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28th July 2026

Re: Response to CAA CAP3279 Holding Price Cap for 2027

Thank you for the opportunity to comment on the CAA's proposals for a holding price cap for 2027, as set out in CAP3279 ("the Consultation"). This response is made jointly by the London (Heathrow) Airline Consultative Committee ("LACC") and Heathrow Airline Operators Committee ("AOC") and should be read alongside individual airlines, groups and alliances' own submissions.

The airline community welcome that the CAA are looking at implementing a holding cap for 2027 and have consulted in time for the Heathrow Airport Limited (HAL) led aeronautical charges consultation later this year. Given the H8 price control period will not be settled until 2027 and HAL's attempts to set its own level of charge when in a similar situation arose in 2021[1], providing such protection for consumers, as well as timely certainty for airlines is critical.

That said, we do not agree with the proposed level of charge, which will result in a late-stage step increase in charges relative to 2026, an over-recovery of costs for HAL, a significant planning uncertainty for airlines and ultimately harm to consumers.

Level of Charge

For the reasons set out extensively in our response to the CAA's H8 Initial Proposals ("IPs"), we believe that the overall level of charge proposed for H8 exceeds the level required to recover efficient costs and is therefore detrimental to the consumer, contrary to the CAA's statutory duties. Our response set out the areas where the CAA's proposed allowances over-compensate HAL, leading to the CAA's proposed average charge being 15% higher than the airline community forecast. With regards to 2027, we estimate an unprofiled charge of £25.13, which is materially lower than the CAA's proposed mid-point of £26.62 (all prices 2024 CPIH).

In addition, the CAA adopted a "step up" approach for 2027 which has the effect of a steeper rise for 2027 than would otherwise be the case if the evolution of charges was smoothed. As per our response to the IPs, the airline community "*do[es] not support the front loading of charges*" as it impacts airlines' business planning and reduces the ability to implement mitigating actions where necessary. This concern is even more acute considering that this increase would likely take effect a mere two months before becoming effective in January 2027 (assuming a HAL decision on the rate

[1] Due to the delay in implementing the H7 price control period, in 2021, despite opposition by the airline community, HAL sought to use the level of charge from their H7 Business Plan for 2022 before the CAA intervened and set a holding cap (CAA CAP2265 – D)

card at the end of October as in previous years). Airlines will already be selling tickets for next year based on current charges and a significant late-stage increase, as proposed in the Consultation, will exacerbate the shortfall between what is currently being recovered for 2027 and what ultimately HAL will be charging.

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.

We therefore believe that the most appropriate solution would be for the CAA to employ the lower of its proposed range for H8, at £25.79 (2024 CPIH), as the starting point for calculating the holding cap. This would reflect closer alignment with the airline community position, allow for a smooth evolution of charges and ensure any short-term benefit falls to consumers rather than HAL.

Adjusting for the CAA's proposed inflation and inclusion of the service quality bonus[2] would yield a charge of £28.116. However, the airline community believe there are two further important downward adjustments that should be made:

1. 2026 Terminal Drop Off Charge (TDOC) over-recovery: During the 2026 charges consultation which culminated in the setting of charges on 30th October 2025, HAL forecast an over-recovery in TDOC revenues in 2026. Subsequent to that decision, HAL implemented in December 2025 a £1 increase to the TDOC following a short consultation. Given such an approach it is appropriate that this known additional over-recovery is reflected sooner to which we have applied the 65% return to the difference related to this increase. Indeed, under the prevailing H7 arrangements that increase would have been returned to users in the 2026 Maximum Allowable Yield had HAL not implemented a late stage increase outside the formal charges' consultation; and

2. K factor/Cargo Revenues: Ensuring appropriate recognition of £13m cargo revenues from 2025 that were inexplicitly excluded from the K factor.

Taking all of the above into account, this would lead to **a level of charge of £26.685 that should be used for the 2027 holding price cap**.

<u>2025 and 2026 Expansion Related Costs</u>

We fully agree with the CAA's decision not to include expansion related costs in the 2027 holding cap. Given the airline community's clear position that it does not support pre-funding early expansion related costs and that this is part of its own ongoing consultation process, we fully agree with the CAA's assessment that "*it would not be appropriate to pre-empt those decisions in formulating the holding cap for 2027*"[3] and therefore they should not be included.

[2] While we have consistently argued, including in response to IPs, that service level bonuses must be removed as they reward expected performance from a regulated monopoly, we understand the bonus implements an established H7 policy for service level performance in 2025. We understand the full details will be shared by HAL at the 2027 Aeronautical Charges Consultation with opportunity to comment further. We also ask the CAA to provide further information on how it has assured these figures.

[3] Paragraph 1.14 of the Consultation

Nevertheless, the CAA's 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 airlines' business planning over the coming years.

Adjustments

As set out in Paragraph 2.13, there are a number of current adjustments, the treatment of which for H8 is still being consulted upon, such as Traffic Risk Sharing and Capital Triggers, and therefore would be appropriate to address once concluded. For those remaining we welcome, and it is critical, that the CAA ensure these elements are logged and adjusted for. For example, in the case of capital triggers there are still four live projects with a capital trigger attached[4]. Indeed, one of those trigger projects (TTS Enhancements) is already incurring a rebate and is forecast to be completed in [redacted].

We are concerned however with the CAA's suggestion that it will "*work with HAL to design the best way to undertake true up when the outturns become available*."[5] It is critical that airlines have the opportunity to meaningfully engage and shape the true-up mechanism(s). We note the CAA later state that they will "*invite views on further possible true-up mechanisms for these adjustment terms to be applied outside of the 2027 holding price cap and intend to work with stakeholders further on these matters*"[6]. We welcome confirmation that the CAA will ensure airlines will form part of this consultation.

Additionally, in our response to IPs we recommended that, in lieu of a binding commitment to the TDOC base tariff during H8, there should be a licence condition requiring HAL to return 100% of any additional revenues generated from increases above the current £7 tariff. Given [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 removes this perverse incentive.

Forecasts

In line with our comments on the overall level of charge and with full details and rationale set out in our response to IPs, we believe the passenger forecast for 2027 proposed in the Consultation (Q_{2027}) is too low. A figure based on the airline community's assessment of 86.8 million passengers would be more appropriate to minimise the variation between current forecasts and what we firmly believe should be corrected for in the H8 Final Proposals / Determination.

Yours faithfully

Gavin Molloy
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[4] As per July 2026 Capital Portfolio Board [redacted]

[5] Paragraph 2.17 of the Consultation

[6] Paragraph 2.29 of the Consultation