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Economic Regulation team
Civil Aviation Authority
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Dear Economic Regulation team,

Response to CAP 3195 · Working paper on regulatory models

I am writing on behalf of Transport for London (TfL) in response to the publication of CAP 3195, the working paper on regulatory models, which addresses the evolution of the economic regulation of Heathrow Airport in the context of a potential third runway.

We recognise that the current regulatory framework has never had to deal with an uplift in capacity of this scale, with a 58 per cent increase in slots envisaged. The sheer quantum of terminal and runway capital expenditure (capex) to be funded through the current mechanism is challenging, even before consideration of the costs of the requisite surface access, and there are also questions about a model whereby existing airline operators end up paying for infrastructure which, to a great extent, will benefit future entrants.

A number of potential regulatory models are presented in the paper. We would raise a note of caution with regard to those which separate responsibility for different assets (e.g. current and future terminals). The mitigation of impacts, environmental and surface access, including clear, binding targets, will be an important part of any planning conditions for expansion and would most effectively and meaningfully apply to the operation of the airport as a whole. Any regulatory regime which separated out operation and/or ownership of different parts of the airport would need to demonstrate how clear accountability for these impacts could be established, with responsibility attributed accordingly.

For TfL, there is a very particular concern with regard to the funding of surface access to the airport and we would have liked to have seen this paper recognise this as a central rather than a peripheral issue. The Mayor's Transport Strategy sets out a clear sustainable mode share target for trips to, from and within London. Heathrow Airport needs to play its part and decarbonise its operations. Benchmarking against key airport rivals such as Gatwick and Manchester in the UK and Paris CDG, Amsterdam and Frankfurt in continental Europe, Heathrow uniquely fails to offer direct rail connectivity to anywhere beyond its core city centre corridor.

This issue becomes even more pressing in the context of expansion. It is simply not tenable for a third runway to result in increased highway traffic. To secure that will require a comprehensive package of sustainable surface access interventions, in both new and existing rail corridors, as well as measures to support bus and cycle access for passengers and staff. It is not an exaggeration to say that the current regulatory framework and its interpretation have served as a critical block on securing the surface access the airport needs.

In any new regulatory framework, the environment needs to be paramount, raised from its current status as a second order priority. The airport's social license requires it to demonstrate the steps it is taking to reduce its emissions footprint and, as such, adequate weight must be given to the environmental benefits in evaluating investment by the airport.

This can still be compatible with the current framework's 'user pays' principle – so long as this means the surface access user paying for surface access rather than, for example, the rail user paying for rail. The latter, by increasing the relative cost of rail compared to less sustainable modes, has the perverse effect of encouraging a shift away from rail, to car. By contrast, a surface access user paying for surface access would allow receipts from the terminal drop-off charge (TDOC) or from parking to help fund rail and other sustainable surface access interventions. This could form the basis of a bespoke regulatory treatment of surface access, as briefly mentioned in 1.21, and this should be explored further.

In the past, a narrow conception of the benefits of any surface access scheme to airport users has been used to justify limiting the airport contribution. Ultimately, this has the effect of shifting the financial burden onto the taxpayer. However, when the Government's stated position is that it will not fund interventions to enable expansion, such an approach ensures the scheme will never be delivered. This would be regardless of its importance to the airport and its potential to increase its passengers and staff catchment and to unlock sustainable surface access trips.

With expansion of the airport being progressed, it is vitally important that the economic regulatory framework becomes part of the solution for delivering sustainable surface access, ensuring the requisite funding can be made available. We are ready to build on our engagement with the CAA to date, to help realise this.

Yours faithfully



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