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28 July 2026

British Airways response to CAP3279
Proposal for 2027 holding cap for Heathrow Airport Limited

Dear Rob

This document sets out British Airways' response to the Civil Aviation Authority's (CAA) consultation and notice under section 22(2) of the Civil Aviation Act 2012 proposing a holding price cap for Heathrow Airport Limited (HAL) for 2027.

Our response addresses both the level of the proposed holding cap and the methodology used to calculate it, including the adjustments applied through the CAA's proposed price control formula. We also provide comments on the proposed next steps. **Our proposal is for a holding price cap of £26.685,** compared to the CAA's proposal of £28.398, ensuring charges that are not higher than necessary and guaranteeing recovery of efficient costs to protect consumers. This would ensure a smoother profile of charges over the period while avoiding the late-stage step increase proposed by the CAA for 2028, which would create significant planning uncertainty for airlines and result in consumer harm.

As the proposed holding cap relates to the first year of the H8 price control period, this response should be read alongside our response to the CAA's Initial Proposals for H8 (2027–2031). In that submission, we set out a number of recommended policy changes that should apply from the start of H8, including reforms to the TDOC risk-sharing mechanism, capital governance and the removal of service quality bonuses. The potential for changes to those adjustments in the CAA's final decisions for H8 should be recognised in the setting of the holding cap for 2027 and, if necessary, removed or trued up in the remainder of the price control period.

1. Concerns over the level of proposed holding cap

The CAA proposes a holding cap for 2027 of £28.398, premised on the mid-point of the range set out in its Initial Proposals of £25.79 and £27.44 (2024 CPIH). This is in turn adjusted for inflation, an addition for service level bonuses and the K factor.

Based on our analysis and recommendations set out in our response to the CAA's H8 Initial Proposals, we have recommended an average H8 charge of £24.48, with an unprofiled starting charge of £25.13 in 2027 (all 2024 CPIH prices). The CAA's proposed starting point, with a mid-point of £26.62, is materially above this level and therefore suggests that the holding cap is overstated. In our view, it exceeds the level required to recover efficient costs, to the detriment of consumers and contrary to the CAA's statutory duties.

As further noted in our response to the CAA's Initial Proposals, we do not support front-loading charge increases in the early years of H8. Where increases are unavoidable, we favour a smoother profile across the regulatory period. This would provide airlines with greater opportunity to implement mitigating actions, recognising the constraints of business planning cycles in the early years of H8, while also better aligning charges with the timing of investment delivery and associated benefits.

Conversely, the CAA's proposal to increase the Maximum Allowable Yield by £2.18 per passenger – from £26.221 in 2026 to £28.398 in 2028 – represents a significant step change in charges that will materially affect airlines' business planning and investment decisions. Given the limited time before the increase would take effect in January 2027, it is important to recognise that airlines are already pricing and selling tickets for next year based on current charges. A substantial late-stage increase would therefore create significant planning uncertainty, adversely affecting profitability, route economics and investment decisions, with potential unintended consequences for network development and growth.

Against this backdrop, the CAA's statement that "*the precise level of the holding price cap for 2027 is not material in the context of the five year period as it will get trued up (or down) in the calculation of the final proposals and final decision for the H8 price control*" (paragraph 2.30) is misinformed and fails to recognise the practical consequences of annual charge changes for airport users and consumers. While any over- or under-recovery may ultimately be adjusted through the H8 settlement, airlines must make commercial, network and investment decisions in real time based on the charges they face in a given year. The level of the 2027 holding cap is therefore material and should not be dismissed on the basis that subsequent true-up mechanisms may operate at a later date.

In addition, the proposal for a step increase does not recognise the cumulative impact of early expansion costs to kick in from 2028 according to the CAA's draft decision (CAP3238), which could create further upward pressure on our business planning over the coming years.

For the reasons set out above, we recommend that the CAA adopts the lower end of the range presented in its Initial Proposals – at £25.79 (2024 CPIH) – as the starting point for its charge calculations. This would represent a pragmatic solution that is consistent with BA's and airlines' assessment of the efficient unprofiled charge for 2027 (£25.13) while reducing the risk and extent of cost over-recovery. It would also better align with the CAA's statutory duties to protect consumers and ensure that charges reflect no more than the efficient costs of providing airport services.

2. Calculation of proposed holding cap

The CAA has calculated the price cap by relying on the price control formula applicable for the H7 period (Condition C1.5 of HAL's licence) and adjusting the 2026 average revenue yield per passenger for inflation, the K factor, service level bonuses and a newly introduced "price profiling" factor (X_{2027}). We set out below our comments on several aspects of the CAA's calculation of the holding cap through the price control formula:

a. Inflation treatment

We note that the CAA has proposed replacing the D7BT Consumer Price Index series previously used for inflation adjustments with the L522 Consumer Price Index including occupiers' housing costs issued by the Office of National Statistics. Based on our review, the two approaches appear to produce broadly comparable outcomes, with a close alignment between historical outturn values. There may be practical advantages to the use of L522 going forward, including a simpler and more transparent calculation methodology based on a single source for both forecast and outturn data, avoiding the need to combine historic index values with separate HAL-selected forecasts in the rate card consultations, which for H7 have required a choice between the Bank of England's Mean, Median or Mode measures.

However, the consultation document does not explain the rationale for this change in methodology. We assume that the CAA is proposing this change as part of its stated objective to move to CPIH indexation for the H8 price control. We invite the CAA to set out the reasons for moving from the D7BT to the L522 index.

We support the CAA's proposed mechanism to true up the inflation assumption used in setting the 2027 holding cap through the price profiling factor. We understand that the X_{2027} factor is intended to replace forecast inflation with outturn inflation and adjust charges to reflect any difference between the forecast and actual inflation underpinning the 2027 holding cap. We support this objective, as this addresses our repeated concerns regarding the unintended consequences of previous holding caps. In particular, the 2023 holding cap was established using inflation assumptions materially above outturn levels, resulting in HAL retaining windfall gains without any mechanism to return those benefits to consumers.

However, we would welcome a simplification of the calculations, as well as clarity on whether the X_{2027} factor will require re-calculation when the outturn variables become available.

b. Service level bonus

The CAA proposes a bonus factor of 0.230% for HAL's 2025 service level performance, equivalent to £0.063 per passenger, but has not explained how this figure has been derived. This lack of transparency makes it difficult for stakeholders to assess the appropriateness of the adjustment. More fundamentally, airlines have consistently argued over price controls, including in response to the H8 Initial Proposals, that service quality bonuses rewarding expected levels of performance from a regulated monopoly are inappropriate and should be removed. However, recognising that this implements an established H7 policy for service level performance in 2025, we retain the CAA's proposal subject to the CAA clarifying how the bonus figure has been derived.

c. K factor calculation

The CAA's calculation of the K factor appears to exclude cargo revenues for 2025. We note that HAL's Regulatory Accounts distinguish between these revenue categories, but the CAA's consultation has not explained why cargo-only flight revenues have been excluded from the outturn airport charges in that year. Cargo-only operations make use of core airport infrastructure, including runways and taxiways, in the same way as passenger services and therefore contribute to the utilisation of assets whose costs are recovered through the regulatory settlement.

We therefore invite the CAA to clarify the rationale for excluding cargo revenues from the relevant revenue recovery calculation and whether such an approach remains appropriate. Based on our understanding, including cargo revenues would increase the 2025 revenue recovery adjustment by approximately £13 million.

d. Traffic

The CAA proposes to use a forecast of 85.9 million passengers in calculating the holding cap, based on shocked base case scenario of the traffic forecast set out in its H8 Initial Proposals. While we recognise the practical need for the CAA to rely on an existing forecast at this stage, it is important to recognise that airlines have made extensive representations on the appropriate traffic forecast throughout the H8 review process. The traffic assumptions underpinning the Initial Proposals remain subject to ongoing stakeholder scrutiny and should not be regarded as settled.

More broadly, BA and the airline community have made representations regarding elements of the forecasting methodology used in the Initial Proposals, including the continued application of the shock factor. As set out in our response to the H8 Initial Proposals, including the expert advice submitted by Skylark, the shock factor has not delivered its intended objective of improving the accuracy of the traffic forecast, is no longer justified and ought to be removed for H8.

Indeed, we note that in its recent draft determination for the 2027-2031 price control at Dublin airport, the Irish Aviation Authority (IAA) rejected Dublin Airport's proposal for an asymmetric risk allowance for both extreme and transient traffic shocks. Among other things, the IAA found that the centreline traffic forecast already provides a fair bet as it balances upside and downside risks at an overall level. This is demonstrated by Dublin Airport's historical ability to manage/offset changes in demand, such as by reducing operating costs in response to shocks or generating additional revenues to offset additional opex at times of increased demand. The IAA also recognised the resilience of the airline industry, including during the recent US/Israel-Iran war, such as fuel hedging by airlines and alternative jet fuel sources. The IAA notes that an allowance such as the one proposed by Dublin Airport would be uncalibrated, against the IAA's statutory duties and could be potentially duplicative.[1]

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

While those issues will ultimately be determined in the H8 Final Decisions, the CAA should recognise that there remain stakeholder concerns on the assumptions underpinning the proposed traffic forecast and, by extension, the calculation of the 2027 holding cap.

e. 2026 TDOC over-recovery

The CAA proposes to set the Terminal Drop-Off Charge (TDOC) adjustment term (TDO_{2027}) to zero for the purposes of the 2027 holding cap and to determine the appropriate value at a later stage once the relevant H8 policies have been finalised. While we recognise the timing constraints identified by the CAA, and noting our representations on the appropriateness of the risk sharing mechanism in our response to Initial Proposals set out below, the CAA's approach risks overlooking a known over-recovery that has already arisen under the H7 framework.

Indeed, during the 2026 charges consultation, HAL's forecast TDOC revenues were expected to exceed the level assumed by the CAA in its H7 Final Decision, resulting in revenue sharing adjustments that were reflected in the calculation of the 2026 MAY. Following the conclusion of that consultation and HAL's decision to set 2026 charges in October 2025, it subsequently presented and implemented a further £1 increase in the terminal drop-off charge in November 2025, which became effective in January 2026. Under the prevailing H7 arrangements, 65% of the additional revenue generated by that increase would have been returned to airlines through a lower MAY. As the increase was introduced after the formal airport charges consultation had concluded, HAL did not adjust the TDOC in an updated 2026 charge calculation, resulting in an over-recovery during 2026.

Although the future treatment of the TDOC remains under consideration as part of the H8 review, this does not prevent the CAA from addressing the 2026 over-recovery under the existing H7 framework. In our view, the holding cap should therefore include an appropriate TDOC adjustment to account for this known over-recovery that HAL opted to implement a late stage outside the scope of the formal charges consultation. At a minimum, this would involve recognising the over-recovery of £0.65 per passenger (adjusted for inflation) due to the consumer. This would avoid deferring the correction of an identified over-recovery, incentivise timely consultation by HAL, and ensure that airport charges are not higher than necessary to recover efficient costs. It would therefore be consistent with the CAA's statutory duties and its priorities for the H8 price control set out in the method statement.

f. Reworked price cap

Based on our comments above, we have recalculated the proposed **2027 holding price cap at £26.685, compared to the CAA's proposal of £28.398**. Our revised calculation incorporates the following changes:

i. **Forecast profiled charge for 2027**: The CAA has proposed using the midpoint of the range presented in its H8 Initial Proposals. While BA continues to consider that range to be overstated and has previously proposed a lower 2027 charge in its response to the Initial Proposals, we have adopted the lower end of the CAA's range (£25.79 in 2024 CPIH prices). Adjusted for 2027 inflation, this yields a forecast profiled charge of £28.053, compared to the CAA's £28.951. This in turn requires recalculating the X_{2027} factor to 0%, compared to the CAA's estimate of 3.043%.

ii. **Service level bonus (B_{2025}):** Consistent with our response to the H8 Initial Proposals, we do not support the inclusion of service quality bonuses that reward expected levels of performance from a regulated monopoly. However, recognising that this implements an established H7 policy for service level performance in 2025, we retain the CAA's proposal subject to the CAA clarifying how the bonus figure has been derived. Indeed, the CAA's consultation does not set out how the proposed bonus has been estimated.

iii. **Adjustment for 2026 TDOC over-recovery (TDO_{2027}):** As discussed above, HAL has already over-recovered revenues from the TDOC during 2026 following a subsequent tariff increase that was not reflected in the 2026 MAY consulted with airlines. Our calculation therefore includes an adjustment to return this over-recovery to airport users and consumers.

iv. **Correction for cargo revenues in the K factor (K_{2027}):** Our calculation includes a correction factor of approximately £13 million to reflect cargo revenues excluded from the 2025 airport charge revenues.

Formula term	CAA value	BA proposal	BA approach
Starting Point (2024 CPIH)	£26.615	£25.790	Uses the lower end of the CAA's proposed H8 Initial Proposals range (£25.79, 2024 CPIH)
Adjusted for expected 2027 inflation	£28.951	£28.053	Updated with the same forecast 2027 CPIH used as the CAA. This leads to an X_{2027} value being re-calculated to 0%.
B_{2025}	0.230% (£0.063[2])	0.230% (£0.063)	Notwithstanding our long-held position on appropriateness of bonuses, retains the service level bonus (as H7 policy) subject to CAA setting out its calculations.
TDO_{2027}	£0	-£0.65	Reflects the return of HAL's 2026 TDOC over-recovery arising from the post-consultation tariff increase
K_{2027}	£0.616	£0.781	Includes a correction for cargo revenues (£13 million) to ensure appropriate recognition of revenues from users of common airport infrastructure.
M_{2027}	**£28.398**	**£26.685**	

[2] Calculated as $Y_{2026} \times B_{2025}$ = £27.532 × 0.230% = £0.063

3. Adjustment for other quantities

The CAA does not propose to include the adjustment terms AC_{2027}, the capital trigger (T_{2027}), the terminal drop-off adjustment (TDO_{2027}), and the traffic risk sharing adjustment (TRS_{2027}) in the calculation of the 2027 holding price cap. According to the CAA, this is because of a timing issue as the holding price cap is required before the relevant H8 policies have been finalised. The CAA also proposes for HAL to provide, in the 2027 charges consultation, forecasts for those adjustment terms followed by outturn figures when they become available.

We note that the policies underpinning the above terms have been subject to extensive discussions in H8 Constructive Engagement and we have made representations to the CAA on their possible design for H8 in our responses to Initial Proposals. These include:

a. The inclusion of a licence condition requiring HAL to return to consumers 100% of additional TDOC revenues generated from any increases in the TDOC above the current £7 tariff. [REDACTED], we consider it likely that HAL will seek to increase the tariff during H8 in order to retain windfall gains under the current risk sharing arrangements. Our proposal would thus remove the perverse incentive of HAL raising those tariffs after the H8 price control has been set and ensure any additional revenues are returned to consumers. For clarity, this concerns the treatment of TDOC in H8 and is in addition to our position that the 2026 over-recovery ought to be returned to consumers in 2027.

b. Reforms to capital governance potentially impacting the AC_t and capital trigger (T_t) factors. [REDACTED][3] [REDACTED].

c. The calibration, extent and timing of the TRS adjustments.

Any changes to those policies ultimately adopted by the CAA should therefore be reflected to the above terms. As to the manner for making those adjustments, we believe that these could be recoverable through an adjustment term in 2028 to ensure charges reflect outturn costs early on in the regulatory period and avoid continued discrepancies.

We also stress the importance of meaningful airline involvement in the development and consultation of these forecasts. Given their direct impact on airport charges, forecasts should be subject to appropriate scrutiny and engagement with airport users

We welcome the CAA's timely decision on this matter given the limited period remaining before charges take effect in January 2027.

[3] [REDACTED].

Yours sincerely,

Michael Petrides

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