

Economic Regulation of Heathrow Airport Limited
Heathrow capacity expansion – consultation on a shortlist of regulatory models
CAP 3251
Response from Richmond Heathrow Campaign
15 June 2026

INTRODUCTION

1. This is a written response of the Richmond Heathrow Campaign (RHC) to the CAA's consultation titled, *'Heathrow capacity expansion – consultation on a shortlist of regulatory models CAP 3251'*.
2. RHC represents three amenity groups in the London Borough of Richmond upon Thames: The Richmond Society, The Friends of Richmond Green, and the Kew Society, which together have over 2000 members. The members of our amenity groups are adversely affected by noise from Heathrow Airport's flight paths, poor air quality and road and rail congestion in west London. We acknowledge Heathrow's contribution to the UK economy and seek constructive engagement in pursuit of a better Heathrow. We are an active participant in the Heathrow Community Noise Forum.
3. Our premise is that it would be preferable to aim for a better Heathrow rather than bigger Heathrow and to capitalise on the world beating advantage of London's five airports, in particular by improving surface accessibility to all five airports, which would be a major benefit to users. Our approach is to continue supporting the case for no new runways in the UK and we believe this is well supported by the evidence produced by the Airports Commission and the DfT in relation to the Airports National Policy Statement and the UK's Carbon Budgets.
4. RHC has responded to thirteen CAA consultations on economic regulation - CAPs 1510, 1541 in 2017, CAPs 1610 and 1658 in 2018 and CAPs 1722, 1769, 1782, 1812 and 1832, in 2019 and CAPs 1871, 1876 and 1940 in 2020 CAP 2265A in 2021. The responses and other material are on RHC's website www.richmondheathrowcampaign.org.
5. These are critical times for Heathrow's future with the imminent publication and public consultation of an updated 2018 Airports National Policy Statement (ANPS) in support of the government's preferred option, which is expansion with a Northwest Runway.
 - a. **The 3R Scheme** proposed by HAL *'Proposal for Expanding Heathrow, summer 2025'*, adds a 3,5000m runway and terminal capacity to start serving additionally 276k ATMs and 20 mppa from a new northwest terminal (T5XW) in 2035 and 20 mppa from a new northwest satellite (T5XN) nearly 20 years later in 2054. The capital cost is estimated to be £21bn (2024 prices) for land acquisition, runway, M25 and local road re-configuration and related air-side facilities and £12bn (2024 prices) for terminal and satellite - £33bn in total. Sixty year estimates result in Heathrow totals of 756,000 ATMs and 150 mppa or 198 passengers per ATM in 2083. Without explanation, the increase in passengers per ATM falls substantially short of 30 year historic trends at Heathrow and other airports and ignores the related capital spend by the airlines on Heathrow's aircraft fleet.
 - b. **2R+ Scheme.** HAL's *'H8 Business Plan for 2027-2031 July 2025'* forecasts £15bn (2024 prices) of capital spend for enhancing the quality of service (efficiency and occupancy) at Heathrow's ageing terminal assets, which RHC understands is needed in

order to compete successfully with a premium service and retain Heathrow's dominance in the UK's growing long haul market. The £15bn also adds 14 mppa of capacity to terminals T2, T3, T4, T5 and related satellites in H8/H9 regulatory periods by say 2033 and adds a net increase of 14 mppa by replacing T3 with an expanded T2 and satellites by 2049. Cumulatively, terminal declared capacity rises from 82mppa in 2024 to 110mppa by 2050. On this basis the Frontier Economics Report '*Heathrow Expansion CBA August 2025*' on behalf of HAL, outlined the 2R+ Scheme for expanding Heathrow without a 3rd runway and continuing at or near the planning limit of 480,000ATMs per year in segregated mode. Sixty year estimates result in capacity of 480,000 ATMs and 112 mppa or 234 passengers per ATM in 2083. The growth in passengers per ATM assumes aircraft in Heathrow's fleet grow in size and achieve higher load factors on account of an increasing proportion of long-haul destinations and replacement of existing aircraft with larger versions. The trend is well within 30 year historic trends at Heathrow and other airports. The 2R+ Scheme terminal enhancement components are included and mixed in with the 3R Scheme schedule for a NWR and a new terminal and satellite.

- c. **Heathrow West Ltd (HWL)** has proposed a 2800m 3rd runway that does not need to cross over the M25 and compares to HAL's 3500m NWR, which requires the M25 to be tunnelled underneath. HWL's proposal includes two new terminals and in this regard is similar to HAL's 3R Scheme but claims to be at lower cost of £30bn compared to HAL's £33bn cost (2024 prices). The HWL proposal does not include the 2R+ components costing £15bn but presumably these would still be implemented by HAL. The Steer Report for the CAA '*Initial technical and cost efficiency of capex expansion plans for Heathrow Airport, April 2026*' prepares benchmark costs for the HAL and HWL proposals that suggest a wider margin of error for the HAL proposals.
- d. **Surface Access.** The Regulation proposals fail on surface access service and costs needed for Heathrow expansion and shift of mode share to public transport. TfL has estimated surface access costs could be in excess of £30bn (2024 prices) or failing which a loss of user access service. It is unknown in the absence of a viable Surface Access Strategy who would undertake the surface access development (government, Heathrow or private entity) and who would pay (Heathrow passengers, other users or government). If Heathrow's passengers were to pay, it is not clear whether this would be within the regulatory framework and whether or not the single till approach would be used.
- e. **Comparison of the Expansion Schemes.** An enhanced two-runway Heathrow would deliver significant benefits substantially earlier than a third runway, at far lower cost and risk, and with minimal impact beyond the existing airport boundary. Heathrow's H8 proposal represents a genuine alternative pathway to growth rather than merely a holding position pending a third runway. RHC's modelling of the 2R+ Scheme indicates aero charges would be in the low £30 per passenger compared to say £29 for the H8 period and seemingly, the airlines are unwilling to add more than £4.50/£5.50 to the aero charge (Oliver Wyman Report for International Airlines Group '*LHRAffordableCapexEnvelope, March 2026*').
- f. By contrast, a three-runway Heathrow would require very substantial investment, a lengthy construction period, major expenditure on supporting surface transport infrastructure, and the complete or partial demolition of three villages with a combined

population of around 2,800 people. The rate of capital spend, including asset replacement capex, could be double that for T5 and T2, which arguably was at maximum rate of efficient spend at perhaps the most constrained major airport site in the world. It would also divert management attention and capital away from improvements to the existing airport. RHC's modelling of the 3R Scheme indicates aero charges would need to exceed £50 per passenger. Whether such a scheme proves deliverable, commercially affordable and financeable on acceptable terms and benefits the wider economy remains very much in doubt. In addition, modelling by the Airports Commission's in 2015 and DfT in 2017 suggests that the 3R Scheme would weaken growth at most of the regional airports. Additionally, making best use of existing regional airport assets and relatively low regional construction costs compared to London, should investment in regional capacity be needed, are seemingly ignored by the 3R Scheme proposals. The policy question is whether the additional capacity offered by a third runway justifies its significantly greater cost, cost per passenger, risk and regional and surface access impacts when compared with what could be achieved through the two-runway option and best use of regional airport assets.

- g. **Regulation.** We have briefly set out above the assets being regulated now and in the future or not as the case may be. The title of the consultation '*Heathrow capacity expansion*' prejudices the need for expansion and how that might be best met - it ignores the alternative 2R+ Scheme and efficient use of assets at other airports. The CAA's proposals for Heathrow Regulation seeks affordable aero charges, quality service and efficient capex but the focus is solely on Heathrow's 3R Scheme. It ignores the option of a Heathrow 2R+ Scheme and making best use of assets at non-Heathrow airports in respect of the three regulatory aims and probably by a huge financial and economic margin. There are a number of additional specific regulation issues on which we would like to comment:
 - i. **Combined value and efficiency of all five London airports.** We believe there should be a strategy for capacity and use of all five London airports, taking account of surface access to each of the five airports and travel between the airports.
 - ii. **Connecting Passengers.** Transfers are exempt from Air Passenger Duty at a large cumulative cost to the Treasury (£0.7bn pa) and it is argued they are of little or no economic benefit to the UK as they do not leave the airport. Only around 35 of Heathrow's approx. 100 long-haul destinations are thin destinations (less than 2ATMs per day (1 arrival and 1 departure)) and only around 10 of these have any connecting passengers. Examination suggests few if any of the 10 destinations would be economically unviable if there were fewer connecting passengers. The argument that connecting passengers are needed to support thin long-haul business connections does not stand up to scrutiny. All but around 300k of 16 mppa connecting passengers are on dense long-haul or short-haul routes and for the most part increase frequency on popular routes. The 2R+ Scheme results in reduction of connecting passengers to around 2mppa by 2050 but the 3R Scheme adds back 16mppa connecting transfers out of a total net addition of 26 mppa (43 mppa less demand of 17 mppa abstracted from growth at other airports). The question is: should Heathrow be investing in relatively costly facilities for connecting passengers. Here we are talking about international-to-international transfers and not the small number of domestic transfers.

- iii. **Land Acquisition.** It is not clear whether regulation of the land acquisition cost for a 3R Scheme is within scope of Heathrow’s regulation. It could be or the order of £5bn out of the £21bn (2024 prices) for runway and related airside facilities referred to in paragraph 5a. If land is included, what criteria are to be used in assessing the cost, recognising this is a very sensitive subject with local communities.
- iv. **Affordability.** Airlines have a Heathrow turnover of around £30bn a year and operating profit of £3bn and the aero charge currently represents around £2bn. Mitigation of climate change emissions with extra costs for SAFs, Removal of CO2e from the atmosphere and purchase of offset credits could increase ticket prices by 70% or more. The regulation does not appear to consider the aero charge price cap in the wider context of ticket prices and the impact on airlines and in turn passengers and resulting demand reduction at Heathrow and competing airports.
- v. **Scheduling of assets.** RHC’s understands the scheduling of the £15bn of 2R+ capex and 3R capex is as shown in the following table:

Heathrow Runway and Terminal Schedules				
	2024-2033	2035	2049	2054
Proposed 2R+	T2, T3, T4, T5 14 mppa		T2/T3 14 mppa	
Proposed 3R		NWR & T5XW 20 mppa		T5XN 20 mppa

The 2R cost per passenger is far less than that for 3R and we question the financial and economic rationale of adding capacity with a 3rd runway and terminals ahead of capacity that could be added by reconstruction of T2/T3 at a much lower cost. The 3R demand profile could still be met.

- vi. **Environment (Noise, Air Quality and Greenhouse gas emissions et al).** We are concerned at the negative impact on the environment of the £R Scheme and the seeming relatively low priority given to the issues in the regulation of Heathrow. RHC has argued for some time in the deferral of night flights into the day and increasing the height of flights. These are matters that need greater attention.
- vii. **Regulation models -short list** We have not had sufficient time in the four weeks to go into detail and so our responses to the short listed models are with some reservation. Also we would wish the comments made above to be recognised when developing and choosing the models to go forward with. The following summary is taken from the consultation document para 8.2:

“Regulatory models 1a (governance), 2 (incentives) and 4a (procurement scrutiny) combined as a package that would enhance capital governance, strength incentive arrangements for capital efficiency and improve oversight of HAL’s procurement processes. These models should encourage capital efficiency and reduce the risk of cost over-runs on the expansion programme”.

RHC response: Broadly, we do not have specific issues with these models and

their combination, providing they can be implemented efficiently and timely without undue burden and can be shown to be effective in achieving regulatory aims.

“Regulatory model 3 would introduce a longer-term framework for the cost of capital, for example through an expansion cost of capital and/or caps and collars on returns. This model is designed to encourage efficient financing and avoid any undue upward pressure on HAL’s cost of capital, so that airport charges would be lower than otherwise, consistent with furthering the interests of consumers.”

RHC response: We are in support of a longer-term framework - it better assists planning and can better avoid short-termism. Risks and uncertainty may increase and should be recognised as such.

“Regulatory model 4b would enable the CAA to mandate competitive tendering by HAL for the design and build of assets and regulatory model 5b, which builds on regulatory model 4b, would enable the CAA to mandate competitive tendering by HAL for the design, build and operation of assets. These models would encourage competition and capital efficiency.”

RHC response: Broadly we are in support of contract tendering and management.

“Regulatory model 7b would allow for direct competition between HAL and an alternative developer, for instance in the circumstances where the alternative developer was awarded a DCO by the SoS for the development of new terminal at Heathrow Airport. This model could encourage competition and efficiency.”

RHC Response: Management of construction at a very congested site for a lengthy period (2029 to 2054) and ongoing operations we see as highly problematic and risky with more than one organisation in charge. We are not clear whether the competition sought by the consultation will reduce the need for regulation as set out in the other models for one or both of the promoters. At this stage we are unclear as to which of say two promoters would have ownership and responsibility for individual assets and overall and therefore the interdependency - so it is difficult to highlight potential practical, financial and management issues. At present we are sceptical of this approach but if it happens then clearly regulation will need to be considered.

Contact details:

Peter Willan, BSc Eng(Hons), MBA, ARSM, FCMA, FEI, HonRCM

Chair, Richmond Heathrow Campaign

action@richmondheathrowcampaign.org