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By email: economicregulation@caa.co.uk

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Dear Rob,

Aer Lingus response to CAA 2027 Holding Cap Proposal (CAP3279)

Aer Lingus welcomes the opportunity to respond to the Civil Aviation Authority's (CAA) consultation proposing a holding price cap for Heathrow Airport Limited (HAL) for 2027.

Aer Lingus is the flag carrier airline of Ireland and a significant operator at Heathrow, providing essential connectivity between Heathrow and Ireland, including services to Dublin, Cork, Shannon and Knock. Heathrow is an important hub for Irish consumers and businesses and supports onward global connectivity. The level of airport charges therefore has direct implications for affordability, route economics, connectivity and the competitiveness of Heathrow as a hub.

This response should be read alongside the detailed response submitted by our sister airline British Airways and Aer Lingus' response to the CAA's H8 Initial Proposals (CAP3232). Aer Lingus supports the principal conclusions and recalculation set out by British Airways.

Aer Lingus considers that the CAA's proposed 2027 holding cap of £28.398 per passenger is materially too high. We support a holding cap of £26.685 per passenger. This approach would adopt the lower end of the CAA's Initial Proposals range as the starting point, retain the established H7 service performance adjustment subject to transparency, correct the known 2026 Terminal Drop-Off Charge (TDOC) over-recovery and include cargo revenues in the K factor calculation. It would protect consumers against charges that are higher than necessary while allowing HAL to recover efficient costs.

The 2027 cap is not immaterial simply because the H8 settlement will subsequently true up any over- or under-recovery. A late increase from the 2026 Maximum Allowable Yield of £26.22 to approximately £28.40 in January 2027 would add around £2.18 per passenger after Aer Lingus has already set fares, schedules and capacity, committed resources and sold tickets for travel during the year. Uncertainty over the price control formula therefore has immediate consequences for commercial planning and investment, particularly where airlines have little opportunity to absorb or mitigate changes introduced shortly before they take effect. A later true-up cannot reverse decisions already taken or remove the impact on route economics and consumers.

Our grounds and key points are set out below.

Yours sincerely,

Marta Drózdz

Marta Drozdz
Airports Commercial Manager

1. Executive summary and recommendations

Aer Lingus recommends that the CAA revise the proposed holding cap and implement the following changes:

- **Use the lower end of the CAA's H8 Initial Proposals range:** The starting point should be £25.79 in 2024 CPIH prices rather than the midpoint of £26.62. This is closer to the efficient 2027 charge supported by the airline community and reduces the risk of front loading an overstated H8 settlement.
- **Retain, but explain, the 2025 service level bonus:** The proposed 0.230% bonus relates to performance in 2025 under the established H7 framework. Aer Lingus therefore accepts its inclusion for the holding cap calculation, without prejudice to our position that service quality bonuses should be removed for H8. The CAA should disclose the calculation and assumptions of the £0.063 per-passenger adjustment.
- **Return the known 2026 TDOC over-recovery in 2027:** HAL increased the TDOC after the 2026 airport charges consultation had concluded. Under the prevailing H7 sharing arrangements, the resulting over-recovery should be returned through a £0.65 per-passenger adjustment, updated as necessary for inflation.
- **Correct the K factor to include cargo revenues:** Cargo-only flights use common airport infrastructure, and the associated revenues should be recognised in the 2025 revenue recovery calculation. The correction identified is approximately £13 million.
- **Preserve a full inflation true-up:** Aer Lingus supports replacing forecast inflation with outturn inflation through the X2027 factor, but the CAA should simplify the mechanism and confirm how and when it will be recalculated.
- **Ensure later adjustments reflect final H8 policy:** Any post-2027 adjustments for TDOC, traffic risk sharing, capital governance or other quantities should reflect the CAA's H8 Final Decision, should be subject to meaningful airline scrutiny and should be returned or recovered promptly rather than allowing discrepancies to persist.

2. The proposed holding cap is too high

The CAA proposes to base the holding cap on the midpoint of the range in its H8 Initial Proposals and then apply inflation, the K factor and the service performance adjustment. Aer Lingus does not consider the midpoint to be an appropriate or prudent starting point. In our CAP3232 response, Aer Lingus proposed an average H8 charge of £24.48 in 2024 CPIH prices and an efficient set of building blocks materially below the CAA's Initial Proposals. Although the final H8 settlement remains under consideration, the holding cap should not assume that the midpoint of the CAA's range is the best estimate.

Where the CAA is required to set an interim cap before completing its assessment, it should err on the side of protecting consumers from over-recovery. The lower end of the CAA's own range, £25.79 in 2024 CPIH prices, is a more proportionate starting point. It remains above the airlines' unprofiled 2027 assessment of £25.13 but materially reduces the risk that consumers fund an overstated allowance before the H8 evidence has been fully resolved.

Aer Lingus also opposes front-loading charge increases. A smoother profile provides airlines with a realistic opportunity to incorporate changes into fares, schedules and business plans and better aligns charges with the timing of investment delivery and passenger benefits. A significant increase from January 2027 would arrive after airlines have already made material capacity and pricing decisions for the year.

The cumulative context is also important. The proposed holding cap is the first year of H8 and will be followed by the effects of the final H8 settlement and potential expansion-related costs. Treating the 2027 level as inconsequential because it can be trued up later overlooks both the immediate cash impact and the possibility of further upward pressure in subsequent years.

3. Inflation treatment

Aer Lingus notes the proposal to replace the D7BT inflation series with the Office for National Statistics L522 CPIH series. The proposed series appears capable of providing a simpler and more transparent basis for both forecast and outturn calculations. However, the consultation does not clearly explain the rationale for the methodological change. The CAA should confirm that the change is intended to support CPIH indexation for H8 and explain any practical implications for the holding-cap formula.

Aer Lingus supports the principle of an explicit true-up so that the 2027 cap is ultimately based on outturn rather than forecast inflation. This is an important consumer protection. Previous holding-cap arrangements exposed consumers to inflation forecast error without an effective mechanism to return the resulting benefit where inflation was lower than assumed.

The CAA should nevertheless simplify the calculation and state clearly whether X2027 will be recalculated when all outturn variables are known, the data series and reference dates that will be used, and the year in which the correction will flow through charges.

4. Service level bonus

The proposed B2025 factor is 0.230%, equivalent to £0.063 per passenger, for HAL's 2025 service performance. As the 2025 performance year falls within H7, where the policy framework for bonuses has already been established. Aer Lingus therefore accepts retention of the adjustment in the 2027 holding-cap calculation, without prejudice to our position for H8. The CAA must, however, explain how the 0.230% figure has been derived. Stakeholders cannot properly scrutinise the adjustment where the underlying calculation and performance inputs have not been disclosed.

5. K factor and cargo revenues

Aer Lingus is concerned that the CAA's K factor calculation appears to exclude cargo revenues from 2025 outturn airport charge revenues. Cargo-only flights use common runway, taxiway and airfield infrastructure. Their revenues are therefore relevant to the assessment of the total regulated revenue recovered from users.

Excluding those revenues understates 2025 recovery and correspondingly reduces the adjustment due through the K factor. Aer Lingus supports correction for 2025 cargo revenues, which increases the relevant revenue recovery adjustment by approximately £13 million and changes K2027 from £0.616 to £0.781 per passenger. The CAA should confirm the treatment of cargo-only flight revenue and publish a reconciled calculation.

6. Traffic forecast

The CAA proposes to use 85.9 million passengers for the holding-cap calculation, based on the shocked base-case forecast in its H8 Initial Proposals. Aer Lingus recognises that the CAA must use an available forecast to set the interim cap, but the forecast and its methodology remain contested and should not be treated as settled.

In our response to CAP3232, Aer Lingus supported the airline community's independent forecast work and challenged the continued use of the shock factor. The shock adjustment has not demonstrated that it improves forecast accuracy, risks duplicating protection already provided by traffic risk sharing and embeds a downward bias that increases charges at a capacity-constrained airport.

The recent Irish Aviation Authority (IAA) Draft Determination on the maximum levels of airport charges at Dublin Airport for 2027-2031 provides relevant regulatory read-across. The IAA rejected an asymmetric risk adjustment (ARA) for extreme and transient traffic shocks on the basis that the centreline forecast should balance upside and downside risks overall, that the airport can respond to demand changes through costs and commercial revenues, and that an additional allowance risked being uncalibrated and duplicative. Aer Lingus considers that the CAA should similarly assess the Heathrow traffic forecast and risk mechanisms as a coherent package rather than layering conservative assumptions and protections.[1]

7. 2026 TDOC over-recovery

The CAA proposes to set TDO2027 to zero pending its final H8 policy decisions. Aer Lingus does not consider that approach appropriate for the known over-recovery arising in 2026 under the existing H7 framework.

Following the 2026 charges consultation, HAL introduced a further £1 increase in the terminal drop-off tariff, effective from January 2026. Because the increase was implemented after the charges consultation and calculation had concluded, the resulting additional revenue was not reflected in the 2026 Maximum Allowable Yield. Under the H7 arrangements, 65% of that incremental revenue would be shared with users through lower airport charges.

The CAA can correct this 2026 outcome without prejudging the separate question of how TDOC should be treated during H8. Aer Lingus therefore supports a TDO2027 adjustment of minus £0.65 per passenger, updated for inflation as appropriate. Deferring a known correction would allow HAL to retain revenue that should be returned to consumers and would weaken incentives for transparent, timely consultation on material tariff changes.

Separately, Aer Lingus reiterates the community's earlier recommendation in the H8 process that the CAA introduce a licence condition requiring HAL to return to consumers 100% of any additional TDOC revenues generated by increases in the tariff above its current £7 level. [REDACTED]
Allowing HAL to retain a proportion of the revenue generated by future tariff increases would create a financial incentive to increase the charge and retain a windfall gain. The proposed licence condition would remove that incentive and ensure that any additional revenues generated above the current £7 tariff are returned to consumers in full.

8. Recalculated 2027 holding cap

Aer Lingus supports a recalculated holding cap of £26.685 per passenger. The calculation below adopts the lower end of the CAA's Initial Proposals range, retains the H7 service level bonus subject to transparency, corrects the 2026 TDOC over-recovery and includes cargo revenue in the K factor.

Formula term	CAA value	Aer Lingus's proposed value	Aer Lingus approach
Starting point (2024 CPIH)	£26.615	£25.790	Lower end of CAA H8 Initial Proposals range
Expected 2027 inflation	£28.951	£28.053	Same inflation assumption; X2027 recalculated to 0%
B2025 service bonus	0.230% (£0.063)	0.230% (£0.063)	Retained under established H7 policy; derivation required
TDOC2027	£0.000	-£0.650	Return of 2026 TDOC over-recovery

[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

Formula term	CAA value	Aer Lingus's proposed value	Aer Lingus approach
K2027	£0.616	£0.781	Includes approximately £13m cargo revenue correction
M2027 holding cap	**£28.398**	**£26.685**	**Aer Lingus proposed cap**

9. Other quantities and subsequent true-ups

The CAA proposes not to include AC2027, the capital trigger, the post-2027 TDOC adjustment or the traffic risk sharing adjustment in the holding-cap calculation because the relevant H8 policies have not yet been finalised. Aer Lingus recognises the timing constraint but considers that the subsequent process requires stronger safeguards.

First, any forecast or outturn adjustment must reflect the policy finally adopted in the H8 Final Decision, including changes to TDOC risk sharing, capital governance and traffic risk sharing. Secondly, HAL's forecasts should not be developed bilaterally with the CAA without meaningful airline involvement. The assumptions, data and calculations should be shared early enough to permit effective scrutiny. Thirdly, corrections should be implemented promptly, including through a 2028 adjustment where practicable, so that material discrepancies do not remain embedded for several years.

Aer Lingus reiterates its H8 positions that tariff-driven TDOC upside should not be retained by HAL, traffic protections should not duplicate conservative forecasting assumptions, and capital adjustments should operate within strong governance arrangements with early airline involvement, clear delivery evidence and effective accountability.

10. Conclusion

The CAA's proposed £28.398 holding cap would impose a material and avoidable increase from January 2027. The fact that the H8 settlement may later true up the difference does not remove the immediate consequences for airline pricing, capacity, route economics and investment decisions, or for the passengers who ultimately bear airport charges.

Aer Lingus therefore requests that the CAA set the 2027 holding cap at £26.685 per passenger. This is a balanced interim outcome: it uses the lower end of the CAA's own H8 range, retains the established H7 service adjustment, corrects identified revenue recovery issues and preserves a mechanism to reconcile inflation and later H8 decisions. It would better protect consumers while ensuring HAL can recover efficient costs.

Given the limited time before 2027 charges take effect, Aer Lingus encourages the CAA to reach and communicate its decision promptly and to require full transparency and airline engagement in the calculation of all subsequent adjustment terms.