains the operation of section 19(2). It cannot sensibly be read as disapplying the requirement that price control conditions must be connected to SMP considerations and allowing for price control conditions to be imposed in any possible scenarios where licence conditions may be applicable under section 21 CAA12.

c) Third, the imposition of a third-party cost recovery fund is, in any event, not the type of "arrangement" that falls within the scope of section 21(1)(b) CAA12. By way of relevant comparison, Heathrow agrees with the CAA's conclusion that it does not have the power to force Heathrow to enter into commercial arrangements to promote competition in delivering expansion.[30] There is no basis to reach any different conclusion in relation to an arrangement for cost recovery for third party proposals.[31]

138. In short, as Heathrow has not abused its market power, nor is there any evidence that there is a risk it might in these circumstances, it would be ultra vires for the CAA to attempt to impose a price control condition on Heathrow to collect money from its users to fund costs incurred by HWL. In fact, allowing HWL's costs to be recoverable through Heathrow's price control would act to increase charges for passengers and cargo owners. Requiring Heathrow to increase its price to fund the activities of a third party runs directly contrary to the statutory intention of section 19 CAA12. We note that the CAA's draft decision contains no analysis of this issue.

139. Heathrow remains clear that, contrary to the CAA's position in the draft decision, HWL's proposal is not in the interests of consumers. Recovery of HWL's costs via Heathrow's licence is inappropriate and HWL has not demonstrated a basis for cost recovery at all. However, without prejudice to that position, if the CAA were to conclude that some recovery were justified, Heathrow considers that the more rational and proportionate approach would be a licence adjustment to allow a one-off operating cost treatment, rather than embedding recovery within the price control.

140. The CAA referred in its draft decision to the report from Steer as evidence that HWL's proposal was sufficiently complete and robust to carry out a high-level technical and cost efficiency assessment. However, this does not provide any evidence which explains why allowing HWL to recover costs incurred so early in its process is in the interests of consumers. See Appendix 891e of this response for our full comments on Steer's 'Initial technical and cost efficiency assessment of capex expansion plans for Heathrow Airport' report.

141. The CAA suggests in the draft decision, by way of justification, that "a process that involves the consideration of a range of outcomes is significantly more likely to lead to outcomes that are in the interests of consumers".[32] However, the CAA previously decided the opposite in 2023. At that time, the CAA concluded that "Heathrow West's proposals formed part of a standalone commercial project that it chose to commence at its own risk and without prior agreement with the CAA on how it should be funded" and "we consider

[30] Economic regulation of capacity expansion at Heathrow: policy update and consultation CAP 1610. Available here, page 19. The CAA states that "*as we have also previously stated, the CAA does not have the power, directly or indirectly, to impose, or force HAL to enter into, particular commercial solutions to promote competition. Furthermore, we do not have the power either to issue a licence to a new market participant under CAA12 (unless we first made a Market Power Determination and such a determination were to indicate that a licence would be appropriate), or to force HAL to divest assets.*"
[31] See also HAL Letter from Heathrow to Selina Chadha (CAA), 17 October 2025, pages 11.
[32] CAA, CAP3238 (April 2026), paragraph 4.30.

that Heathrow West has not provided sufficient evidence that its work has delivered benefits to consumers that would justify the CAA taking a decision to allow it to recover the costs it is seeking". [33]

142. It is unclear why, or on what basis, the CAA has taken a different position this time around in effectively the same factual scenario. As stated in Heathrow's previous response, HWL's proposal failed on fundamental design, financial, and operational grounds, and meeting the Government's objectives for timely, sustainable, and affordable expansion.[34] The CAA suggested that Heathrow needed to provide more evidence as to why HWL's proposal was not credible, mature or in consumers' interests,[35] when the most relevant evidence that can be cited here is the fact that its proposal was not selected to proceed. Given it proposed an entirely different scheme design, it also did not in any way improve or challenge the scope of Heathrow's own proposal. In those circumstances there is no proper basis for the CAA to consider that allowing HWL to recover its early costs serves the interests of consumers.

143. Moreover, Heathrow has provided robust evidence challenging the credibility of the HWL scheme. Heathrow's appraisal of the HWL scheme, explained why HWL's proposal is not credible, not mature, and would deliver materially worse outcomes for consumers at higher cost. The scheme is undeliverable as presented, relying on unresolved and uncosted design assumptions, including the removal of M25 Junction 14a.

144. HWL cannot meet the Government's objectives for a 2029 DCO or a 2035 runway opening; the earliest credible runway opening would be in the mid-2040s, with terminal capacity delayed further, resulting in hundreds of millions fewer passenger journeys relative to Heathrow's scheme. The proposal omits substantial elements of required infrastructure, environmental mitigation, land acquisition and financing, meaning costs are materially understated. HWL has also failed to demonstrate the financial capacity, governance capability or stakeholder engagement expected of a promoter of nationally significant infrastructure. In these circumstances, there is no evidential basis to conclude that allowing HWL to recover early costs would be in the interests of consumers.

145. Finally, there remains a lack of clarity as to the precise quantum of costs proposed to be recovered given that the £4.3 million is subject to further review by the CAA. Heathrow asks the CAA to provide an update on this before issuing a final decision should there be any material divergence from the figure included in the CAA's draft decision. More broadly, the CAA should not permit recovery of HWL's costs unless and until it is satisfied both that there is a proper statutory basis for doing so and that recovery would be in consumers' interests.

[33] CAA, CAP2524H (March 2023), page 10.
[34] HAL, Response to CAP3201 (January 2026), paragraph 47.
[35] CAA, CAP3238 (April 2026), paragraph 4.29.

5.3 Proposed recovery of HWL's costs gives rise to material tax and cash-flow distortions

146. In addition to the legal and consumer interest concerns set out above, the proposed recovery of HWL's costs via Heathrow's licence would give rise to material tax and cashflow distortions that have not been considered in the CAA's draft decision. Aeronautical charges constitute taxable turnover for Heathrow and, as a result, recovery of HWL's costs through airport charges would generate additional taxable income for Heathrow, notwithstanding that the amounts recovered would be payable in full to HWL.

147. As HWL has not provided any goods or services to Heathrow, and the costs in question are not incurred wholly and exclusively for the purposes of Heathrow's trade, there is a material risk that the payment to HWL would not be deductible for corporation tax purposes. This could result in Heathrow bearing a permanent corporation tax charge (currently 25%) on amounts collected and remitted on HWL's behalf, creating an unintended and inefficient transfer of value to the Exchequer at the expense of consumers.

148. For VAT purposes, Heathrow would also expect that amounts payable to HWL would not constitute consideration for a supply, as there is no provision of goods or services by HWL to Heathrow. However, this would require explicit agreement with HWL and creates additional complexity and risk of dispute, further illustrating that the proposed mechanism is ill-suited to recovering third-party costs.

149. The proposal also gives rise to cashflow and regulatory asymmetry risks, including the likelihood that Heathrow would be required to remit payments to HWL in advance of recovering corresponding revenues from charges, and the risk that Heathrow's RAB could subsequently be adjusted following any ex post efficiency assessment of HWL's costs. These risks fall entirely on Heathrow and its customers, despite Heathrow having no control over the incurrence or efficiency of the underlying costs. We are not aware of any regulatory precedent to support this approach and it is clearly wholly inappropriate to use a regulated entity's licence to recover third party costs in the way. Proceeding with this approach leaves Heathrow exposed to ongoing uncertainty on costs related to Heathrow West but also whether it will be forced to recover other third party costs on future occasions. This financial uncertainty will not be in consumer interest as investors will factor it into price decisions.

150. Taken together, these tax, cash-flow and regulatory effects further reinforce Heathrow's position that recovery of HWL's costs via Heathrow's licence is inappropriate, disproportionate and inconsistent with an efficient and consumer-focused application of the CAA's statutory powers. If the CAA were nevertheless to consider some form of recovery, it should adopt an approach that avoids these distortions and does not expose consumers to avoidable leakage or asymmetry.

6. Implementing CAA policy and making changes to the Licence

Arrangements for adding efficiency incurred costs in 2025 and 2026

151. Heathrow supports the well-established regulatory principle that efficiently incurred costs can be added to the RAB, which will be subject to a ceiling no higher than the level of the cap to be set in the CAA's Final Decision later this year. As detailed in section 4.3 of this response, Heathrow has provided evidence in support of setting the cap at £449 million.

152. However, we consider the early costs for 2025 and 2026 form part of the H8 opening RAB and are subject to the appropriate WACC.

Depreciation

153. Heathrow confirms its willingness to work with the CAA to agree an appropriate depreciation policy and any necessary adjustments, ensuring that depreciation on early cost additions to the RAB commences during the H8 period, from the start of 2027. However, Heathrow seeks clarity on whether the opening RAB in the CAA's H8 Final Proposals will reflect this.

True-Up Mechanism

154. Heathrow supports the "true-up" principle to ensure efficient costs are retained in the RAB.

Definition of early costs and guidance

155. We welcome the CAA's acknowledgement that the definition of early costs beyond 2026 will need to be amended to incorporate actual woks, including major relocations. We also welcome the CAA's commitment to develop further guidance on what should be included as part of the costs associated with seeking planning permission, as the expansion programme advances and the scale and scope of costs increase.

Proposed licence modifications

156. We note some concerns with the implementation of the licence conditions set out in CAP3238B:
   - C14; This sets out the adjustment that would be included in the maximum allowable yield for 2026, which will form part of the 2028 maximum allowable charges via the K factor. However, we seek clarity that the calculation of "Return on provisional early costs factor" is expected to be calculated on the actuals from 2026 rather than the estimates used in CAP3238B. This is further compounded by CAA using Heathrow's airport charges consultation to set 2026 (i.e. not the final decision for 2026 charges).
   - C14; We reiterate our view in section 4.9 of this response that the CAA's proposed WACC of 3.30% (RPI-real) is too low and this should be corrected.
   - C1.25: The CAA has proposed to define early costs to include "(ii) the acquisition of land and other real property to support the timely delivery of expansion in the event that development consent is granted to the Licensee for expansion". We consider the CAA should change "real property" to "real estate". Real estate would more appropriately describe the nature of purchases required that include residential and commercial properties.
   - C24; We have a similar comment on the use of estimates and Heathrow's airport charges consultation to set 2026 and seek clarification on this.
   - C35; The CAA has proposed under G6b "a report by the Licensee's auditors to accompany, and be submitted on the same date as, the regulatory accounts prepared for the purposes of Condition E1.1, confirming that the level of early costs that the Licensee has incurred in the previous Regulatory Year meet the definition of early costs set out in Condition C1.25(k) and have been excluded from any other costs of

the Licensee set out in the regulatory accounts". We will need to work with the CAA and our auditors to ensure that this condition can be met in practice. We therefore request that the condition includes a penultimate sentence to provide appropriate flexibility and agility, enabling Heathrow and its auditors to agree the most appropriate approach with the CAA. In particular, this would allow for the scope and delivery of the report to be adapted, including where it may be more appropriately delivered through an alternative mechanism. We therefore propose the inclusion of the following wording: "The scope and nature of the report will be agreed with the CAA."

157. Additionally, as discussed in section 4.7 of this response, we reiterate our view that the CAA should include Heathrow's proposed licence amendment to codify the CAA's policy position on the recovery of early cost in the event of a withdrawal for a genuine business reason.

158. Furthermore, Heathrow seeks clarification and confirmation on the following points:
    - The return on 2025 and 2026 early costs from 2027 charge will be addressed in the CAA's H8 Final Proposals;
    - The early cost cap covers both capex and opex; and
    - The source of the indices the CAA has used.