

**HEATHROW  
REIMAGINED**  
A Better Hub For Britain



**VERSION FOR PUBLICATION**

# **Fundamental reform of Heathrow**

**Discussion of HAL's CAP3195 response and annexes**

April 2026

# Introduction

- In November 2025, the CAA published its *Working paper on regulatory models* (CAP3195 or ‘the Working Paper’).
- That document, which was a working paper for consultation on the CAA’s review of regulatory models (‘the CAA’s review’) set out:
  - The case for changing the regulatory framework at Heathrow airport (‘the case for change’);
  - A framework for evaluating whether different regulatory models would be likely to further the interests of consumers; and
  - A long-list of possible alternative regulatory models and how these models might, in principle, apply to capacity expansion at Heathrow airport.
- **On 20 January 2026 Heathrow Reimagined submitted its response to the Working Paper, including independent expert reports from Oxford Global Projects and Dr Paul Mansell.**
- The Heathrow Reimagined response set out:
  - That Heathrow Reimagined agreed with the CAA that the case for change was strong and unavoidable;
  - That in evaluating reform options, the CAA needs to prioritise the pursuit of its statutory duties, not the Government’s preferred timetable for expansion; and
  - A comprehensive package of reforms designed to address the underlying reasons why consumer outcomes at Heathrow are poor.
- On 13 March 2026, the CAA published non-confidential versions of the responses it received from stakeholders to CAP3195, including HAL’s response.
- HAL’s response comprised a main submission and various supporting documents.
- **This document is intended to facilitate a discussion with the CAA review project team. It explains why:**
  - **The case for change remains clear and compelling – HAL’s attempts to defend poor outcomes do not withstand scrutiny.**
  - **HAL’s proposed evaluation framework is inconsistent with the CAA’s statutory duties and is based on flawed analysis.**
  - **HAL’s proposed package of reforms will not address the fundamental problems with the current regulatory regime – it will not provide a basis for successful expansion.**
- We have had limited time to review the various HAL documents published by the CAA. Furthermore, in several cases, key information, or supporting documents have not been published or have only recently been published (e.g. Annex 4 was published on 10 April).
- Therefore, **these comments should be seen as initial comments intended to assist the CAA as it considers its position on HAL’s Response ahead of the anticipated Spring Consultation.**
- **Heathrow Reimagined and its members reserve the right to make further representations on HAL’s arguments and reports in due course, including in response to the Spring Consultation.**

# Agenda

1. Key points
2. The case for fundamental reform remains clear
3. The scale of HAL's capex plans means that fundamental reform is critical and urgent
4. HAL's evaluation criteria arguments are flawed and inconsistent with the CAA's duties
5. HAL's reasons for disregarding models that would deliver meaningful AOS competition do not stand up to scrutiny
6. HAL's package of reforms will not address the fundamental issues with the current regime
7. Q&A

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# 1. Key points



# Overview: HAL's proposed framework and solution will not deliver the fundamental change required for expansion

The case for fundamental and urgent change remains clear and compelling

- **We support the CAA's case for change** - indeed, CAA could have gone further.
- **HAL's attempts to defend poor outcomes do not withstand scrutiny.**
  - Independent evidence on service quality shows inadequate performance.
  - HAL's charges claims should be disregarded.
  - OGP provides clear, independent and expert evidence on systematic inefficiency.

HAL's proposed evaluation framework is inconsistent with the CAA's statutory duties and is based on flawed analysis

- **We agree with the CAA that the evaluation framework must be guided by the CAA's duties.**
- Means prioritising **affordability, efficiency, AOS competition and service quality.**
- **HAL's focus on speed, deliverability and financeability is inconsistent with CAA duties.**
  - Its new speed ('timeliness') test is based on the **flawed congestion premium analysis.**
  - Deliverability and financeability considerations are **inappropriately narrow.**

HAL's proposed package of reforms will not provide a basis for successful expansion

- **HAL's preferred model is predictable and will not address the fundamental problems.**
- HAL's reforms are **not a basis for successful expansion** and modernisation of Heathrow.
- Fundamental reform must **maximise the role of competition** in the provision of AOS and deliver **effective capex oversight and accountability.**

# We share some common foundations with HAL, but our diagnosis of what reform is required fundamentally differs

## We agree that...

...**expansion should proceed**, but it must be based on the right regulatory foundations.

...the **current capital governance framework needs to be reformed** to be more effective.

...**changes need to be made to the capex incentives and delivery obligations** models introduced in H7.

...reforms should not harm HAL's **recovery of its previously incurred capex (i.e. the existing RAB)**

... a **longer-term perspective on capital planning is required**.

## But we have a different perspective on...

...what the right regulatory foundations look like.

...the features of an effective capital governance regime.

...how the H7 model needs to change.

...what that means for fundamental change to forward-looking regulation.

...the role of longer-term capital planning.



Fundamental reform of the current model is essential.

**Heathrow** Current model, with incremental changes, is proven foundation.



CAA control, properly scoped, genuine accountability.

**Heathrow** Improve processes within existing structures and HAL control.



Remove current harmful incentives and scope for gaming.

**Heathrow** Reinforce incentives, limit downside risk, increase flexibility.



Does not preclude fundamental forward-looking reform.

**Heathrow** Requires continuation of the current model.

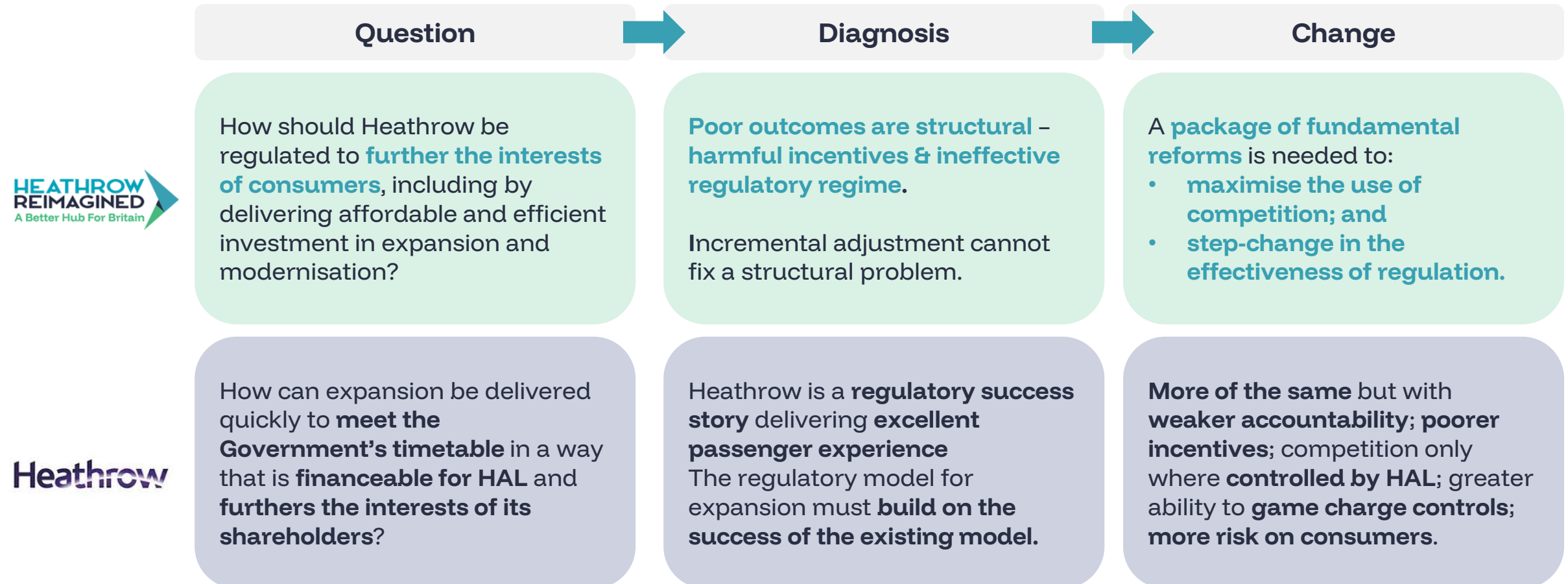


Critical to incorporate long-term affordability perspective.

**Heathrow** Provide greater investor certainty, affordability not a concern.

# The CAA must prioritise its statutory duties not the Government's ambitions or HAL's shareholders

CAA's statutory duties are clear – the CAA must prioritise users' interests, promote economy and efficiency, secure finance on terms that serve consumers, and promote competition – HAL's reforms will not deliver on these duties



# The CAA's statutory duties are clear – and only one position is consistent with them



## Heathrow

### Evaluation criteria

Anchored in **statutory duties** - consumers' interests, efficiency, competition, and financeability. ✓

**Statutory duties** re consumers, efficiency and competition are **secondary**.  
Anchored in '**timeliness**', **deliverability and financeability** for HAL. ✗

### Consumers

**Expansion must be affordable** – unaffordable charges create demand risk that undermines investment and consumer benefits; **consumers protected from promoter cost overruns**. ✓

Expansion must be delivered quickly – speed first. **Affordability not a valid concern**.  
**Greater cost overrun risk loaded on to consumers**. ✗

### Efficiency

Fundamental **incentive reform** required; independent **cost discipline**; **OGP benchmarking** as evidential foundation. ✓

**Assumes HAL delivers efficiently**.  
**Greater HAL control of capex process**.  
**Harmful incentives reinforced, not removed**. ✗

### Competition

**Maximise competition in AOS provision** where feasible; execution risk is a design question, not grounds to abandon the principle. ✓

**Directed at airlines** (already highly competitive).  
Competition where HAL holds complete monopoly **marginalised – and only allowed where HAL controls it**. ✗

### Financeability

Financeability flows from **managing affordability** and demand risk; **diversification from relying on one highly-indebted operator**. ✓

**Focused on minimising HAL's cost of capital**.  
No consideration of the financeability risks of the status quo model. ✗

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**2. The case for fundamental reform  
remains clear – we agree with the  
CAA's findings**

An aerial photograph of an airport tarmac, overlaid with a semi-transparent teal filter. A large white commercial airplane is the central focus, parked on the tarmac. To its left, several ground support equipment vehicles, including belt loaders and pushback tugs, are visible. The tarmac surface is marked with various lines and numbers. The overall scene is captured from a high-angle perspective.

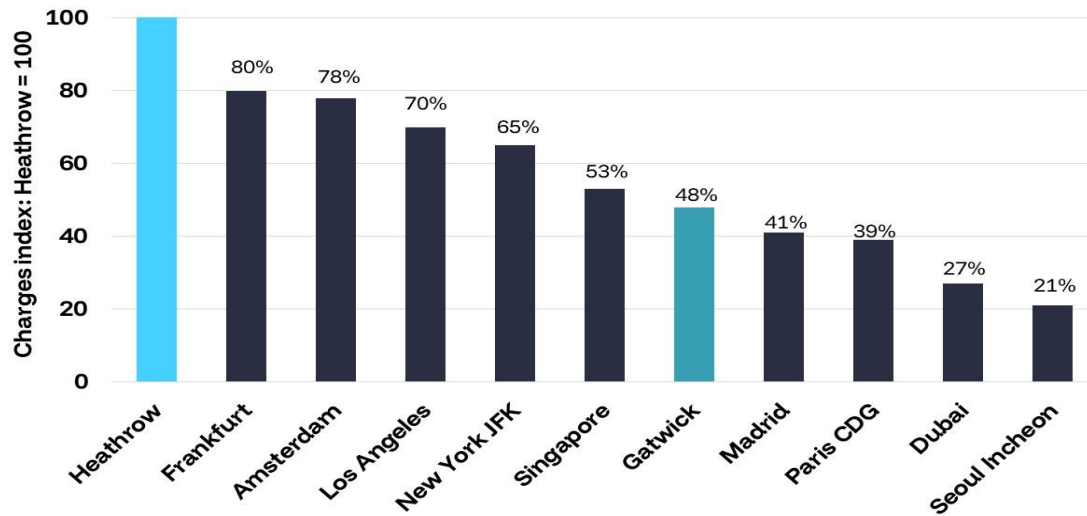
# The case for fundamental reform is clear and compelling

This section is structured as follows:

1. Heathrow is not a “regulatory success story”, far from it.
2. Evidence from leading megaprojects experts shows persistent and systematic capex inefficiency
3. Harmful incentives are the primary cause of poor outcomes at Heathrow today
4. HAL’s case for change claims should be disregarded
  - a. Heathrow is not “delivering great passenger service”
  - b. The CAA should place little weight on HAL’s attempts to justify its high charges
  - c. The CAA should not rely on HAL’s arguments on capital efficiency
4. Conclusion: Case for change remains clear and compelling

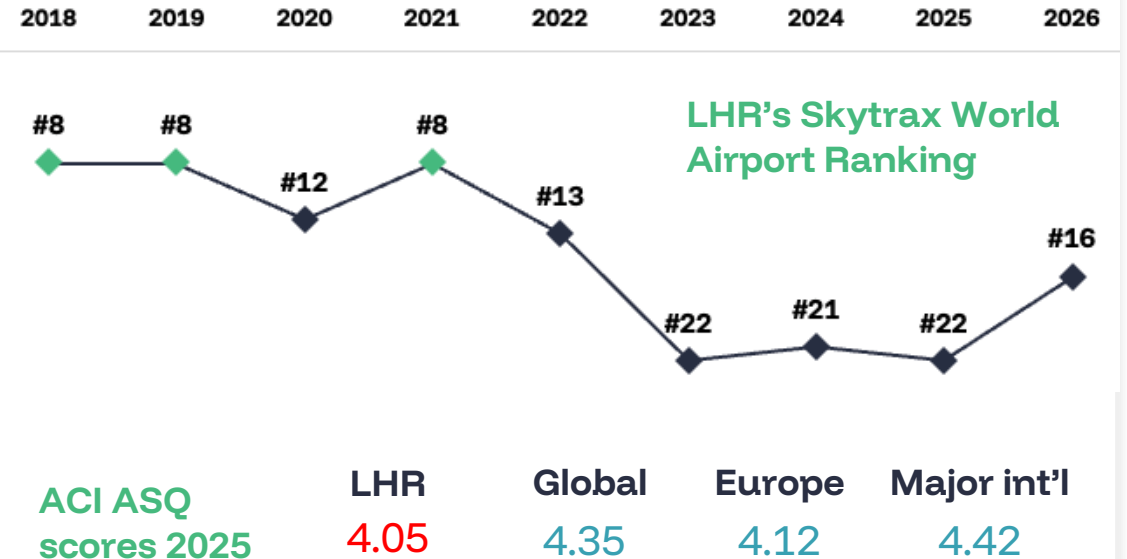
# Heathrow is not a “regulatory success story”, far from it

Charges have consistently been much higher than those at LGW and peer hubs...



Source: Jacobs, Review of Airport Charges, 2025. Reported as an index score with the world's most expensive airport set at 100. The sample includes the world's top-10 busiest international airports as included in Jacobs' study, plus LGW.

...but its service quality does not live up to its charges – value for money is poor



Source: Skytrax, World airport awards, 2018 – 2026; ACI ASQ Barometer, 2025; Heathrow Airport Limited, Annual Report, 2025

The case for change is clear and compelling. HAL's attempts to defend poor outcomes do not withstand scrutiny

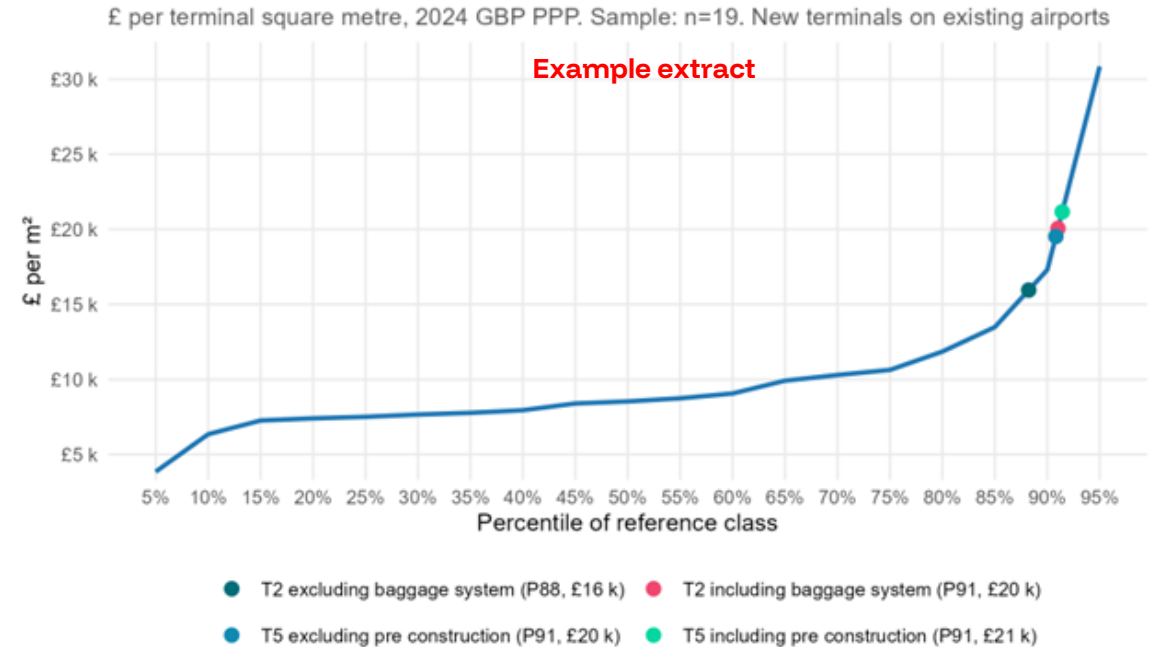
# Evidence from leading megaprojects experts shows persistent and systematic capex inefficiency



*Across all asset types, Heathrow projects consistently lie above the international median, and in many cases fall within the upper quartile or even the upper decile of global benchmarks.*

*The benchmarking evidence shows that Heathrow's capital programme exhibits consistently higher costs. This suggests that the airport's cost premium is shaped by the way projects are organised and delivered, rather than by geography, inflation or isolated project anomalies.*

- Oxford Global Projects\*



Capex inefficiency explains why charges are so high yet the service passengers receive is inadequate

# Harmful incentives are the primary cause of poor outcomes at Heathrow today

## ① HAL faces harmful incentives

Growing the RAB to secure returns by spending **capital** inefficiently

Weak incentives to drive **operational efficiencies**

No incentive to ensure **commercial activities** are NPV positive

Weak incentives to be **innovative, responsive** to user needs

② **Absence of competitive constraint:** HAL has a complete monopoly and a proven track record of acting on its substantial market power

③ **Regulatory model is ineffective at preventing HAL from acting on its harmful incentives**

HAL controls capital governance process

Capex scrutiny delegated to airlines without powers

Information asymmetry and burden

No long-term capital planning / affordability checks

Inadequate capital monitoring and sanctions

**HAL has not engaged with our arguments, nor given a plausible explanation for the cause of poor outcomes at Heathrow**

# HAL's case for change claims should be disregarded

## HAL's claim

### Service quality:

HAL is delivering great passenger experience; QSM shows improving performance; punctuality has recovered; high NPS

### Charges:

Heathrow's are not the highest in the world when normalised

### Efficiency:

HAL faces unique cost drivers; capex is comparable to peers when adjusted; RAB per passenger is at its lowest level for 20 years

## Reality

- **CAA should focus on independent sources of evidence.** QSM is HAL's own survey, it is not independent.
  - **ACI ASQ independently corroborates the Skytrax conclusions.**
  - HAL seeks to **take the credit from airlines for on-time performance.**
  - HAL's own analysis shows **Heathrow and Gatwick with broadly comparable NPS scores despite Heathrow charging approximately double.**
- 
- **New KPMG charges study fails to address fundamental flaws with previous analysis.**
  - **HAL's arguments are not credible** – it is asking us to believe that international differences in labour costs, Government subsidies, airport group activities elsewhere, or differences in depreciation profiles create **a unique environment for operating airports in the UK that results in charges being more than double many of LHR's peers.**
    - **LHR's charges are double those at LGW.**
  - **OGP provides a credible explanation** – persistent and substantial capex inefficiency.
- 
- **Identifying qualitative cost drivers is not the same as demonstrating efficient delivery with evidence.**
    - Also, **HAL is not alone in facing these drivers, as discussed in August last year.**
  - **Independent analysis by OGP demonstrates persistent and substantial inefficiency.**
    - HAL cites Prof Flyvbjerg throughout its submission as its principal authority on megaproject delivery.
  - **HAL's RAB-per-passenger should have fallen faster given stage in the investment cycle.**
    - HAL's NFA per pax is high compared to peers despite it being at the start of an investment cycle.

# Heathrow is not “delivering great passenger service”

HAL criticises the use of Skytrax, but other independent evidence corroborates HAL’s poor service quality

ACI’s ASQ shows that HAL’s scores are poor relative to the average of other major, European and global airports, corroborating the SkyTrax findings – HAL does not engage with this point.

ACI ASQ  
scores 2025

LHR  
4.05

Global  
4.35

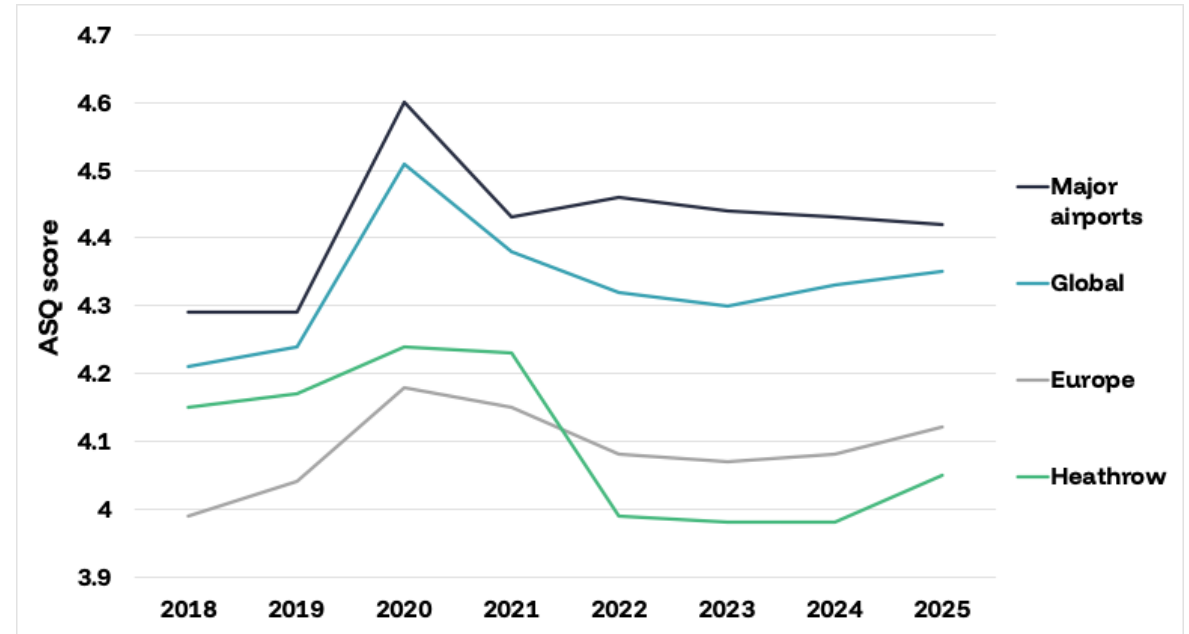
Europe  
4.12

Major int’l  
4.42

Source: ACI ASQ Barometer, 2025

ACI ASQ is a particularly relevant source of evidence - it is used to establish HAL's senior leadership's compensation<sup>1</sup> – a point HAL fails to mention.

While HAL notes its ASQ scores have "improved slightly since 2022", they have declined over a longer time horizon, while the average scores of Global, European and Major airports have increased.



Source: ACI ASQ Barometer, 2018 - 2025

Source: 1: Heathrow Finance Plc, Annual Report, 2025, p99, [link](#)

# The CAA should focus on independent indicators of service quality, not HAL's own surveys

HAL promotes its own metrics and claims credit for airline-driven performance – the CAA should focus on the key independent indicators of service quality (i.e. Skytrax, ACI ASQ)

The CAA should place little weight on HAL's own surveys (e.g. QSM)

- Instead, **the CAA should focus on independent sources of evidence.**
- This includes **Skytrax, ACI ASQ**, and evidence of Heathrow's failures under the **CAA's service quality regulatory regime.**

HAL seeks to take the credit for punctuality performance

- HAL claims that Heathrow ranks as the best airport in Europe for punctuality.
- This is principally a **result of the efforts of the airlines.**
- It is a consequence of the strong competition faced by airlines – **customers care about flight punctuality, so airlines obsess about it.**

HAL claims to have made "continually positive progress" on security queues

- HAL claims to have made "continually positive progress" and has the best performance in nearly a decade.
- But this is **only one element of the passenger experience.**
- Other indicators like ACI ASQ and Skytrax take a more rounded view of passenger experience and show inadequate service quality.

Net promoter score no better than Gatwick, but Gatwick's charges are half

- HAL claims its NPS is highest of the major English airports and that it has improved.
- But for much of the period cited, **LHR's NPS was similar to Gatwick's, whose charges are half of Heathrow's.**

# The CAA should place little weight on HAL's attempts to justify its high charges

**KPMG's latest charges benchmarking analysis remains fatally flawed**

- KPMG's previous study on Heathrow's charges was seriously flawed, as Heathrow Reimagined set out to the CAA last summer, and in our January response to the CAA's Working Paper (including in the accompanying submission from OGP).
- The latest report suffers from many of the same fundamental flaws and should be disregarded.
- For example, its sole reliance on the Arcadis ICC to account for international differences in construction costs remains flawed and results in an overstated adjustment; the airport opening hours and airline operating model adjustments remain unjustifiable; the adjustment related to VAT-free shopping is purely a HAL assumption, etc.

**HAL's charges have been the highest in the world amongst major international airports for a decade or longer**

- Not credible that persistently high charges are the result of international differences in labour costs, Government subsidies, airport Group activities elsewhere or differences in depreciation profiles. HAL has not explained why:
  - LHR's charges are around double those at LGW. LGW is in the UK, is not subsidised, and has no wider airport interests.
  - Airports in other expensive cities – such as Zurich, Oslo and Copenhagen – have significantly lower charges and lower unit operating costs.
  - LHR has consistently higher charges than its peers (by a significant margin) despite being at the bottom of an investment cycle, with no major developments since 2014.

# HAL's use of Oslo and Amsterdam examples is misleading

## HAL's claim

**Government subsidies to Avinor are the reason for lower charges at Oslo**

**Schiphol's broader group activities are the reason for lower charges at Amsterdam**

## Reality





- Oslo Airport's charges are set under the Avinor-wide charging framework. There is **explicit "cross-subsidization between economically profitable and unprofitable units."**<sup>1</sup>
  - Oslo is a **highly profitable airport** (despite its low charges) - in 2024, it reported an operating profit of NOK 2,384 million, while regional airports made an operating loss of NOK -1,797.7 million.<sup>2</sup>
  - This suggests that **Oslo's charges are higher than they would be under an airport-specific cost recovery mechanism** (like HAL's RAB model).
  - Oslo airport's unit operating costs were £7.07 per passenger in 2024,<sup>3</sup> compared to £18.05 for Heathrow.<sup>4</sup>
  - The Norwegian state did take action to strengthen Avinor's finances** following lower-than-expected traffic growth after the pandemic.
    - But this was **to support the broader group, and not a profitable Oslo airport.**
  - The injection was £45 million<sup>5</sup> - about 15% of the £300 million Covid RAB adjustment Heathrow received for lower-than-expected traffic.<sup>6</sup>** See the note below on Avinor's separate investment grants used to fund new airport developments.
- 
- Schiphol operates under a dual-till framework**, with aviation and non-aviation activities accounted for separately.
  - But, non-aviation activities are required to contribute to the funding of aviation activities.** This leads to a marginal reduction in required revenues and, therefore, passenger charges.
  - However, the scale of contribution is very limited.** It is €100 million for 2025 – 2027 (€33 million per year). This is **about 1.8% of annual aviation charges revenues** at Schiphol of €1.8 billion.<sup>7,8</sup>
  - HAL's insinuation that this contribution has a meaningful impact on charges at Amsterdam is highly misleading.**

Source: 1: Avinor, Articles of association, [link](#); 2,3: Avinor, Annual and Sustainability Report, 2024, [link](#); 4: Heathrow Airport Limited, Annual Report, 2024, [link](#); 5: Regjeringa.no, Tar grep for å styrke Avinors økonomi, 2024, [link](#); 6: CAA, H7 Final Decision, 2023, [link](#); 7: Schiphol, New charges funding at Schiphol, 2024, [link](#); 8: Royal Schiphol Group, Annual Report, 2025, [link](#).

Note: Avinor received 'proceeds from investment grants' worth NOK 2 305.2 (~£180 million) in 2024. However, this value references Note 13 in the [Annual Report](#) – which details the value of grants used to fund new airport developments (Bodø and Mo i Rana).

# More broadly HAL's claims on airport group cross-subsidies for LHR's European peers should be disregarded

HAL's response claims that public ownership, group structure, and contributions from commercial activities mean that charges at European airports are artificially low. This is not the case. See annex for more detail.

Airport	Reality
 <b>MAD BCN (AENA)</b>	<ul style="list-style-type: none"> <li>• Dual-till, so <b>group commercial activities do not contribute to cost recovery for provision of aviation activities.</b></li> <li>• AENA regulated as a system of airports with MAD and BCN as the most profitable airports.<sup>1</sup></li> <li>• <b>Cross-subsidisation from AENA's large (MAD, BCN) to small airports.</b><sup>2,3</sup></li> <li>• If regulated at the individual level, charges would be even lower.</li> </ul>
 <b>AMS</b>	<ul style="list-style-type: none"> <li>• Dual-till, so <b>group commercial activities do not materially contribute to the recovery of costs for provision of aviation activities.</b></li> <li>• Small contribution from non-aeronautical activities used to support investment at AMS.</li> </ul>
 <b>CDG</b>	<ul style="list-style-type: none"> <li>• <b>Revenues from "commercial and service activities such as shops, restaurants"<sup>4</sup> excluded from the regulated till.</b></li> <li>• Like Heathrow - non-aeronautical activities inside the regulated till include public car parking and public transport.</li> <li>• <b>No mechanism for broader group revenues to contribute to reduction in charges at CDG.</b></li> </ul>
 <b>FRA</b>	<ul style="list-style-type: none"> <li>• Dual-till, so <b>group commercial activities do not materially contribute to the recovery of costs for provision of aviation activities.</b></li> <li>• <b>No mechanism for broader group revenues to contribute to reduction in charges at FRA.</b></li> </ul>

**No evidence identified of material ongoing state subsidies for these airports**

# The CAA should not rely on HAL's arguments on capital efficiency

## Claim

HAL is capital efficient because:

No RAB disallowances in H7 is a sign of efficiency.

HAL follows process governance best practice.

HAL commissioned benchmarking studies show costs are justified after adjusting for location, complexity and hub operations.

## Reality

None of these demonstrate efficient delivery. Each conflates process with outcome or relies on flawed analysis.

- The absence of RAB disallowances reflects the failings of the regulatory regime – too high bar for disallowing capex and insufficient rigour in assessing whether costs were efficient before allowing them into the RAB.
- Process best practice is not the same as efficient outcomes; a well-governed project can still be grossly over-specified and inefficient.
- HAL's commissioned studies share the same flaws (e.g. see analysis from August 2025 on Steer's report).
- OGP's independent benchmarking – applying Reference Class Forecasting across over 100 global projects – must be given precedence.

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Steer's capex benchmarking

### Steer's analysis is fundamentally flawed and seemingly designed to obscure Heathrow's capital inefficiency

Study cannot be relied on due to methodological flaws that systematically favour HAL; its analysis is highly selective, one-sided and compromised by HAL's direct influence

- Methodology masks real inefficiency**
  - Uses capex per m<sup>2</sup> exclusively – rewards space-inefficient designs and hides true costs. A terminal could be extremely expensive per passenger, but appear reasonable per m<sup>2</sup> if built with excessive space
  - If capex per passenger was used, Heathrow emerges as most expensive globally
- Sample is limited, skewed and heavily HAL-influenced**
  - Only 20 projects globally, insufficient for robust benchmarking
  - HAL directly influenced selection, explicitly adding JFK "after discussion with HAL"
  - Excludes HAL's own completed terminals (T2, T5) despite clear relevance and importance
- Compares incomparable projects**
  - Mixes: design estimates & completed costs; refurbishments & new builds
- Arbitrary adjustments lack evidence and transparency**
- Relies solely on Arcadis' construction cost index (CCI)**

Correcting these fundamental flaws reveals Heathrow's capital inefficiency – it delivers the most expensive terminal infrastructure globally – T2 and T5 are outliers globally on a capex per pax basis

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# HAL's RAB per passenger claim is misleading and does not demonstrate value for money

## Claim

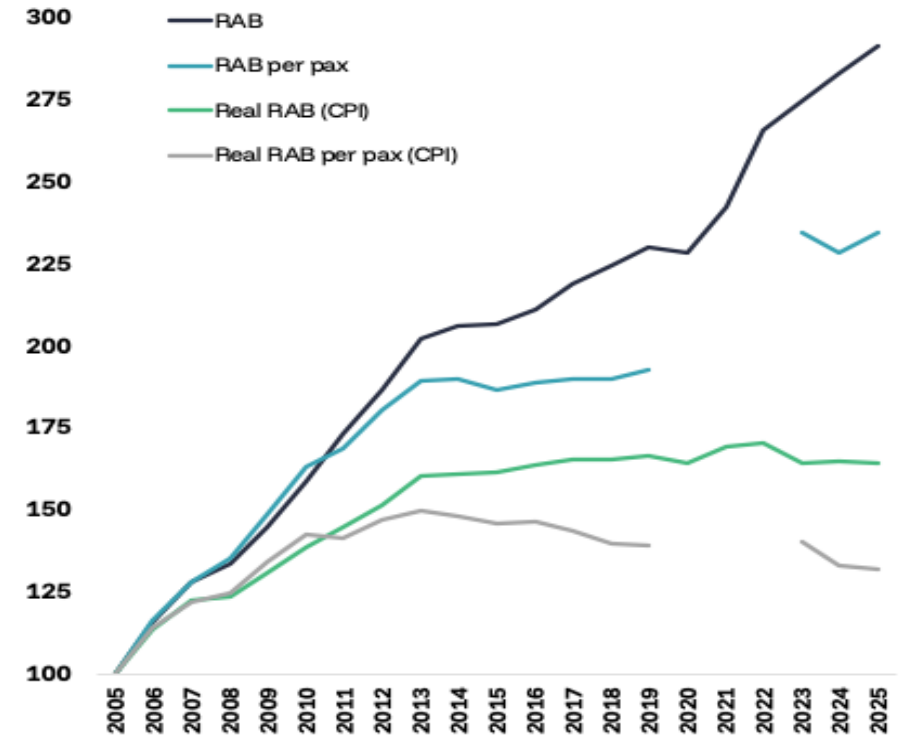
## Reality

RAB per passenger is at its lowest level for 20 years → Heathrow offers value for money

**Metric is wrong – its use obscures persistent capital inefficiency.**

- RAB per passenger falls mechanically when passenger numbers grow faster than the asset base. It **says nothing about whether capital has been deployed efficiently.**
- HAL has spent approximately **£8 billion capex** in real terms over the last decade on maintenance and BAU **without delivering major new infrastructure.**
- The significant RAB headroom that should have opened up as T5 and T2 depreciated has not materialised due to continued inefficient spend.
- Comparison of net fixed assets (NFA) per passenger – i.e. the capital HAL has built to support each passenger it serves – across major airports further illustrates Heathrow’s capital inefficiency (see below).

Index (2005 = 100): RAB metrics over time



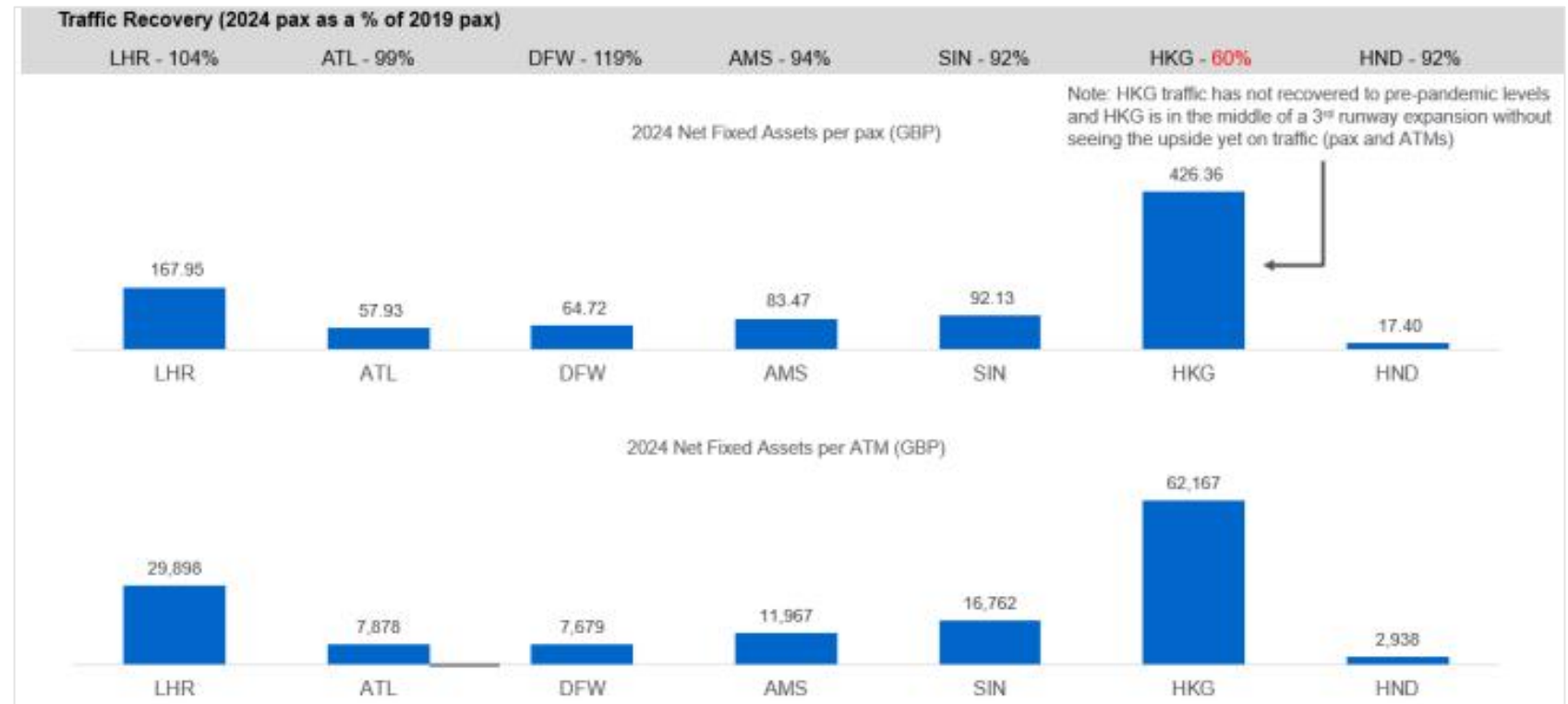
Source: Heathrow (SP) regulatory accounts; CAA Q5 Final decision; BAA Limited annual reports; Heathrow Airport Holdings Limited annual reports. Note: covid years excluded on per pax metrics due to anomalies.

# Heathrow has built significantly more capital per passenger than its peers

NFA per passenger measures the capital an airport has invested per passenger served. Lower means more efficient.

- Heathrow's NFA per passenger is higher than every airport in the comparator set – even those processing comparable or greater volumes.
- HAL has built £29,898 of assets per flight. Atlanta – the world's largest airport – has built £7,878.
- Heathrow is a mature, capacity-constrained airport at peak utilisation. Its NFA per passenger should be among the lowest in this set. **It is the highest by a significant margin.**

NFA per passenger and NFA per ATM: Heathrow vs Atlanta, Dallas, Amsterdam, Singapore, Hong Kong, Tokyo Haneda



Source: IAG CAP3195 submission, January 2026, Figure 10; airport annual reports

# On-time and on-budget delivery does not mean capex is efficient – OGP analysis shows it was not efficient

## 'On-time and on-budget' claim is based on a moving baseline

- T5 and T2 were delivered considerably later than originally conceived.
- Budgets and timelines set only after consent, once design and contracting were already advanced – making overruns structurally less likely.
- T2 was delivered to a reduced scope versus original plans – no T2C, no baggage system. T5 underwent similar scope reductions.

## An on-time and on-budget project can still be inefficient

- Question is not whether HAL hit its targets (which can change over time) – it is whether those targets are efficient.
- **A programme can be delivered on time and on budget while remaining grossly inefficient, if the budget was set too high and the timeline inflated to reduce the risk of overrun.**

## OGP's benchmarking shows T2 and T5 were inefficient

- OGP's benchmarking shows Heathrow's costs are at the 91st global percentile.
- **If T5 and T2 were delivered efficiently, they would not sit at 91st percentile.**
- Hitting a budget does not make that budget efficient.

## HAL's own adviser acknowledges the framework is not fit for expansion

- Jacobs (Annex 14) concludes that the H7 framework is unlikely to be appropriate for expansion and that a bespoke framework with independent technical and financial assurance is needed.
- This is **not a ringing endorsement of what has gone before.**

# Conclusion: Case for change remains clear and compelling

Poor consumer outcomes...

Heathrow's charges are very high compared to its peers, service quality is inadequate, **value for money is poor.**

...due to capex inefficiency...

Persistent and significant **capex inefficiency is a major contributor** to poor value for money.

...stemming from poor incentives...

The current regulatory model results in **harmful efficiency incentives** and fails to prevent HAL from acting on those incentives.

...which expansion will make worse

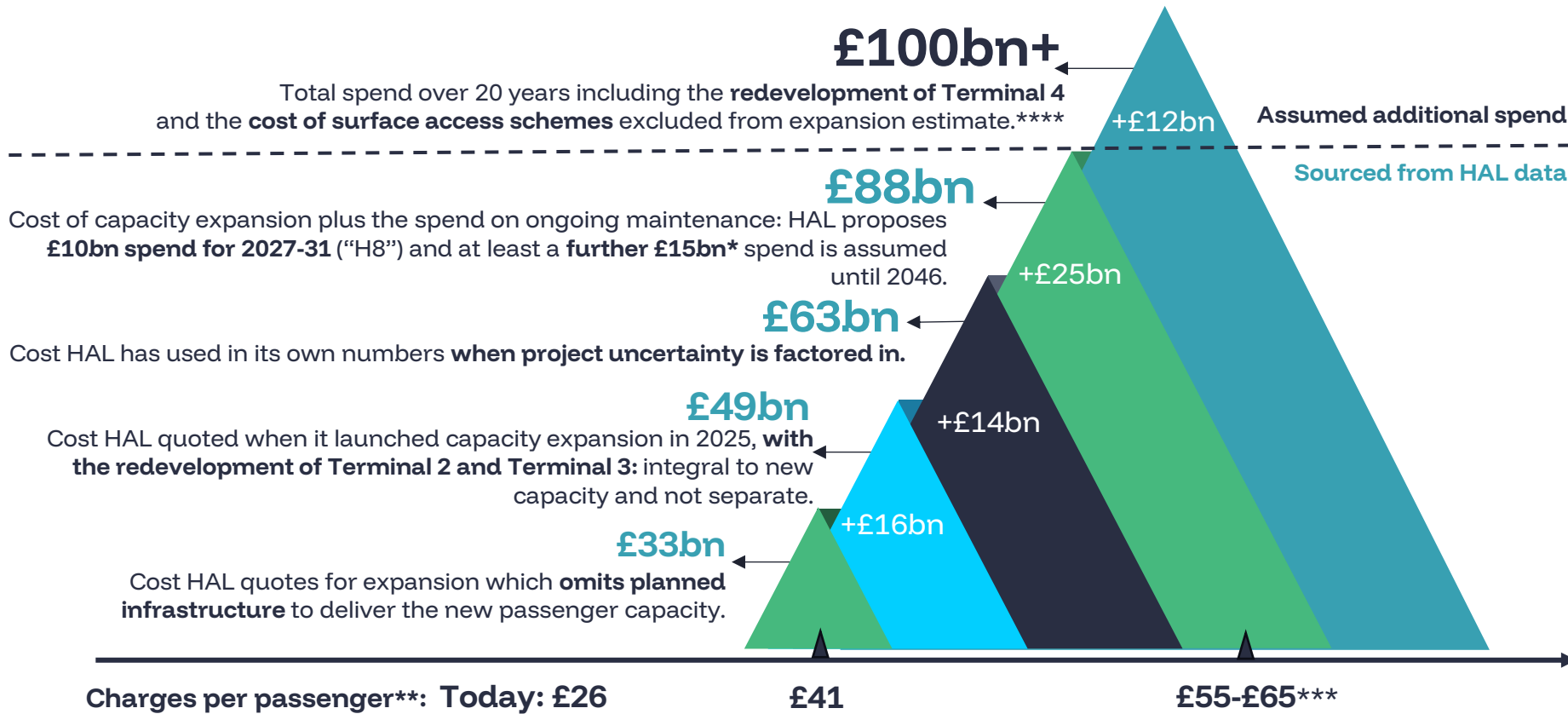
Expansion and modernisation will involve major capex and therefore risks a **very material deterioration** in already poor consumer outcomes.

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**3. The scale of HAL's capex plans means that fundamental reform is critical and urgent**



# HAL's capex plans reinforce the urgent need for fundamental reform – HAL's proposals are not affordable



**Unaffordable charges risk undermining the success and benefits for expansion and modernisation**

\*Estimate could double to £30bn if HAL spends at same annual rate it has proposed for "H8".

\*\* Impact of additional charges per passenger are double for a return trip - making a round trip £60 per passenger more expensive than today or £240 for a family of four going on holiday.

\*\*\*£55 charge per passenger reflects a £49bn spend on capacity expansion. £65 charge occurs if HAL spends £63bn on capacity expansion. These scenarios are optimistic as they assume a full airport with no cost and time overrun and include estimated ongoing maintenance costs of £25bn.

\*\*\*\* In the event that HAL seeks to pass on the cost of rail and other surface access schemes through airport charges, charges will increase beyond £55-65 per passenger

# HAL's own submission sets out why the risks of major cost overruns and delays are severe



*The iron law of megaprojects is that they're over budget, over time, under benefits, over and over again*



Prof Bent Flyvbjerg, whose research – based on analysis of 16,000 projects – HAL cites as the foundation of its megaproject case through its response to the CAA's CAP3195

**91.5% of megaprojects fail** due to cost and/or schedule overruns – based on analysis of 16,000 projects

**Only 0.5% achieve all three success criteria:** cost, time, and benefits delivered

**Airports specifically: 39-40% average cost overruns, with many exceeding 50%**

**Reform must comprehensively resolve the current harmful incentives and weak oversight, in line with delivering the CAA's duties**

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## 4. HAL's arguments on evaluation criteria are flawed and inconsistent with the CAA's duties

An aerial photograph of a white commercial airplane on a tarmac, viewed from above. The plane is oriented vertically in the frame. The tarmac is paved with light-colored concrete tiles. In the background, there are several ground support vehicles, including a white van and a yellow truck. The entire image is overlaid with a semi-transparent teal color. The text is positioned in the lower-left quadrant of the image.

# HAL's arguments on evaluation criteria are flawed and inconsistent with the CAA's duties

This section is structured as follows:

1. CAA evaluation framework must focus on long-term structural reform, not short-term expedience
2. HAL's arguments on evaluation criteria centre on three pass/fail criteria
3. HAL's approach misses key considerations that are central to the CAA's duties
4. HAL's interpretation of the evaluation criteria is designed to maximise HAL's interests, not those of consumers
5. HAL's speed-first 'timeliness' argument rests entirely on a congestion premium that does not exist
  - a. Frontier assumes airlines at Heathrow can raise prices freely to capture scarcity rents – but they can't
  - b. Frontier Economics' analysis – relied on by HAL – suffers from severe methodological flaws
  - c. Expansion can deliver very large benefits - but only if charges are affordable
6. HAL's arguments on financeability focus on its own interests and ignore material risks
7. HAL's use of the megaprojects literature to justify its position is highly simplified and flawed
  - a. HAL's case study evidence is selective and contradicts its own conclusions
  - b. HAL's own advisers concede that separation is feasible

# CAA evaluation framework must focus on long-term structural reform, not short-term expedience

## CAA12 Statutory Duties

**Primary duty:** Further users' interests in cost, quality, range / availability / continuity

**Method:** Promote competition where appropriate

The CAA's evaluation framework must prioritise those elements that serve its primary duty by addressing the current model's failings (i.e. harmful incentives and ineffective regulation)

Primacy should be given to....

✓  
**Cost/efficiency**  
(Element B)

✓  
**Competition**  
(Element E)

✓  
**Service quality**  
(Element F)

✓  
**Affordability**  
(New Element G)

Lower weighting should be given to....

**Expansion support**  
(Element A)

**Finance**  
(Element C)

**Practicality**  
(Element D)

# HAL's arguments on evaluation criteria centre on three pass/fail criteria

HAL converts the question before the CAA into: *how do we deliver expansion quickly in a way that is financeable for HAL?*

HAL Criterion	HAL's framing	The flaw
<b>Timeliness</b>	Frontier Economics' £79bn airfare savings justify prioritising speed above all else	Built on a "congestion premium" that doesn't exist – data on airline margins show no evidence of scarcity rents
<b>Deliverability</b>	Megaproject literature supports HAL retaining maximum control over delivery	Selective use of Prof. Flyvbjerg; ignores his findings on independent oversight and cost discipline in managing overruns
<b>Financeability</b>	Minimising HAL's cost of capital should be a primary objective	Focuses on HAL's financing needs, not consumer outcomes – ignores affordability, reliance on a single highly-indebted operator, and the balance between cost of capital and incentive strength (i.e. the overall size of the RAB)

# HAL's approach misses key considerations that are central to the CAA's duties

**Will expansion and modernisation be affordable?**  
[Consumer interests]

Inadequate treatment

- Claims expansion is affordable but supporting analysis not disclosed.
- Focus only on one airline.
- Appears to **ignore the impact of very major airline investment required to make use of the additional airport capacity.**
- Likely severely understates the impact of HAL's capex plans on future charges – but key information is redacted.

**Will it be built efficiently?**  
[Economy and efficiency]

Very little engagement

- Section 3 of HAL's submission **does not engage at all with efficiency as a criteria.**
- Long-list model evaluation has very limited engagement with efficiency – **mainly focussed on static assessment of competition.**
- Delivering on time and on budget is not the same as delivering efficiently.

**Are consumers protected when costs overrun?**  
[Consumer protection]

Inadequate treatment

- Prof Flyvbjerg – HAL's own cited authority – finds 99.5% of megaprojects miss all three targets of cost, time, and benefits.
- Under HAL's preferred single RAB, the cost of such failures (asymmetrically) sits with passengers, not HAL shareholders.
- **HAL's proposals saddle consumers with even more risk than today.**

**Does the framework promote competition?**  
[Competition]

Inadequate treatment

- HAL's competition argument is **directed almost entirely at airlines**, where competition is already intense.
- **The irony in HAL's arguments is clear:** a regulated monopolist opposing competition in infrastructure delivery and airport operations, while making the case for it in a sector that is already highly competitive.

# HAL's interpretation of the evaluation criteria is designed to maximise HAL's interests, not those of consumers

HAL's treatment of competition illustrates how its framework is designed to protect its monopoly position over improving outcomes for consumers and the economy

## HAL does not assess the benefits of greater AOS competition

The CAA's duties on competition in AOS provision are clear.

**HAL seeks to divert attention to airline competition. This is irrelevant and airline competition is already intense.**

**The relevant question is how to address HAL's own monopoly position in AOS provision.**

## HAL's objections to competition focus on execution rather than principle

HAL's objections are overwhelmingly about integration risk and implementation complexity – **design questions to resolve during implementation, not grounds to reject the principle.**

HAL uses **selective comparisons**, and ignores that competition features in the examples it cites:

- Telecoms fibre deployment (the Openreach model)
- Direct Procurement for Customers in water

**HAL's own advisers further undermine its position.** Santander/Freshfields acknowledge DBO/DPC models for non-core separable assets could lower costs and attract new equity at lower returns.

## Result: self-serving and inconsistent with the CAA's duties

**HAL's framework eliminates models that are most responsive to the CAA's duties** – efficiency, consumer protection, competition.

**This does not reflect a balanced evaluation against the CAA's duties.**

**The remaining shortlist is narrow and self-serving.**

# HAL's time-driven argument rests entirely on a congestion premium that does not exist

## HAL's claim

- Frontier estimates a £79bn passenger benefit from expansion **driven by removing a congestion premium.**
- HAL argues this makes 'timeliness' a paramount objective - passengers continue to pay higher fares from delay.

## What this implies

- If Heathrow's ATM constraint creates scarcity rents that the airlines are capturing, airlines should have higher profitability than peers at less constrained hubs.
- Those rents would appear in higher profitability today, with competition post-expansion resulting in the scarcity rents being passed on to consumers as lower fares.

## Reality

- **Frontier never tested this with direct evidence;** it infers rents from inferior proxies (average fares, slot prices, simple economic theory).
- IATA data shows European airline net profit per pax has been consistently £5-7 – i.e. no headroom for sustained scarcity rents. Airlines need margins to cover their cost of capital.
- **No consistent pattern of Heathrow-based airlines outperforming peers.**
- **IAG's recent paper directly tests Frontier's claims in detail against reality; there is no basis for the claims.**
- Heathrow's home carriers together earned much less profit than the scarcity rent theory predicts - shortfall of 71.9% (vs the claimed £3.5bn annual rent).

**No excess profits means no scarcity rents – and no £79bn to justify eliminating reform models. HAL's primary argument for timeliness as a pass/fail criterion fails when considering the evidence.**

# Frontier assumes airlines at Heathrow can raise prices freely to capture scarcity rents – but they can't

## Global competition

- Passengers can route via AMS, CDG, FRA, DOH, IST, DXB, etc if Heathrow fares rise.
- LHR has 80+ operating airlines – slot market is relatively fragmented - giving passengers more carrier choice than other airports.
- Passenger choice means that airlines at LHR face competition.

## Granular, real-time competition

- Airlines price thousands of seat-fare combinations, not one 'Heathrow fare'.
- Fares vary by timing, booking window, cabin mix, and load factor.
- Prices adjust continuously across all channels in response to market conditions.

## Different cabin class

### Business

#### Premium Economy

#### Economy

### Fully refundable and changeable economy

#### Economy Plus

#### Basic Economy (hand baggage only)

**Frontier's analysis ignores how airlines compete in practice:  
airlines' ability to unilaterally raise prices to capture rents is highly constrained**  
*Airlines can provide more insight on competition bi-laterally*

# Frontier Economics' analysis – relied on by HAL – suffers from severe methodological flaws

Flaw	What Frontier does	Why it fails
<b>Omitted variable bias</b>	Attributes unexplained fare residuals to congestion premium	Estimated premium turns solely on whether the regression sufficiently controls for explanatory factors APD, airport charges, product mix, market composition, and point-of-sale differences are not controlled – these alone would explain most of the fare gap.
<b>Unreliable data</b>	Uses IATA AirportIS averaged, anonymised fare data	Strips out product-level detail needed to distinguish fare variation; regression results are unreliable by construction
<b>Single demand elasticity</b>	Applies UK-average PED of -0.9 for all passengers over 60 years	No sensitivity analysis provided to illustrate recent changes; use of average elasticity underplays how much demand (at the margin) falls when prices rise
<b>Perfect substitutability</b>	Assumes all new capacity is a perfect substitute for existing	Hub economics depend on capacity composition: short-haul feeds long-haul; LCC point-to-point does not relieve long-haul congestion
<b>Charge pass-through omitted</b>	Expansion costs modelled as zero impact on airport charges (i.e. not considered explicitly)	The CAA has itself noted Frontier did not consider the extent to which construction costs would be borne by consumers through higher charges (CAP3238, 2.51). If charges rise materially, the fare-saving mechanism partially or fully inverts.

All major assumptions inflate benefits and suppress costs. Frontier acknowledges some of these limitations but treats them as modelling simplifications. In reality, they determine whether the congestion premium exists at all.

# Expansion can deliver very large benefits - but only if charges are affordable

The case for expansion is strong. But the benefits stem from connectivity and that relies on airlines being able to invest.

## The real prize is connectivity benefits

Frontier values wider economic benefits from expansion at up to **£184bn** – **trade, investment, and productivity gains from strengthened hub connectivity.**

## Airlines need to invest to unlock those benefits

**Airlines** would need to **invest c.£65bn** in aircraft to convert airport capacity into connectivity. **This only happens if they can cover their cost of capital, which requires LHR to be affordable.**

## High charges erode the viability of hubs and connectivity

If charges rise to the levels implied by HAL's plans, **transfer passengers move to other hubs. Marginal routes become unviable. The hub network shrinks, and the benefits are not realised.** Heathrow risks being a '**distressed asset**'.

## Speed of expansion cannot be prioritised over making sure it is based on the right regulatory model and foundations

- The key question is: can expansion be delivered **efficiently enough to keep charges at a level that sustain hub operations and enable the wider economic benefits?**
- **Prioritising speed over having the right regulatory model** to deliver affordable expansion would be **inconsistent with the CAA's duties** – it risks the airport being **unaffordable for airlines and passengers to use.**

Heathrow Reimagined members support expansion – it is a major growth opportunity.

What they cannot support is expansion at a cost level that makes operating unviable – expansion must be affordable.

# HAL's arguments on financeability focus on its own interests and ignore material risks

## HAL's framing

- HAL's financeability test: Does this model support HAL maintaining investment-grade credit and predictable equity returns without uncertainty?
- Models that introduce any risk to HAL's existing financing platform fail – regardless of consumer benefit.

## What HAL ignores

### Risk concentration on a single highly-leveraged entity

HAL is already the most indebted major European hub (S&P, Dec 2025).

Concentrating £49bn+ expansion on this one highly-indebted balance sheet increases consumer and shareholder risk.

### HAL's capital structure is its own strategic choice

Charges based on 60% gearing, which would make the credit high investment grade. HAL operates at much higher levels – transferring equity risk to consumers.

HAL is effectively incentivised to make itself financially vulnerable (be that through its leverage or the security structure of its financing) - **doing so insulates it from regulatory discipline on inefficient costs**

### Financeability and affordability are not the same

**Affordability crises appear only after infrastructure is built and charges have risen. By then, it's too late.** HAL's framework has no mechanism to prevent this.

### The trade-off HAL ignores

Lower cost of capital is not better if it weakens efficiency incentives to such an extent that total financing costs are higher overall.

Focus should be on the total financing costs overall, not just the WACC, particularly given the scale of capex envisaged.

**CAA's financeability duty requires it to have regard to operators financing investment at efficient cost. It does not require it to minimise HAL's cost of capital at the expense of consumer outcomes. HAL's submission, ultimately, conflates the two.**

# HAL's use of the megaprojects literature to justify its position is highly simplified and flawed

## HAL's arguments

HAL cites four megaproject failure modes: fragmented ownership, dispersed veto rights, mandated design-and-build without adaptive oversight, and unfamiliar financing structures.

## Reality: what the literature actually says

### "Think slow, act fast" – and HAL is doing the opposite

- Flyvbjerg recommends taking time upfront to get design right before committing.
- HAL cites this principle – while pressing the CAA for rapid regulatory commitment **before governance and incentive frameworks are properly established.**
- **This is the pattern the literature identifies as the root cause of megaproject failure.**

### Independent oversight with teeth

- Optimism bias and strategic misrepresentation are systemic in promoter-led projects.
- The remedy is **external scrutiny and challenge**, not greater concentration of control.
- HAL's model concentrates planning, delivery, and governance in the entity with the strongest incentive to spend.

### Incentive alignment between risk and decision-making

- Outcomes improve where the party bearing financial risk also makes delivery decisions.
- HAL's RAB model severs this link – **consumers bear cost risk, while HAL retains decision rights and benefits from asset growth.**

**HAL's approach is to build a narrative of delivery success and then select evidence to support it, rather than starting from empirical distributions of outcomes**

# HAL's case study evidence is selective and contradicts its own conclusions

Project case study in HAL annex	Model type	Outcome	HAL's treatment in its main response
LaGuardia Terminal C	Airline-led, risk-bearing developer	Delivered nearly two years early; no public cost overruns	Included in Oxera review (commissioned by HAL) – not discussed
JFK Terminal 4	Airline-developed; Delta bore risk	Delivered on time and on budget	Cited negatively to argue against competition (focus on financing structure, not delivery outcome)
JFK New Terminal One	Private consortium; competitively procured	On schedule	Referenced only in relation to cost of capital
Munich T2 Satellite	Close to Models 7b/8	Close to on time and on budget; high passenger ratings	Included in Oxera review – not discussed
Madrid Barajas T4	Public sector ownership	~48% cost overrun	Included in Oxera review – not engaged with
Berlin Brandenburg (BER)	Public sector ownership	Major delay and cost escalation	Treated as archetype of fragmentation failure
HS2	Public sector; dispersed political control	Major overruns and scope reduction	Used as evidence against alternative models

## What HAL does not acknowledge

- Projects that 'succeeded' (LaGuardia, JFK T4, Munich) involved private, risk-bearing developers with aligned incentives.
- Projects that 'failed' (BER, HS2, MAD T4) involved public sector governance, political veto structures, and weak cost discipline.
- These are fundamentally different incentive environments – and cannot be directly compared to a privately financed, RAB-regulated monopoly.
- Critically, the successful examples demonstrate that competition with aligned risk works at comparable scale and complexity to Heathrow.

# HAL's own advisers concede that separation is feasible

## What HAL does not address

- HAL treats genuinely integrated airfield infrastructure and separable terminal assets as if they are the same.
- Terminals and many associated assets are **operationally and contractually separable**, with clear outputs and commercial interfaces.
- As we have evidenced before, **this is demonstrated in practice elsewhere** (e.g. JFK, Munich, Atlanta) – **and at Heathrow itself** (i.e. coordination of 350+ service providers; cargo and private terminals operating alongside HAL's core activities).

## Where integration has benefits

- Managing runways, taxiways and airfield operations in an integrated manner has clear benefits.
  - Although today airfield traffic control is managed by NATS on behalf of HAL, not HAL itself.
- This requires system-level governance – but that does not undermine the potential for competition elsewhere.

## HAL's advisers accept the separation principle

- Santander / Freshfields conclude that: *“third party suppliers may be able to deliver discrete, non-core and less capital intensive assets at competitive rates, where responsibilities are clearly defined”*
- **This is a clear acknowledgment that competition is feasible for defined asset classes.** HAL's main submission marginalises this conclusion.
- Unclear why conclusion only applies to *“discrete, non-core and less capital intensive”* assets – broader principle.
- **The question is where to draw the line. HAL draws it to maximise control, which will deliver the poor consumer outcomes we see with the status quo.**

An aerial photograph of an airport tarmac, overlaid with a semi-transparent teal filter. A large white commercial airplane is the central focus, parked on the right side of the frame. To its left, several ground support equipment (GSE) vehicles, including belt loaders and pushback tugs, are visible. The tarmac surface is marked with various lines and numbers. The overall scene is captured from a high-angle perspective.

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**5. HAL's reasons for disregarding models that would deliver meaningful AOS competition do not stand up to scrutiny**

# HAL's claims about Models 7/8 do not stand up to scrutiny

## Summary

HAL's claim	Reality
Consumer outcomes	<ul style="list-style-type: none"> <li>Focus on outcomes at JFK and LAX is highly selective and claims are misleading.</li> <li>HAL's claims re a multi-operator environment should not be relied on – LHR is already multi-operator.</li> </ul>
Competition	<ul style="list-style-type: none"> <li>No recognition by HAL of the material benefits competition in the provision of AOS could provide users.</li> <li>Model could be designed to explicitly mitigate alleged competition risks.</li> </ul>
Efficiency	<ul style="list-style-type: none"> <li>Claimed lower efficiency at JFK and LAX does not manifest itself in charges.</li> <li>Trade-off between static and dynamic efficiency well recognized – potential for dynamic gains is high.</li> </ul>
Financing	<ul style="list-style-type: none"> <li>HAL's approach to financeability is too narrow and ignores system-wide demand risks associated with the current flawed model.</li> </ul>
Sustainability and local communities	<ul style="list-style-type: none"> <li>Separate control of airfield and terminal infrastructure exists today at various major airports globally.</li> <li>Responsibilities and accountability can be clearly separated for airfield and terminal activities.</li> </ul>
Deliverability	<ul style="list-style-type: none"> <li>HAL's approach is too narrow - ignores clearly separable and semi-separable assets that can be exposed to competition while still adhering to the principles underpinning megaproject best practice.</li> </ul>
Time-driven ('Timeliness')	<ul style="list-style-type: none"> <li>CAA has extensive powers, including in relation to introducing competition.</li> <li>Government can fill any gaps as part of expansion legislative activities – this can be done rapidly.</li> </ul>
Proportionality	<ul style="list-style-type: none"> <li>Analysis dominated by the claimed consumer benefits (£40bn) flowing from the flawed Frontier study.</li> <li>Financing cost analysis does not consider the consequences for financing costs in the counterfactual.</li> </ul>

# HAL's claims about Models 7/8 do not stand up to scrutiny

## Consumer outcomes

### HAL's claim

**Consumer outcomes:**  
Evidence from JFK and LAX shows introducing multiple operators increases costs, delays delivery and worsens service

### Reality

- **Focus on outcomes at JFK and LAX is highly selective, and claims are misleading.**
  - Members of HR are very familiar with both airports – clear that the underlying principle of greater competition has significant potential benefits.
  - Cost claims are misleading – JFK and LAX have materially lower charges than LHR.
  - Historical outcomes result from the history of the airports – that history differs from LHR.
  - Not proposing to replicate models directly at LHR, but rather a tailored model.
  - Both JFK and LAX are currently undergoing major redevelopment that will transform the passenger experience for materially less than HAL is proposing for LHR.
- **HAL's claims regarding a multi-operator environment should not be relied on.**
  - LHR is already has multiple operators for various important aspects of service provision (e.g. ground handling, catering, etc) – this works well.
  - HAL materially overstates the implications of a multi-operator environment for coordinated response during crises and severe weather – there is already coordination between numerous airport stakeholders, which could be built on.
  - Terminal competition would not prevent the establishment of a strong and unified command and control process – terminal operator incentives would be aligned with ensuring impact on customers is minimised.
  - Very limited airlines and aircraft movement to different terminals during major events.
  - Terminal operators can be dynamic within terminals on stand allocation (e.g. BA in T5).

# HAL's claims about Models 7/8 do not stand up to scrutiny

## Competition and efficiency

HAL's claim	Reality
<p><b>Competition:</b> Models 7 and 8 change incentives and control over terminal capacity in ways that reduce effective competition between airlines</p>	<ul style="list-style-type: none"> <li>• <b>No recognition by HAL of the material benefits competition in the provision of AOS could provide users</b> – focus is on airline competition, which is already intense.</li> <li>• <b>Model could be designed to explicitly mitigate alleged risks of airport operator conduct having an impact on competition in other markets</b>, including ensuring that the CAA can intervene in relation to airport operator conduct if concerns arise. <ul style="list-style-type: none"> <li>○ CAA already has concurrency with the CMA.</li> <li>○ But this could be supplemented with ex ante or contractual mechanisms too.</li> </ul> </li> </ul>
<p><b>Efficiency:</b> Models lead to lower asset utilization, duplicate overheads and increase other costs</p>	<ul style="list-style-type: none"> <li>• <b>Claimed lower efficiency at JFK and LAX does not manifest itself in charges</b> – LHR is more expensive.</li> <li>• <b>Trade-off between static and dynamic efficiency is well recognised in regulation.</b> <ul style="list-style-type: none"> <li>○ Introduction of competition typically does result in some loss of static efficiency and duplication.</li> <li>○ But it also unlocks dynamic efficiency benefits as rivalry encourages efficiency and other gains.</li> <li>○ Similar trade-off underpinned break-up of BAA.</li> <li>○ For example, this is explicitly recognised by Ofcom in its latest Telecoms Access Review<sup>1</sup> – promoting network competition results in network duplication, but the benefits outweigh costs.</li> </ul> </li> <li>• <b>The scope for dynamic efficiency gains here is clear:</b> highly inefficient, very large capex plans.</li> <li>• <b>Claimed rail parallels are not relevant;</b> different circumstances, ownership, and therefore incentives.</li> </ul>

# HAL's claims about Models 7/8 do not stand up to scrutiny

## Financing, sustainability and local communities

### HAL's claim

#### Financing:

Models concentrate demand risk within individual terminals or assets rather than spreading across airport system.

#### Sustainability and local communities:

Models would weaken the ability to engage effectively and fragment safety / security accountability.

### Reality

- As set out above, **HAL's approach to financeability is too narrow and ignores system-wide demand risks associated with the current flawed model.**
  - An unaffordable airport for airlines is not financeable – unaffordable expansion and modernisation result in substantial demand risk across the airport.
  - Ensuring regime provides strong efficiency incentives is important for financeability.
  - Risks to financeability of relying on a single highly indebted operator.
  - Balance needed between minimising the cost of capital and ensuring strong incentives for capital efficiency and discipline, particularly given the quantum of capex planned.
- **Separate control of airfield and terminal infrastructure exists today at various major airports globally**, including the world's busiest, Atlanta International Airport.
  - Demonstrates that the **model can operate to the highest safety and security standards.**
- High degree of separability of airfield and terminal activities means that **responsibilities and accountability can be clearly separated.**
  - For example, passenger security checks would clearly be the responsibility of a terminal operator, not an airfield operator.
- **Separability of activities and accountabilities also extends to community engagement** – this can be facilitated by the CAA and community representative groups, who would understand the clear separation of responsibilities.

# HAL's claims about Models 7/8 do not stand up to scrutiny

## Deliverability, timeliness and proportionality

HAL's claim	Reality
<p><b>Deliverability:</b> Models compare poorly against megaprojects best practice.</p>	<ul style="list-style-type: none"> <li>As set out above, <b>HAL's approach to deliverability is too narrow and ignores that there are clearly separable and semi-separable assets that can be exposed to competition while still adhering to the principles underpinning megaproject best practice.</b></li> <li>Clear examples of this happening in practice (e.g. Terminal 4 and the New Terminal One at JFK – both on time and on budget).</li> </ul>
<p><b>Timeliness:</b> Models fall outside the current statutory framework, new MPD needed – will take a decade</p>	<ul style="list-style-type: none"> <li>See previous points on HAL's speed-first arguments, including any HAL estimates of the costs associated with delay being <b>based on the erroneous Frontier Economics study.</b></li> <li><b>CAA has extensive powers</b>, including in relation to introducing competition.</li> <li><b>Government can fill any gaps</b> as part of expansion legislative activities – this <b>can be done rapidly.</b></li> <li>New market power determinations, if needed, can be progressed rapidly with the right resourcing.</li> <li>No reason why, with right resources and commitment from CAA and Government, models could not be <b>introduced and implemented in a timely manner.</b></li> </ul>
<p><b>Proportionality:</b> It would only be proportionate to consider models if the benefits exceed £50bn.</p>	<ul style="list-style-type: none"> <li><b>Analysis dominated by the claimed consumer benefits (£40bn)</b> flowing from the flawed Frontier study.</li> <li>£8bn claimed increase in financing costs appears to be <b>based on assumptions rather than a robust empirical analysis</b> - cannot be relied on.</li> <li>Financing cost analysis <b>does not consider the consequences for financing costs in the counterfactual</b> that continuing with the status quo undermines affordability – significant demand risks.</li> </ul>

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**6. HAL's diagnosis will not address the fundamental issues with the current regime**



# HAL's diagnosis is more of the same, but worse

HAL proposed approach to regulatory reform involves a series of incremental changes to the current RAB-based model. Those changes **will not comprehensively address the underlying causes of poor outcomes at Heathrow – indeed they will make it worse.**

## Continue HAL's control over capex governance

- Aspects of HAL proposals that Heathrow Reimagined agrees could be part of a comprehensive package of governance reforms (e.g. better targeting of scrutiny, strengthened technical and cost assurance).
- However, HAL proposes retaining (and likely strengthening) its control of governance process, CAA oversight will not be strengthened, and the severe deficit in accountability under the current regime will remain.

## Reinforcing harmful incentives

- HAL's proposals for the capex incentives and delivery obligations regime will reinforce the current problems.
- For example: progressive baselining and staging will increase the scope for gaming and reduce accountability; changes to capex incentives would asymmetrically pass further risk to consumers; higher-level delivery obligations risk further undermining accountability (although an emphasis on consumer outcomes welcome).

## Transferring further risk to consumers

- Heathrow Reimagined supports developing a longer-term approach to capital planning and affordability.
- But HAL's proposed multi-period commitments risk it being able to benefit further from information asymmetries in the charge control process and further transferring risk to consumers. CAA should resist such calls, particularly where HAL is best placed to manage risks.

## No meaningful role for competition

- HAL proposals envisage a very limited role for competition in shaping AOS outcomes at Heathrow, and even then, HAL argues that it should control how competition is used.
- If competition is focused on 'non-core' projects and is fully controlled by HAL, it will not deliver the substantial benefits to consumers that could come from more efficiently scoped, designed and implemented infrastructure.

# Our reform package: maximise the role of competition and a step-change in the effectiveness of regulation



All reforms to preserve regulatory certainty over HAL's opportunity to recover previously incurred costs

# Heathrow Reimagined's proposed approach is closely aligned with the CAA's duties

## Further consumers' interests

**Supports affordable and efficient expansion** which will maximised the long-term benefits for users and the country.

Manages the **significant risk of expansion being a distressed asset** and saddling passengers with paying unreasonably high charges for decades.

## Promote economy and efficiency

Ensures that the regulatory regime addresses the demonstrable failings of the current regime to **promote economy and efficiency are central to Heathrow Reimagined's proposals.**

## Promote competition

Heathrow Reimagined's proposals are **directly responsive to the CAA's duties in relation to promoting competition.**

## Financeability

Our proposals take an appropriately broad **consumer-centric perspective of financeability** and recognises the counterfactual from not comprehensively addressing the problems with the current regime.

# Heathrow Reimagined's solution performs strongly against the CAA's evaluation criteria and is fully deliverable

## Primary considerations

### Cost/ efficiency ✓

- Competition **aligns incentives** with efficient capex
- Complemented by **effective oversight**

### Competition ✓

- Promoting competition in AOS provision **at the heart of our proposals**

### Service quality ✓

- Competition **aligns incentives** with better meeting user needs

### Affordability ✓

- **Long-term capital planning**
- **Competition drives affordability** through efficiency

## Additional considerations

### Expansion support ✓

- Stronger regulatory foundations
- **Minimises 'distressed asset' risks**

### Finance ✓

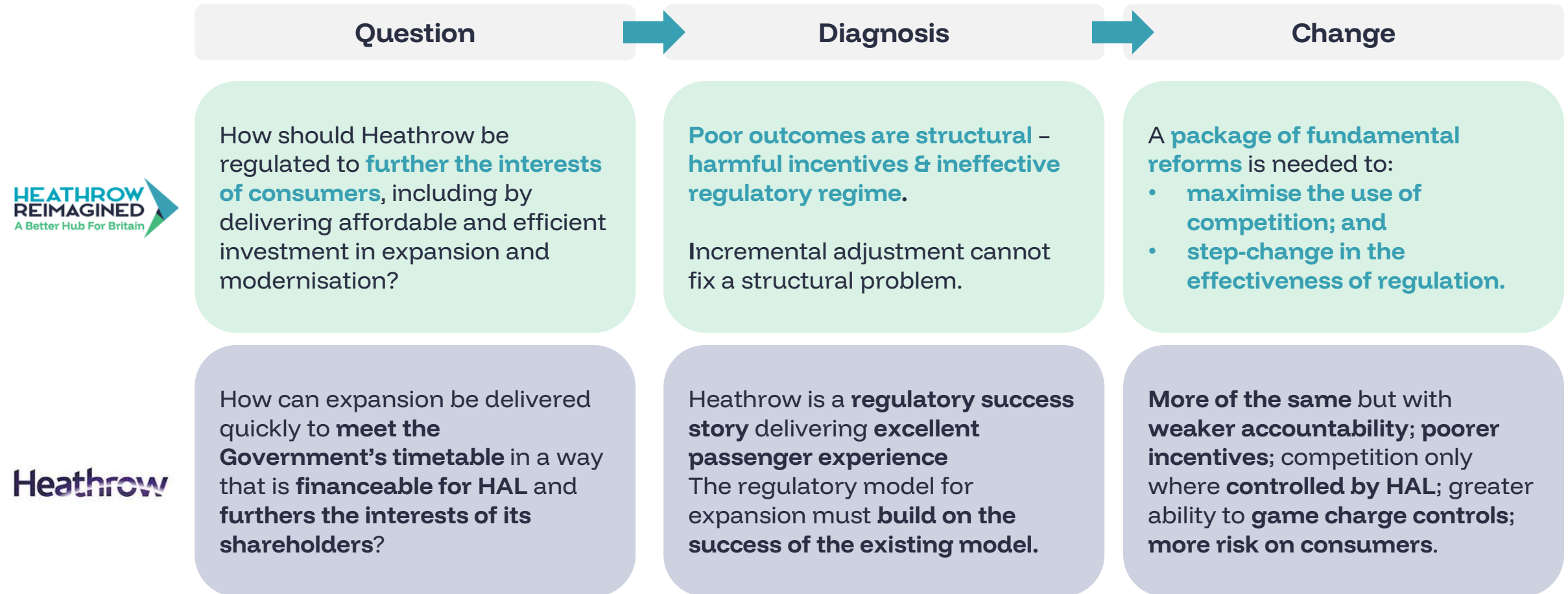
- Efficient and affordable capex → more financeable
- **Avoids reliance on one heavily indebted operator**

### Practicality ✓

- **Builds on experience at LHR & elsewhere**
- **Extensive CAA legal powers; legislation needed for expansion**





**Our approach will deliver the strong regulatory foundations needed to underpin Heathrow's future growth and make expansion a success**

# Concluding remarks: The difference between the Heathrow Reimagined and HAL's positions is stark



# Annex

# HAL's claims regarding government subsidies and cross-subsidies for HAL's European peers should be disregarded

Airport	Recovery of allowed revenues	Recent evidence of gov subsidy	Why HAL's claims are incorrect
<b>MAD, BCN (AENA)</b> 	Dual till, applied at the group level. Charges set to recover costs of delivering airport services across the group and a fair return on capital. Costs and revenues of non-aeronautical activities sit outside the regulated till.	<ul style="list-style-type: none"> <li>No evidence of a material or regular subsidy.</li> <li>Small (€45.1 million) EU Solidarity Fund grant in 2023 to offset Covid-related mitigation costs across the AENA network.</li> </ul>	<ul style="list-style-type: none"> <li>Dual-till means that <b>group commercial activities do not contribute to the recovery of costs for provision of aviation activities.</b></li> <li>MAD and BCN are the most profitable airports in the AENA group (and have charges considerably higher than the regional airports).<sup>1</sup></li> <li>It follows that MAD and BCN are cross-subsidising the regional airports to meet the network-wide revenue allowance per passenger.</li> <li><b>Evidence of cross-subsidisation between AENA's airports is recorded in the published analysis<sup>2</sup> and academic studies.<sup>3</sup></b></li> <li>If regulated at the individual level, charges would be even lower.</li> </ul>
<b>AMS</b> 	Dual till, applied specifically to AMS, to recover aviation-related costs and fair return on capital. Small (~1.8% of regulated allowance) contributions from group non-aero revenues to support group financeability.	<ul style="list-style-type: none"> <li>No evidence of material subsidy.</li> <li>Schiphol increased charges by 37% over 2025 to 2027 to fund investment and quality improvements. This is inconsistent with a subsidised airport.</li> </ul>	<ul style="list-style-type: none"> <li>Dual-till means that <b>group commercial activities do not materially contribute to the recovery of costs for provision of aviation activities.</b></li> <li>Small contribution from non-aeronautical activities can support investment at AMS.</li> </ul>
<b>CDG</b> 	Adjusted till, applied to the three Parisian airports. Charges set to recover costs of delivering airport services and fair return on capital. The regulated perimeter excludes most commercial and service activities.	<ul style="list-style-type: none"> <li>No evidence of material subsidy.</li> </ul>	<ul style="list-style-type: none"> <li>Revenues from "<b>commercial and service activities</b> such as those related to shops, restaurants"<sup>4</sup> <b>are excluded from the regulated till.</b></li> <li>Like Heathrow - non-aeronautical activities inside the regulated till include public car parking and public transport.</li> <li><b>No mechanism for broader group revenues to contribute to reduction in charges at CDG.</b></li> </ul>
<b>FRA</b> 	Dual till, applied specifically to FRA. Charges set to recover costs of delivering airport services and a fair return on capital. Costs and revenues of non-aeronautical activities sit outside the regulated till.	<ul style="list-style-type: none"> <li>€160 million Government grant as compensation for maintaining operational readiness.</li> <li>This was a temporary Covid measure, not a systematic subsidy that lowers charges.</li> </ul>	<ul style="list-style-type: none"> <li>Dual-till means that <b>group commercial activities do not materially contribute to the recovery of costs for provision of aviation activities</b></li> <li><b>No mechanism for broader group revenues to contribute to reduction in charges at FRA.</b></li> </ul>

# HAL's own evidence base casts doubt on its position

Three of HAL's own commissioned reports contain findings that directly undermine its central arguments. None are engaged with in the main submission.

Annex	What HAL claims	What the report actually says
<b>Oxera (Annex 3, case study review of international infrastructure projects)</b>	Integrated single-operator ownership reliably produces cost efficiency; Models 7 and 8 replicate failure modes	<ul style="list-style-type: none"> <li>• <b>Cost overruns are multifactorial, not determined by ownership structure alone.</b></li> <li>• No examples of regulation changing mid-delivery – <b>cutting against HAL's urgency argument.</b></li> <li>• All privately-financed projects involved some form of public support – undermining claims about purely private finance.</li> <li>• Case studies show successful delivery at comparable scale under private, public, mixed, and build-operate-transfer financing structures - <b>contradicting any suggestion that a RAB is the only viable funding mechanism.</b></li> </ul>
<b>Santander / Freshfields (Annex 2, funding and financeability analysis)</b>	Competition in AOS is not financeable; alternative models undermine credit quality	<ul style="list-style-type: none"> <li>• DBO/DPC models for <b>non-core, separable assets could reduce costs and attract new equity</b> at IRRs below c.15%.</li> <li>• HAL's own advisers identify a <b>viable role for competition for the market</b> – this is largely absent from HAL's main submission.</li> </ul>
<b>Jacobs (Annex 14, capital governance review)</b>	The H7 framework provides a sound basis for expansion; HAL's approach reflects best practice	<ul style="list-style-type: none"> <li>• Concludes the H7 framework is <b>unlikely to be suitable for expansion.</b></li> <li>• Recommends a bespoke framework with <b>independent technical and financial assurance</b> – closer to the campaign's model (CIC) than HAL's preferred approach.</li> </ul>

HAL presents these reports as supporting its position. But on the three significant questions – whether ownership determines cost outcomes, whether competition is financeable, and whether the current framework is fit for expansion – they do not.

# HAL's reports have weak methodologies that cannot support HAL's conclusions

Several of HAL's annexes rely on methods that are fundamentally flawed and cannot support the conclusions drawn.

Document	Summarised claim	Methodological problem
<b>Annex 15</b> (Mott MacDonald, multi-operator airports)	JFK and LAX demonstrate that multi-operator models produce worse outcomes on efficiency, service quality, and competition	<ul style="list-style-type: none"> <li>• Causal conclusions drawn from two airports with no controls (regulatory model, traffic mix, hub vs point-to-point, financing structure, slot regime).</li> <li>• <b>Causal inference from n=2 with no controls is not reliable or valid analysis.</b></li> <li>• <b>Comparator choice is selective</b> – applying the same logic to other airports (e.g. LaGuardia, Munich T2, or Atlanta) would likely lead to the opposite conclusion.</li> </ul>
<b>Annex 1</b> (HAL, megaprojects)	Costs rise c.33% per additional owner; each new stakeholder increases costs	<ul style="list-style-type: none"> <li>• Observations are <b>not independent</b> — repeated measurements from the same three underlying projects</li> <li>• Derived from nine components across <b>three UK megaprojects only</b> (T2, Olympics, Crossrail). All three projects operate in the <b>same regulatory and supply chain environment</b> – there is no cross-contextual variation from which to generalise.</li> <li>• <b>The effective independent sample is three projects, not ninety observations</b>; insufficient to calculate meaningful causal coefficients and conclusions.</li> </ul>
<b>HAL main submission on competition efficiency</b>	Competition produces efficiency losses that outweigh benefits	<ul style="list-style-type: none"> <li>• Analysis focuses only on <b>static costs</b> (i.e. duplication at a point in time).</li> <li>• No assessment of <b>dynamic efficiency</b> (innovation, cost discipline, long-run consumer outcomes) – a clear and telling omission by HAL.</li> <li>• Other regulators (Ofcom, Ofgem) <b>explicitly accept static trade-offs</b> to achieve dynamic gains.</li> </ul>

HAL uses these flawed analyses to justify its pass/fail elimination of reform options. The CAA should not narrow the reform agenda on the basis of analytically unreliable evidence.