



British Airways plc
Waterside
PO Box 365
Harmondsworth UB7 0GA

Civil Aviation Authority
Westferry Circus
Canary Wharf
London EH14 4HD

cc: economicregulation@caa.co.uk

10th September 2025

British Airway's ("BA") Response to CAP3149
Economic regulation of Heathrow Airport ("Heathrow") : Heathrow Capacity Expansion –
consultation on regulatory policy on early costs

Thank you for the opportunity to respond to your latest consultation on the economic regulation of Heathrow; we set out below our views on the Civil Aviation Authority's ("CAA") proposals and implications for the wider policy environment.

We are fully supportive of airport expansion where it is in consumers' and the UK's interests and is delivered efficiently. In line with this principle,

- we **strongly oppose any reimbursement or recovery of early costs (the Early Proposal Costs as defined later herein for Heathrow Airport Limited (HAL), the Arora Group, or any other promoter for costs incurred prior to the selection of a promoter by the UK Government;**
- The regulatory treatment of costs incurred by the promoter after selection by the U.K. Government (e.g. costs to prepare and obtain a Development Consent Order, early acquisition of properties and/or land, planning and consenting costs etc.) (the "Pre-DCO Costs") must be determined within the scope of **CAA's review of the regulatory approach to capacity expansion at Heathrow airport as announced in July 2025 (the "CAA Review")**;
- We propose that the Early Proposal Costs and the Pre-DCO Costs only become reimbursable to the successful promoter **once a Development Consent Order has been secured**; and
- In addition, should a promoter not be selected by the U.K Government by October 31st, 2025, **CAA must ensure that any Pre-DCO Costs incurred by any promoter are agreed with the airline community in advance** of incurring any such costs, and that these costs are not reimbursable through the H7 regulatory framework, but rather are treated in line with CAA's approach to capacity expansion.

Out of the four options presented by the CAA in CAP3149, our firm preference is **Option 4: Do not allow recovery of costs**^[1], with the caveat that **efficient early costs** can be reimbursed for the promoter whose proposal is selected by Government and only when a Development Consent Order has been secured. For the avoidance of doubt, early costs incurred by promoters whose proposals are not selected by Government should not be permitted to recover any such early costs for the reasons outlined later in this response. We have consistently advocated this position in our responses to previous CAA consultations on the H7 price control and Heathrow expansion.

We set out below a brief background, our executive summary of key points, and detailed arguments addressing the specific issues raised:

Background & Context

HAL's previous expansion attempt (2017–2020) resulted in **hundreds of millions of pounds spent with no consumer benefit**, yet the CAA permitted HAL to add over £500m to its regulated asset base (RAB) for recovery from airport users^[2]. We and other airlines have vehemently opposed that outcome. Now, with the Government reviving Heathrow expansion, HAL and others are incurring new “early costs” (preparation and submission of proposal, planning, design, legal, consultation, land acquisition etc.) prior to any planning consent. The CAA has put forward four policy options in CAP3149 for how such costs might be treated:

- **Option 1a** – Allow HAL to recover efficiently incurred early costs under the existing H7 framework (i.e. within current price control mechanisms)^[1].
- **Option 1b** – Allow HAL to recover efficient early costs under a new framework (presumably a bespoke mechanism outside the standard H7 allowances)^[1].
- **Option 2** – Allow **only alternative promoters** (e.g. Arora Group or other credible third parties) to recover their efficient early costs, but not HAL^[1].
- **Option 3** – Allow **both HAL and alternative promoters** with credible, mature proposals to recover efficient early costs^[1].
- **Option 4** – **Do not allow any recovery of early expansion costs** (costs remain borne by the parties who incur them)^[1].

Our position is unequivocal: **Option 4 (no cost recovery) is the only option that protects consumers and ensures fair, efficient competition.** In the sections that follow, we set out our reasoning and respond to the themes highlighted by the CAA, as follows:

- 1) We fundamentally oppose compensating HAL, Arora, or others for any costs incurred – i.e. costs associated with responding to the Government's request for proposals - including but not limited to proposal development costs, early assessments of environmental impact and land acquisition costs, consultant and legal fees associated with preparing a promoter proposal, regulatory engagement, government and/or political advocacy, or any other costs that can be reasonably determined to be efficiently incurred to prepare a promoter proposal - prior to the selection of a promoter's expansion proposal by Government (hereinafter referred to as “**Early Proposal Costs**”);
- 2) Economic first principles designate such Early Proposal Costs as normal business risks (cost of sales) for promoters;
- 3) The Arora Group's focus on a level playing field aligns with our view;
- 4) Forcing consumers to pay Early Proposal Costs would harm consumers and conflict with the CAA's duties under CAA12;
- 5) Examples from other UK regulated industries illustrate that businesses, not consumers, bear the cost of business development and expansion bids; and
- 6) Any assurance on recovery would create regulatory uncertainty for H7/H8 and is premature given the ongoing review of the regulatory approach to expansion.
- 7) The other proposed options are not suitable

Executive Summary of Our Position

In summary, our key points are as follows:

- **No compensation for Early Proposal Costs: We do not support policies that would place the financial burden of Heathrow expansion planning on airlines or passengers until a Development Consent Order has been granted.** . These speculative development costs should **not** be added to Heathrow's charges or the existing RAB. We therefore support **Option 4 (no cost recovery)** from CAP3149 as the only appropriate choice^[1].
- **Early Proposal Costs are a normal business risk and must not be shifted onto consumers:** By **economic first principles**, the costs of developing a new business opportunity or capital project are part of the *cost of doing business*. Firms routinely invest in planning and proposals at their own risk, expecting a return **only if the project comes to fruition**. HAL and any alternative promoter stand to benefit greatly if their proposal for Heathrow expansion is approved. . In a competitive market, promoters assemble business cases and development proposals that are commercially robust and therefore accept that the Early Proposal Costs are a worthwhile time, resource and money investment to have a chance to obtain significant value and returns in future. Correspondingly, they must be prepared to **bear the downside risk** if the project does not go ahead^{[2][2]}. This is a normal business scenario when considering investment, and shifting this risk onto consumers is neither justified nor efficient.
- Specifically for the HAL proposal, CAA must identify which costs are specifically Early Proposal Costs as opposed to costs associated with delivery of expansion post selection of a proposal by Government i.e. the Pre-DCO Costs. The former **should not be reimbursed** if the HAL proposal is not selected by Government. In addition, it is our view that should HAL be the promoter selected by Government, the regulatory treatment of Pre-DCO Costs must be in line with the outcome of the CAA Review and must not be treated within the existing H7 (and future H8 and beyond) price controls.
- **History shows consumers lost out from prior failed projects:** HAL has **already recovered over £500 million in expenditure for a cancelled expansion** (2017–2020) by rolling those costs into the regulatory settlement^[2]. Consumers are literally paying for a runway they never got. We consider this outcome – **£500M added to Heathrow's RAB from the previous failed expansion attempt** to be fundamentally harmful and unfair^[2]. It must not be repeated. HAL chose to spend that money and “**must carry that cost, not consumers,**” in the words of our previous submission^[2]. For this reason specifically, we believe that the Early Proposal Costs and Pre-DCO Costs must only be reimbursed to the successful promoter once a Development Consent Order has been secured to ensure consumers do not have to fund another failed expansion attempt.
- **Granting recovery would create moral hazard and cause consumer harm:** Allowing guaranteed recovery of planning costs would sever the proper link between risk and reward. **If HAL (or any promoter) faces no risk of loss, it will have weak incentives to control costs** or make efficient decisions in developing its scheme^{[2][2]}. This creates a **moral hazard and significant risk of consumer harm**: a regulated monopoly insulated from risk may

overspend or undertake unnecessary work knowing it can pass the bill to consumers. Allowing such an approach would be inconsistent with the CAA's statutory duty to further the interest of consumers and promote the efficient provision of AOS. By contrast, when a company's own capital is on the line, it will discipline its spending – which ultimately benefits consumers through more efficient, cost-effective project development. In our experience, HAL's control of expansion costs has been poor when it expected recovery from customers – the CAA's own reviews found **“significant deficiencies in Heathrow's budgeting and control of programme costs”** in the last expansion attempt^[3]. The best way to incentivize responsible behavior is to **require HAL, Arora and others to fund their early-stage work themselves**, with no assurance of recouping it through higher charges. In addition, we urge CAA to implement a reasonable cap on Early Proposal Costs to ensure an incentive for such responsible behaviour. This argument is exemplified by the fact that HAL, who has a track record of spending inefficiently, is requesting compensation for “early costs” that are over twenty times greater than those of Arora Group, a company used to working in a competitive environment and having its initial investments at risk to win a programme. Indeed, HAL is requesting £71m for 2025 “early costs” vs. £3.5m for Arora.

- **The Arora Group's position aligns with our view:** The Arora Group (promoter of the “Heathrow West” proposal) is **not asking for a handout** – it has *only* requested equal regulatory treatment to HAL^[1]. Arora expects to invest significant time and money in its competing proposal (circa £3.5–4.0 million in 2025 alone) at its own risk^[1]. It simply seeks a **“level playing field”**: if HAL's costs were to be recoverable, then Arora's should be as well^[1]. Crucially, the flip side is also true: if HAL is **not** allowed to recover its Early Proposal Costs (our preferred outcome), Arora would likewise not receive reimbursement – which **Arora appears prepared to accept**. Indeed, Arora's expectations align with normal commercial practice: **businesses invest to secure future opportunities** and do not generally expect their bid or development costs to be reimbursed by the customer (or by a regulator) in the event they don't win. The fairest approach for all parties is to **treat these Early Proposal Costs as each promoter's own investment**. No one gets an unfair advantage, and each bears the same kinds of risks and incentives.
- **Consumers should not bear these Early Proposal Costs – not in the consumer interest (CAA12 duty):** Forcing consumers to pay for speculative expansion proposals is **squarely against the interests of consumers**. Under the Civil Aviation Act 2012, the CAA's primary duty is to **further the interests of users of air transport services (present and future)**^[4]. We fail to see how raising ticket prices or airline charges to cover HAL's or Arora's **private venture costs** – which may deliver **no benefit whatsoever** to those users – could be compatible with that duty, nor do we believe that consumers will bear such increased ticket prices or airline charges. Consumers should pay for outcomes that benefit them (such as actual infrastructure that improves capacity or service), not for speculative costs and **expenses** by airport developers. In the event no expansion occurs, consumers would have paid literally for nothing. The CAA's own guiding principles state that only costs **“required by airlines and consumers”** should be included in price controls^[3] and it has a duty to promote competition in addition to its primary duty to further the interests of consumers. Clearly, competition is already in place as multiple bidders see the opportunity for future earnings associated with expansion. Therefore, these early expansion planning activities are unilateral decisions by the promoters. Therefore, passing their cost to the public

violates the spirit of CAA12's consumer-first mandate to further the interests of consumers and does not impact the secondary duty to promote competition, nor would it result in the unintended consequences cautioned against in the Consultation (discussed below). CAA12 does **not** require the regulator to secure HAL's financing come what may – it explicitly does *not* guarantee a regulated company's shareholders against all risks^[2].

- **Precedents in other regulated sectors support no recovery:** It is instructive to look at other UK regulated industries and competitive tender processes. Generally, **companies bear the cost of business development, bids, and proposals – not customers**. For example, when multiple firms bid for a government-awarded contract (say a rail franchise or a power generation license), each bidder spends its own funds on preparatory studies, bid documents, designs, etc. If they lose, those costs are part of their normal business overhead – they are **not reimbursed by the government or consumers**. Even the winning bidder cannot typically pass its bid costs onto captive customers; it must recover them out of the profits it earns by delivering the project or service. This principle encourages bidders to be efficient and only pursue projects that are likely to succeed. The Heathrow expansion scenario is analogous. The Government has invited proposals in a competitive process; it has **not offered to cover proponents' expenses**. An assumption that Early Proposal Costs should be reimbursed simply because Government has invited proposals is founded on weak economic principles. HAL, Arora, and other promoters are essentially **competing to win the right to expand Heathrow**. It is expected in such situations that each competitor shoulders the costs of developing its proposal. We are not aware of any UK economic regulator that would allow a company to charge customers for the cost of merely *proposing* an investment. Indeed, we estimate that our parent company International Airlines Group ("IAG") (i) contracts with over 15,000 suppliers for products and services; and (ii) over 80,000 individual businesses compete for such contracts. We do not pay any costs equivalent to the Early Proposal Costs for any of these businesses. For instance, water companies must fund feasibility studies for new reservoirs or pipelines themselves unless and until those projects are approved and deliver value to customers. In short, there is ample precedent that **business development costs are a company cost, not a consumer cost**.
- **A premature decision on Early Proposal Costs recovery risks regulatory uncertainty and consumer harm:** Allowing Early Proposal Cost recovery at this stage would create material regulatory uncertainty for airlines and consumers regarding the level of charges applicable for the remainder of the H7 price control and into the upcoming H8 period. The H7 price control has been the subject of several delays and significant uncertainty, with ongoing reviews and licence modifications well after the CAA's Final Decision. Any further licence modifications for H7, including possible appeals, would perpetuate this uncertainty going into the final year of the regulatory period. Further, allowing Early Proposal Cost recovery would place additional financial pressure on users and consumers already facing the possibility of very significant price increases in H8, with potential consequences for Heathrow's connectivity, its role as a hub and economic growth. Despite HAL asserting a lesser increase, its H8 Business Plan published in July 2025 proposes an effective increase of at least 47% (2024 prices), with a pre-expansion capital expenditure plan already amounting to £10 billion. Additional increases are possible subject to the outcome of the upcoming business rates re-evaluation and HAL's proposals on inflation and single till regulation. In line with joint airline submissions, we urge the CAA to establish a suitable evaluation framework to

examine the effects of higher charges on consumers – both in H8 and beyond. This includes assessing the impact on connectivity out of Heathrow, including on the network of connections operated by airlines, Heathrow’s role as a hub, and the ensuing detriment from a loss in connectivity on economic growth, local employment, the UK’s competitiveness and the UK economy.

- Moreover, such assurances are premature given the regulator's ongoing review of the regulatory approach to capacity expansion, which includes consideration of alternative models which, if adopted, would significantly impact how expansion is planned and delivered. Decisions on these early costs (particularly where they include items such as land acquisition) should not pre-empt the outcome of that review.
- Only Option 4 is an acceptable outcome for consumers.

Our recommendations:

- **We urge the CAA to adopt Option 4: no cost recovery for early expansion costs.** This approach best protects consumers, maintains competitive fairness, and preserves proper incentives for efficient investment. HAL’s and Arora’s shareholders will have to regard these expenditures as at-risk capital – as they should in a well-functioning market.

Consumers should only begin to pay for expansion once a single promoter has been selected and there is a definite, approved plan that will proceed and provide benefits to those consumers. Early costs incurred from this point in respect of work directly related to the DCO application are recoverable provided they are efficient, transparent and subject to appropriate governance (including airline input). There should also be strong safeguards and limitations in place: for example, only allow recovery if the expansion actually goes ahead (no rewards for failure), apply a substantial risk-sharing haircut (as the CAA did for Category B costs in Q6, e.g. only 85% recoverable)^[2], and limit the allowed return on such expenditures (e.g. only cost of debt interest, not full WACC, to avoid rewarding HAL with profit on speculative outlays). These measures would mitigate (though not eliminate) the harm to consumers.

The **Executive Summary** above encapsulates our viewpoint that consumers and airlines should **not** foot the bill for expansion proposals and unnecessary early costs. Next, we provide further detail and reasoning on specific points:

Opposition to Compensating HAL, Arora, or Others for Expansion Proposal Costs

We fundamentally oppose any scheme that would compensate or reimburse HAL, Arora Group, or any other promoter for the costs of preparing Heathrow expansion proposals – the Early Proposal Costs *before* any development consent is secured. In CAP3149 the CAA floats the possibility of passing the Early Proposal Costs through to airport users (via Heathrow’s charges) if deemed “efficient” and related to expansion. We strongly disagree with this approach, for several reasons detailed below. In essence, these expenditures are **private venture costs** that should remain the responsibility of the venture proponents.

No regulatory entitlement to recover the Early Proposal Costs: HAL’s request for “assurance in principle” that it can recover ~£20 million of early expansion spending in 2025^[1], and potentially much more beyond, has no basis in regulatory contract or precedent (aside from the one highly

contentious precedent of the last failed runway attempt, which we consider a cautionary tale rather than a model to repeat). HAL's operating license and the H7 settlement were predicated on running a **two-runway airport**^[2]. The price control did not include funding for a new runway scheme (indeed, the CAA explicitly framed H7 as a two-runway scenario and stated any future expansion would be treated separately at HAL's risk^[2]). Therefore, any decision to allow recovery under the existing H7 framework (i.e. Option 1a) would be contrary to the principles of regulatory consistency and procedural fairness and potentially wrong in law and/or in the exercise of a discretion. Whilst the Government is encouraging Heathrow expansion, neither HAL nor any other promoter was obligated to submit an expansion proposal; they have chosen to do so because they believe they would benefit from being the winning promoter. It follows that these are voluntary expenditures, and there is **no obligation on the CAA to bail out HAL** or any promoter. In fact, as we noted in our response to CAP1940, the Civil Aviation Act "**does not require the CAA to ensure the financing of regulated airports in all circumstances**"^[2]. The regulator's job is *not* to guarantee HAL a return on every pound it spends, especially for discretionary investment in unapproved projects. HAL (like the other promoters) is a profit-driven company; it must shoulder the normal business risk of pursuing new ventures.

Established regulatory practice supports no recovery: The CAA itself has long held that **regulated charges should only fund investments that are efficient and needed to deliver outputs for consumers which is consistent with CAA's own view in CAP2139**^[3]. Until an expansion is approved and delivering additional capacity, these planning efforts are not delivering outputs to consumers. They are, effectively, R&D or bidding costs. In UK regulated industries, the norm is that shareholders fund such expenditures upfront. Only when a project is finalized do the incurred costs sometimes get added to the regulated asset base (after efficiency reviews). For instance, if Heathrow expansion does go ahead in the future and a specific plan is given a green light, the **winning promoter may apply to capitalise its preparatory costs into the project's regulated asset base** from that point onwards (subject to proving they were efficient). But at this juncture – prior to any decision on *whether* expansion will happen and *whose* plan might be chosen – it is premature and inappropriate to burden consumers with these costs. Simply put, **the Early Proposal Costs are part of the promoters' venture expenditures and should remain so** unless and until a project is approved that provides consumer benefits, at which point such costs could be considered for inclusion provided they are efficiently incurred. Any decision to grant recovery of Early Proposal Costs prior to project approval (i.e. any decision other than Option 4) would be a clear departure from established regulatory practice and both wrong in law and an error in the exercise of a discretion.

Previous failed expansions – lesson learned: The history of Heathrow's expansion efforts is instructive. HAL has attempted major expansion twice in recent memory (the early 2000s proposal for a third runway, and the 2016-2020 third runway programme). **Both times, the projects were halted after significant expenditures**, due to external factors (policy reversals, legal challenges, etc.). And yet, remarkably, **HAL's investors have largely been made whole for those aborted projects by way of the regulatory framework, leaving consumers to pay in higher charges**. As British Airways noted in 2020, **over £0.5B** had been accumulated on HAL's RAB from **previous "expansion projects to date, with no consumer benefit"**^[2]. Specifically, in the Q6 period and interim arrangements, HAL was allowed to capitalize **£500+ million of planning costs** (so-called Category B costs and early Category C costs) for the third runway scheme^[2]. Consumers and airlines are now paying off that sum (plus a return on it) through aeronautical charges – effectively **paying for a runway that was never built**. We cannot overstate our view that this outcome was wrong and

should not be repeated. When HAL decided to incur those costs, it did so “**entirely at [its] own risk**”, as we and other airlines made clear at the time^[2]. The fact that HAL later persuaded the CAA to grant cost recovery does not mean it was the right thing to do; in our view, it set a **poor example** that has emboldened HAL to attempt the same approach now. It is necessary and proportionate in such circumstances for the CAA to take steps to prevent any recurrence of this scenario where **consumers bear substantial costs for nothing**. We respectfully remind the CAA that, *to date, consumers have seen no benefit from HAL’s expansion spending, yet have been charged hundreds of millions of pounds* – a result squarely at odds with consumer interest. We urge the CAA to **learn from this history** and adopt a tougher stance going forward: HAL’s early expansion costs should be borne by HAL’s shareholders (and likewise for any other promoter’s costs by their investors). If this principle had been enforced previously, consumers would have been shielded from those losses; it should certainly be enforced now with the new expansion proposals just beginning.

Contrary to the principle of regulatory certainty and premature: Providing assurances on early expansion cost recovery at this juncture would be premature and risks creating significant regulatory uncertainty and consumer harm. Such assurance would grant certainty to HAL (i.e. if Option 1 is pursued) at the expense of exposing airlines and consumers to writing a blank cheque and material regulatory uncertainty regarding future charges for the remainder of H7 and into H8. If Option 3 were pursued (recovery for both HAL and alternative promoters), this uncertainty is compounded by the lack of clarity around whether other proposals will be deemed credible and sufficiently mature, and by the absence of any information on their early expansion costs. Moreover, making decisions on early cost recovery at this stage is premature as it pre-empts the outcome of the CAA’s ongoing review of the regulatory approach to capacity expansion at Heathrow. This review is currently considering various alternative regulatory models, including asset competition (where DCOs are granted to multiple promoters and an alternative promoter acquires land to build, own, and operate the new terminal). Clearly, if such a model were adopted, it would have significant impacts on how expansion is planned, financed, and delivered. It is essential that the regulator does not undermine the integrity of its review process or the stability of the regulatory framework by providing premature assurances on cost recovery before the regulatory model for capacity expansion has been properly considered and consulted upon, not least because a significant portion of HAL’s requested early costs (£84m) concerns land acquisition.

No double-dipping for HAL: It is particularly important not to give HAL a perpetual indemnity for expansion costs. Consider that HAL has **already been permitted to recover ~£500 million from the last attempt**^[2]; now HAL is proposing to spend another £320 million in H7 on fresh expansion activities^[1]. If the CAA were to allow full recovery of the new costs as well, HAL would effectively be betting on expansion with **consumer money** every time – if the project is cancelled, HAL doesn’t lose its stake (it passes the losses to the public), and if the project succeeds, HAL stands to profit immensely (as all those costs plus the new assets earning a return). This asymmetry is unacceptable. HAL, or the selected promoter if not HAL, should not be reimbursed until it has successfully secured a Development Consent Order. Businesses must face consequences for investments that don’t pan out; otherwise there is no discipline on their behaviour. HAL is a private company backed by global infrastructure investors; it is not a taxpayer-funded entity that automatically deserves to socialize its venture costs. **We emphatically oppose HAL “double-dipping” on expansion risk**, where they have little to lose and much to gain. It must be one or the other: either HAL takes the risk (with commensurate potential reward), or consumers do – and given that consumers reap no reward (they

will pay for the expansion through charges even if it succeeds), it is only fair that **HAL's shareholders take the investment risk prior to a Development Consent order being secured.**

Undermining competitive neutrality: Moreover, compensating HAL's costs while not doing the same for other promoters (i.e. Option 1a or 1b) would severely distort the competitive process the Government is trying to foster, and is inconsistent with the CAA's statutory duties. The **Arora Group has explicitly highlighted** this in its correspondence – Arora sought assurance it would be “**treated in the same manner as HAL, including how the costs it has incurred...are recovered**”, insisting on a level playing field^[1]. We wholeheartedly agree that equal treatment is essential. It would be patently unfair if the incumbent (HAL) could spend freely on its proposal knowing the regulator will let it recoup costs from customers, while a challenger like Arora must spend its own money with no safety net. Such disparity could discourage competition, which the CAA has a duty to promote, or skew the outcome in HAL's favour for reasons unrelated to whose plan is best – simply because HAL can outspend others with impunity. **Regulatory policy should not pick winners by subsidizing one party's costs.**

Therefore, **we oppose any cost recovery for any party** – HAL or Arora or others. This neutral approach (Option 4) ensures competition is driven by merits of the proposals, not by who gets financial help.

In summary of this section: We are firmly opposed to any arrangement where HAL, Arora, or others get their proposal costs reimbursed from airport charges. There is no principled justification for it under the regulatory framework or common practice, it runs contrary to the principle of regulatory certainty and is premature, and history shows consumers lose when such approach is taken. The only beneficiary of cost recovery would be the airport developers (who get risk-free spending); the losers would be the travelling public and airlines (who pay more, for no guaranteed improved infrastructures). Our stance is rooted in protecting those consumers from bearing costs that **rightly belong on the promoters' books.**

Early Proposal Costs as “Cost of Doing Business”

At its core, the question of who should bear these Early Proposal Costs comes down to the **allocation of risk**. We advocate that the **risk of project development should lie with those who decide to undertake the project, not with consumers who have no control over it**. This is grounded in basic economic and commercial principles:

- **Risk-Reward Alignment:** In a market economy, firms undertake investments at their own risk in expectation of future returns. If the venture succeeds, the firm (and its investors) profits; if it fails, the firm's investors absorb the loss. This fundamental principle drives efficient business decisions. HAL's proposed expansion of Heathrow, if ultimately successful, will yield substantial rewards for HAL: a larger airport with higher traffic and revenues, and an expanded regulated asset base on which HAL is allowed to earn a return. These rewards (additional profit and growth) would accrue to HAL's shareholders. Conversely, if the expansion effort fails (no new runway is built), HAL's shareholders would miss out on those future profits. **It is only logical, therefore, that HAL's shareholders finance the upfront costs associated with pursuing that expansion, as Arora Group's shareholders have done.** They are the ones who will gain from success, so they should carry the risk of failure. Shifting that risk onto consumers (who do not gain anything beyond what they already pay for, since even if expansion happens consumers will be paying for it through

charges anyway) breaks the natural risk-reward linkage. It effectively privatizes the gains but socializes the losses – an outcome contrary to both fairness and incentive efficiency.

- **“Skin in the game” ensures prudent spending:** When a company has its own money at stake, it will manage those funds diligently. If HAL (and other promoters) knows that every pound it spends on planning is a pound that *it* may not get back if wasted, HAL’s management will be motivated to scrutinize budgets, avoid unnecessary work, negotiate competitive rates with contractors, and generally keep costs down. On the other hand, if HAL is assured that it can pass “efficient” costs to airlines and consumers regardless of outcome, its motivation to economize is much weaker. In practice, distinguishing “efficient” vs “inefficient” planning costs ex post is extremely challenging (as even the CAA found when reviewing HAL’s Q6 capital efficiency)[3]. The better approach is to let the threat of non-recovery enforce discipline from the start. Indeed, during the previous expansion attempt, airlines warned that HAL was spending too fast and gold-plating designs without sufficient oversight[2]. HAL proceeded anyway, presumably confident it could persuade the regulator to let it recover those expenses – which largely came to pass. This is a **textbook case of moral hazard, resulting in consumer harm**. We must remove that hazard going forward by making it clear that HAL (and others) will only get to recover what is spent *if and when the project proceeds*. Otherwise, they must absorb the loss. This “tough love” approach is healthy: it forces companies to behave as they would in a truly competitive environment, balancing the probability of project success against the scale of investment they are willing to risk. This argument is exemplified by the fact that HAL, who has a track record of spending inefficiently, is requesting compensation for “early costs” that are over twenty times greater than those of Arora Group, a company used to working in a competitive environment and have its initial investments at risk to win a programme. Indeed, HAL is requesting £71m for 2025 “early costs” vs. £3.5m for Arora.
- **Costs of sales, bids, and R&D:** Early expansion costs are akin to **sales and bidding costs or R&D costs** for a company – they are an upfront expense incurred to hopefully secure a future revenue-generating opportunity. In normal commercial accounting, such expenses are not capitalized or guaranteed recovery; they are operating expenses that affect the company’s profit if the effort yields nothing. For example, if a construction firm spends £1m bidding on a project and loses, that £1m hits its bottom line. It doesn’t get to invoice the client for that failed bid. Here, HAL spending tens or hundreds of millions on lobbying, planning, and applying for consent for a new runway is a speculative business development expense. HAL should treat it as such, not assume it can bill airlines and consumers for it. From HAL’s perspective, these upfront costs are an investment worth making because if they are the winning promoter, they will recoup them in future earnings once the runway is built and in use. For the regulator to step in and guarantee recovery undermines this basic investment calculus. It lets HAL roll the dice without betting its own chips – a luxury no ordinary business has.
- **The “fair bet” principle:** We note that, in its Consultation document, the CAA cited the notion of a **“fair bet” incentive regime**[1]. Under a fair bet, a company undertaking an uncertain investment should have an expectation of neither excessive gain nor loss – i.e. the potential upside and downside are balanced. We agree with this concept. However, allowing HAL recovery of costs with a normal return even if the project fails would not be a fair bet; it

would be a **sure bet in HAL's favour** (no real downside, normal upside). A fair bet is very much aligned with Option 4 (no guaranteed recovery). HAL and other promoters all have a chance to win and the promoter with the best proposal will be rewarded by delivering expansion and earning a return on its infrastructure. It appears the CAA is contemplating more lenient structures, but we urge the CAA to consider that **the fair bet for a competitive proposal process inherently involves risk of loss**. The CAA's initial view in CAP3149 suggests some belief that reimbursing costs *could* benefit consumers by encouraging proposals[5]. Our counter is that a fair competitive process can still occur with each bidder bearing its own costs – indeed that is how most competitive tenders work. Reimbursing everyone's costs is not necessary for competition (see further detail in the next section, *Arora Group's Position*) and is not in the consumer interest.

- **No regulatory guarantee for entrepreneurial ventures:** Heathrow expansion at this stage is essentially an entrepreneurial venture – uncertain, high stakes, and potentially high reward. Regulatory economics generally hold that **core regulated activities** (like maintaining existing infrastructure) have cost recovery guarantees (subject to efficiency) because they are required to serve consumers. But **non-core, discretionary investments** are typically not guaranteed. Expanding Heathrow is not mandated; it is optional and subject to government approval. Therefore, HAL's spending on it should be considered entrepreneurial. If regulators start guaranteeing entrepreneurial costs, we enter the realm of **perverse incentives and socialized risk** that regulators in other sectors studiously avoid (see further detail at *Examples from Other UK Regulated Industries*). The CAA should likewise refrain from de-risking HAL's expansion ventures at the expense of consumers.

In conclusion, from a first-principles economics standpoint, **early expansion expenditures are part of HAL's (and other promoters') business risk and should remain so**. Treating them as a “cost of sales” makes HAL behave prudently and aligns with how competitive markets function. We believe it falls within the CAAs duties under CAA12 to ensure the regulatory framework mimics the healthy discipline of a market and protects consumers from being used as insurance.

To put it succinctly: **If HAL and other promoters believe in the viability of their expansion proposals, let them invest in it—if they succeed, they'll earn the rewards, if not, they should bear the loss**. This is fair, and it motivates HAL and other promoters to only spend what is truly necessary and efficient on planning.

Arora Group's "Level Playing Field" Position: Reinforces our Argument for No Recovery

The **Arora Group**, through its Heathrow West initiative, is a key stakeholder in this discussion as a potential alternative developer of Heathrow's expansion. We have carefully considered Arora's submissions to the CAA on early costs (as referenced in CAP3149) and find that their position actually **reinforces our argument for no reimbursement**.

Arora's primary request to the CAA was for a **“level playing field” in regulatory policy**[1]. In practical terms, Arora asked that its early development costs be treated **equivalently** to HAL's costs. Arora did **not** demand an upfront guarantee of reimbursement; rather, it expressed that if HAL is allowed to recover planning costs from users, then fairness dictates Arora's costs should be recoverable on the same basis[1]. Conversely, if HAL's costs are disallowed, Arora presumably expects the same disallowance for itself.

We interpret Arora's stance as indicating that **Arora accepts the need to invest its own money at risk**, so long as HAL must do the same. Indeed, Arora has already been spending on its proposal: about **£2.5 million up to July 2025, with total ~£3.5–4.0 million expected by end of 2025**^[1]. This is a significant sum for a private developer to expend without any certainty of payback. Arora appears willing to do so because, like any commercial business, it knows it must incur costs now for the chance to win a valuable opportunity later (the opportunity to build and operate new Heathrow capacity). In Arora's own words, it is "committing significant resource and time to develop its proposals"^[1]. This is exactly the normal commercial mindset we have described: **invest now, hopefully reap rewards later, but accept the risk**. Arora's only concern is that it not be placed at a disadvantage if HAL is given a cushy deal by the regulator.

We fully agree with Arora that the **same rules must apply to all**. It would be **unthinkable** for the CAA to green-light HAL recovering, say, £300m of planning costs, while telling Arora "you get nothing" (or vice versa). Any such one-sided policy would likely skew the competition or even invite legal challenge on discrimination grounds. **Equal treatment is a prerequisite for a fair contest**.

From that principle, there are two paths: reimburse both HAL and Arora (Option 3), or reimburse neither (Option 4). Arora's letter essentially says: whichever path, make it equal. Now, which path is better for consumers and the public interest? Clearly, **reimbursing neither** is far superior, for all the reasons we have outlined (efficiency, incentives, avoiding cost burden on consumers). Reimbursing both might satisfy fairness between companies, but it would saddle consumers with potentially **two sets of costs** (or more, if other proposals are deemed credible). If HAL and Arora each spend tens of millions on designs and only one can ultimately build the runway, consumers could end up paying for **two proposals but only getting one outcome**. That is the very definition of duplicate, wasteful spending – the opposite of what anyone should want. The CAA's initial rationale for considering reimbursement was to promote competition and avoid "duplicate or wasteful spending" by having multiple proposals^[5]. However, charging consumers for both HAL's and Arora's costs would actually **lock in** duplicate spending being paid for by the public. In contrast, if neither is reimbursed, each firm will be motivated to economize and perhaps focus on what matters most to win approval, reducing waste. Furthermore, **competition will still occur** – Arora and others have already submitted proposals without any guaranteed reimbursement, and HAL certainly will pursue expansion given the prize at stake. Their willingness to participate, and to do so within the Government's mandated timeframe, does not hinge on guaranteed cost recovery; it hinges on the potential to win the expansion and the future returns from it.

It's worth noting that during the **previous expansion round (pre-2020)**, Arora's plans became quite serious by 2019–2020, enough that the CAA recognized them as "credible" (termed Heathrow West)^[1]. At that time, the CAA decided it was not appropriate to make consumers pay for Arora's costs either, which we agree with. That set no precedent that Arora would never be reimbursed, but it underscored that **an upstart competitor's costs are no more entitled to recovery than HAL's**. Arora understood that going into this expansion round.

Fast-forward to now: Arora's expectations seem aligned with an environment where **everyone finances their own bid and only the winner's costs might eventually be recoverable** (similar to how, in a competitive tender, the winning bid's costs become part of the project cost, but losers absorb their bid costs). Arora only seeks parity if that baseline is altered in HAL's favour^[1]. In our view, the simplest way to ensure regulatory parity is to **not grant HAL an exception in the first**

place. If HAL has to carry its costs, Arora will carry theirs; neither can complain about unfairness because the terms are equal.

We would add that Arora's interests and airlines'/passengers' interests are somewhat aligned here: Arora as a challenger wants a shot to compete without the incumbent having a built-in advantage. That competition, if truly fair, could yield a better outcome (perhaps a cheaper or more innovative expansion plan) which **benefits consumers in the long run**. To preserve that alignment, the CAA should avoid policies that cushion HAL (the incumbent) at consumer expense, because that inherently tilts the field against challengers like Arora who are not regulated incumbents with a captive revenue base. Furthermore, authorising HAL spending multiples more than Arora or other promoters is not fair either. HAL should not be allowed to spend more than its competitors if they are all to be compensated. If it is at HAL's risk, it is fair because it is its own choice. An approach where every promoter is compensated for its costs and entitled to spend as much as its peer would see costs for consumers spiral with no benefit that normal competition would not drive.

In summary, **the Arora Group's position of "level playing field" supports our call for Option 4**. Equal treatment of HAL and Arora is essential – and the equitable treatment that best serves consumers is **to require both to fund their own early expansion activities**. Arora is already doing so and presumably can continue to do so as long as it knows HAL must play by the same rules. This yields real competition on the merits. Conversely, any scheme to reimburse both would shield HAL and Arora from consequences of overspending and simply transfer costs to users. We prefer to see HAL and Arora compete by putting their **own capital at risk, demonstrating confidence in their proposals**. That is the competition dynamic that will lead to the best proposal at the lowest practicable cost.

To put it plainly: **Arora has shown it's ready to spend its own money to compete – we should let that dynamic play out, not short-circuit it by socializing costs**. And if Arora *weren't* willing to invest without a guarantee, that would call into question the credibility of its proposal. Given that they (and likely others) are investing, there's no need for a regulatory sweetener.

Why Consumers Should Not Bear These Costs

The CAA's **primary duty under CAA12** is "to carry out its functions in a manner which it considers will **further the interests of users of air transport services**" (present and future)^[4]. In the context of airport regulation, "users" essentially means passengers (and airlines as their proxies to some extent), and furthering their interests typically means securing affordable charges, adequate service quality, and sufficient infrastructure to meet demand. The CAA itself has made it clear that delivering efficient and effective capacity expansion at Heathrow means ensuring that airport charges do not increase unnecessarily, as this would reduce the benefits to consumers ([CAP 3144](#) para 10). The consumer duty is paramount, although in discharging that duty the CAA must also have regard to factors including financeability, proportionality and consistency. We believe that **making consumers pay for early expansion costs would run counter to the CAA's primary duty**, for the following reasons:

- **Absent tangible benefit, today's consumers should not pay:** From the passenger's perspective (which the regulator is statutorily required to prioritise), the value of expansion only materialises when the new capacity becomes available. At present, no such capacity exists, and the Government has not yet approved any promoter's plans. In this context, it is difficult to justify asking today's passenger to pay higher charges when they receive no

benefit, and the future benefit is not yet settled. This concern is compounded if multiple promoters are entitled to recover their early costs, even though only one is likely to proceed. Requiring consumers to underwrite the costs of competing proposals would risk inefficient duplication and could result in passengers effectively paying multiple times for a single outcome. This would distort the balance of interests the regulator is required to maintain, between enabling investment and protecting consumers from unnecessary or premature cost burdens. Moreover, asking today's passengers to absorb these costs, when they will not receive any benefit, raises serious questions about fairness and proportionality. Until expansion is approved and the delivery model is settled, any question of cost recovery should be approached with caution and a clear focus on the consumer interest.

- **Consumers' interest = efficient charges and outcomes:** The CAA's role is often a balancing act between encouraging investment and protecting consumers from excessive costs. In this case, there are no issues with encouraging investment as exemplified by multiple bids being submitted. However, there is a concern about excessive costs if each promoter is given a blank cheque to maximise its chances for future profits. The CAA's own summary of its duties (as noted by the CMA) is to ensure charges are "no higher than necessary" while allowing HAL to finance its activities^[4]. The key phrase is "**no higher than necessary.**" Early expansion costs are **not a necessary expenditure for the provision of current airport operations** — they are optional costs aimed at a potential future capacity. Therefore, including them in the charges now or in the RAB violates the principle of necessity. It would make charges higher than they otherwise would be, which is only justified if necessary to benefit consumers (e.g. to fund required improvements or to keep the airport running safely). Funding HAL's or Arora's bid preparations does not meet that bar.
- **No duty to ensure HAL's profitability on speculative ventures:** We acknowledge the CAA must consider HAL's ability to finance its activities. But "activities" in a regulatory sense usually means the efficient operation and maintenance of Heathrow as it stands, plus efficiently incurred costs on capital projects that have been assessed and approved by the CAA and the airlines. HAL is financially capable of pursuing expansion – indeed, it has chosen to spend this money from its own budget initially. HAL's request for assurance is essentially a request to offload some of that financing risk onto users. CAA12 does not compel the CAA to accept that. In fact, as referenced earlier, legislative history and CAA decisions have clarified that the CAA need not adjust regulation to guarantee HAL's financing in every scenario^[2]. HAL's expansion project is a voluntary entrepreneurial activity; failing to guarantee recovery of these costs does not mean HAL can't finance its regulated **existing** business. HAL has access to capital markets and has chosen to invest in expansion—presumably because it expects a positive return if successful. The CAA's financing duty doesn't stretch to insuring HAL's speculative investments. In short, **there is no consumer interest argument to bail out HAL or any promoter**. HAL is not a fragile entity that will collapse if we don't socialise these costs; it's simply asking to improve its risk profile at others' expense.
- **Consumers bear ultimate costs of expansion anyway:** Consumers will eventually pay for the new infrastructure through higher aeronautical charges. This is accepted as how regulated utilities recoup capital investment – once the asset is built and serving customers, its cost (if efficient) is recovered from those customers over time. That is normal and expected. But what

is not normal is to make consumers also pay for **all the false starts, failed attempts, or competing plans** along the way. It also raises significant concerns about spend efficiency that one promoter is incurring costs more than twenty times higher than its competitors at this early stage of the process. Only one expansion plan will come to fruition; it is not in consumers' interest to pay for the **planning costs of the discarded plans** in addition to the final one.

- **Short-term consumer impact - affordability:** Heathrow's charges are passed to airlines and ultimately reflected in ticket prices or airline finances. Allowing an extra £200m–£500m of costs into the pot (for planning) could add a pound or two (or more) per passenger over the H7/H8 period. At a time when affordability is key, it is not trivial to add avoidable costs. The CAA should be mindful that consumers today have already faced very high Heathrow charges in H7 (indeed, airlines appealed that charges were too high)[4], and HAL's proposals for H8 would entail further significant real-time increases. Including expansion planning costs would only exacerbate that, placing additional financial pressure on consumers and further eroding Heathrow's charge competitiveness, with absolutely no near-term benefit to those paying. Keeping such costs out is in consumers' immediate financial interest.
- **"Consumers benefit from competition between proposals" – a flawed argument:** The CAA's initial view suggests that allowing cost recovery for credible promoters could *benefit* consumers via enhanced competition and thorough evaluation of options[5]. We appreciate the CAA's intent to consider indirect benefits (like better expansion outcomes) for consumers. However, we believe this argument is *flawed*. Competition between expansion proposals is indeed beneficial – we agree that having multiple ideas on the table (e.g. HAL's vs Arora's) can drive innovation and potentially lower eventual construction costs. But that competition **is already happening** without promises of reimbursement. Both HAL and Arora have submitted comprehensive proposals. They are incentivised by the prospect of securing project approval and the business that comes with it – that is sufficient incentive. If anything, knowing that they cannot pass costs on might encourage them to collaborate or share data in areas of common interest (to save money) or at least not to duplicate efforts unnecessarily. Conversely, if the CAA signals that "Don't worry, you'll get your money back," each promoter might be less inclined to economize or avoid duplicative studies. They could even engage in a spending race to bolster their proposal, comforted that consumers will pay as long as it's deemed 'efficient'. That scenario hardly benefits consumers; it simply underwrites potential waste. Therefore, while we agree consumers benefit from a competitive expansion selection, we disagree that consumers need to **fund** that competition. The **cost of competition should be borne by the competitors**, not by the referee or the spectators, to use an analogy.

In conclusion, making consumers pay these early costs is antithetical to the consumer interest. It primarily serves the interests of the airport promoters. From a regulatory standpoint, the CAA's **first priority must be to protect consumers**, especially when there is no clear, immediate upside to them. We are confident that Option 4 (no recovery of early costs) is a consumer-centric stance, and one that still allows expansion to progress (since HAL and others are capable of funding these activities on their own account, as they have done so far in 2025).

The bottom line for this section is: **If consumers won't tangibly benefit, don't charge them.** Early expansion costs fall squarely in that category.

Examples from Other UK Regulated Industries – Business Development Costs Are Company Responsibilities

It is instructive to consider how analogous situations are handled in other regulated sectors in the UK. While no situation is exactly identical, there are parallels in which companies may incur costs in developing proposals or expanding service capacity without certainty of recovery. The consistent theme across sectors is that **companies are expected to bear such costs unless and until a project is approved to be in consumers' interest**. We provide a few examples:

- **Electricity and Gas Networks (Ofgem):** Energy network companies sometimes identify potential major reinforcements or new network routes (for example, a new transmission line to meet future demand or connect generation). These proposals undergo scrutiny and need regulatory approval to be added to the regulated asset base. If a network company spends money on early development (engineering designs, permit applications) for a project that is not ultimately approved or needed, generally those costs are not passed on to consumers. Ofgem operates under a “**recover only if beneficial**” principle. Companies have allowances for *efficient* capital projects that get approved, but if they unilaterally spend on something speculative, they risk disallowance. This is analogous to Heathrow: expansion is not yet an approved capital project delivering consumer benefit, so any money spent now is at HAL's risk. Additionally, in competitive processes such as the Offshore Transmission Owner (OFTO) tenders, bidders incur bid costs that are not reimbursed by the regulator; only the winning bidder gets to run the asset and recover costs through the regulated regime. The losers' bid costs are their own. This example closely mirrors the Heathrow expansion competition in that multiple entities are vying to build an asset under a regulatory framework.
- **Water Industry (Ofwat):** Water companies in England and Wales may propose large enhancements (new reservoirs, desalination plants, etc.) during price control reviews. Ofwat requires robust evidence of need and efficiency before allowing such projects into customer bills. If a water company were to spend millions investigating a new reservoir that ultimately doesn't go ahead (perhaps due to planning rejection or finding it's not needed), the company cannot typically just add those sunk investigatory costs onto customer bills. Shareholders would absorb it, unless Ofwat had explicitly set up an uncertainty mechanism. Ofwat has also introduced competition for large water infrastructure (the DPC – Direct Procurement for Customers – model), where external companies bid to deliver projects. The bidding costs in those competitions are usually borne by the bidders. Some projects might offer an honorarium for unsuccessful bidders, but that is explicitly built into a competitive procurement by the company and, if so, is tightly capped. In Heathrow's case, there is no such government-provided honorarium for losing proposals; nor should there be one drawn from users' pockets by the regulator.
- **Rail Franchising / Contracts:** When the government franchises a rail service or lets a contract (e.g., a private company to build HS2 or manage a station), bidders spend significant sums on proposals. None of the unsuccessful bidders get their costs paid by the government or customers. The successful bidder may have priced their bid to recoup their bid costs over the life of the contract, but that is a commercial risk they take. Likewise, HAL and Arora know that if they “win” (i.e., get approval to expand), they will likely be able to recoup their development costs as part of the project's finances; if they lose, that's a loss. This is standard

competitive procurement practice meant to drive bidders to put forward their best, most efficient offers.

- **Telecommunications (Ofcom):** In telecoms, regulated firms (like Openreach) sometimes invest in innovations or pilots that are not mandated. If they are successful (like a new technology that becomes widely used), the costs eventually feed into regulated cost recovery if efficient. If they are unsuccessful, the company absorbs the cost. Spectrum auctions require bidders (mobile companies) to pay for licenses with no guarantee of winning or refund – they spend resources preparing bids, and only winners may make use of spectrum. Non-winners don't get compensated for having tried.

All these examples share a principle: **Regulation does not remove normal business risk for ventures initiated by the company.** Heathrow's expansion at this stage is being pursued by HAL (and competitors) because they see an opportunity, not because the regulator ordered it. Thus, HAL and others should remain subject to normal business risk on these expenses.

In conclusion, **our position aligns with wider regulatory practice:** companies can and should invest in prospective projects at their own risk. It is only once a project is concretely justified and authorized in the consumer interest that consumers start funding it (gradually, as it is delivered). By keeping early expansion costs off of consumers, the CAA would be following the prudent approach seen in other sectors – protect consumers from speculative costs, and let competition and market forces work. This also mirrors the “user pays” principle: until there is a user who benefits (which requires an actual expanded airport), there is nothing for users to pay for. Any departure from this approach, particularly if justified by reference to regulatory precedent, risks misapplying that precedent and could amount to an error in law or in the exercise of discretion.

[insert section on other proposals – could be simple para referencing more detailed points in an appendix – eg. notwithstanding our support for Option 4 and firm opposition to Options 1 to 3, we have included our assessment of Options 1 to 3 as an appendix to this Response. This sets out why each option is inappropriate, while also identifying the minimum safeguards that should be applied if, contrary to our position, the regulator were minded to pursue any of those options. **see draft appendix**]

Conclusion and Recommendation

Having considered CAP3149 and the CAA's options, we strongly advocate for **Option 4: do not allow recovery of early expansion costs.** In practical terms, this means that **HAL, the Arora Group, or any other potential expansion promoter will bear their own costs of developing Heathrow expansion proposals**, at least until such time as a specific expansion project is DCO approved and under construction. This approach best meets the CAA's duties by **protecting consumers from unwarranted charges**, preserving the integrity of competitive proposals, and maintaining proper investment incentives for efficiency.

We reiterate the key justifications for this recommendation:

- **Protecting Consumers:** Consumers have already unwittingly paid for past failed expansion efforts; they should not be asked to do so again. Option 4 safeguards consumers from paying for plans that may never materialize. It keeps Heathrow's charges tied to the cost of running the airport we have today, not the one we might have tomorrow. This aligns with the CAA's primary duty to further consumers' interests[\[4\]](#).

- **Regulatory Consistency and Fairness:** All developers are treated equally – none receive special treatment. Each company must convince investors and lenders of the merit of its proposal, rather than relying on captive customers to bankroll it. This fosters a fair contest and mirrors standard regulatory expectations in other sectors (no guaranteed recovery for unproven projects).
- **Accountability and Efficiency:** HAL and others will only spend what is truly needed to make a compelling case for expansion, and will innovate to keep costs reasonable, if they know they are accountable for those costs. This will likely lead to more thoughtful, efficient use of resources in the expansion planning phase than if a cost pass-through were assured.
- **Precedent for Future Infrastructure Competitions:** The CAA’s decision here could set an important precedent as the UK embarks on more infrastructure improvements via private investment. A stance that companies must carry development risk will encourage robust vetting of projects internally and avoid socializing risks. A lax stance would invite every incumbent to ask for consumer-funded “innovation” budgets for projects that might not happen – a slippery slope.

We fully acknowledge that Heathrow expansion is a significant national infrastructure project and that moving it forward expeditiously is a Government objective. Our position is not to hinder progress – rather, we believe progress can and will continue **without** this consumer underwriting. HAL has already ramped up spending (seeking to spend £71m in 2025 and £249m in 2026 per its submission^[1]), and Arora is likewise moving ahead, even though no decision on cost recovery has been made. This demonstrates that the work will continue at risk, as it should. The CAA can facilitate the process in many constructive ways (streamlined guidance, ensuring necessary information sharing, etc.) that do not involve shifting costs to the public.

Finally, we emphasize that **our opposition to reimbursing early costs does not equate to opposition to Heathrow expansion**. We remain fully supportive of airport expansion where it is in consumers’ and the UK’s interests. Our stance is that expansion should be at a fair and efficient cost for users. By requiring promoters to put their money where their mouth is, the CAA will ensure that only worthwhile and well-thought-out expansion proposals come to the table. That ultimately benefits everyone – consumers, airlines, and even the promoters (who will avoid spending on weak ideas).

In summary, we recommend that the CAA select Option 4 (no cost recovery of early expansion costs) in its policy decision, and make clear that any costs incurred by HAL, Arora, or others prior to a Development Consent Order are incurred at their own risk. This principle should be enshrined now. When an expansion scheme is DCO approved, the CAA can then consider what portion of those incurred costs (if any) should be added to the regulated asset base as part of the overall capital costs of the project – based on evidence of efficiency and value to consumers at that future time. Until then, consumers must be held harmless.

We appreciate the CAA’s consideration of our views on this important matter. We trust that the CAA will give paramount weight to the interests of consumers and the integrity of the regulatory framework as it finalizes its policy. We would be happy to discuss any aspect of our response or provide further data and analysis if helpful.

Thank you for your attention to our submission.

Yours sincerely,



Gavin Molloy
Director of Aviation Infrastructure
British Airways

References

- [1] [Heathrow Capacity Expansion – consultation on regulatory policy on ...](#)
- [2] [Civil Aviation Authority Westferry Circus Canary Wharf British Airways ...](#)
- [3] [Civil Aviation Authority's \("C](#)
- [4] [Summary of provisional determinations - GOV.UK](#)
- [5] [Consultation launched on early cost recovery for Heathrow expansion](#)

Appendix: Consideration of Alternative Options

Introduction

We set out below our assessment of Options 1a, 1b, 2, and 3 as presented in CAP3149. While our firm position is that only Option 4 (no recovery of early expansion costs) is consistent with the CAA's duties, established regulatory practice, fairness and efficiency, it is important to highlight the substantive concerns associated with each of the other options.

Alternative Options

Option 1a: Allow HAL to recover early expansion costs under the existing H7 framework

- a) **Contrary to the principle of regulatory certainty:** the CAA explicitly framed H7 as a two-runway scenario and stated any future expansion would be treated separately at HAL's risk.
- b) **Consumer Harm:** Permitting HAL to recover early costs through the current price control would expose consumers to higher costs for no benefit and erode affordability and charge competitiveness.
- c) **Moral Hazard:** Guaranteed recovery severs the link between risk and reward, weakening incentives for HAL to control costs and spend efficiently.
- d) **Lessons learned from previous failed expansion attempts:** Consumers have paid for failed expansion attempts with no tangible benefit. Repeating this approach would be fundamentally unfair.
- e) **Competitive Distortion:** Providing cost recovery to HAL alone would give it an unjustified advantage over its competitors, undermining the Government's competitive process.
- f) **Contrary to established regulatory practice:** Recovery of costs before project approval is inconsistent with established regulatory practice.
- g) **Premature:** Any assurance on recovery of early costs would undermine the ongoing review of regulatory models for capacity expansion.

Option 1b: Allow HAL to recover early expansion costs under a new, bespoke framework

- a) Issues (b) to (g) of Option 1a also apply.
- b) **Regulatory Uncertainty:** Introducing a bespoke mechanism would create additional complexity and uncertainty in the regulatory regime.
- c) **Risk of Precedent:** A new framework for cost recovery could set a problematic precedent, encouraging future claims for speculative costs and undermining regulatory discipline.
- d) **Lack of Justification:** There is no clear regulatory or legal basis for creating a special mechanism for HAL's early costs, especially prior to project approval.

Option 2: Allow only alternative promoters to recover early costs

- a) Issues (b) to (g) of Option 1a also apply, save that references to HAL should be read as references to alternative promoters.
- b) **No Precedent:** There is no regulatory precedent for allowing only alternative promoters to recover speculative costs.

Option 3: Allow both HAL and alternative promoters to recover early costs

- Issues (b), (c), (d), (f) and (g) of Option 1a also apply, save that references to HAL alone should be read as HAL and alternative promoters.
- **Double Cost Burden:** Consumers could be required to pay for multiple sets of proposal costs, even though only one expansion proposal will ultimately proceed.
- **Risk of Wasteful Spending:** This approach incentivises overspending and duplication, as promoters have little incentive to economise if costs are guaranteed to be recovered.