

CAP3286 – Heathrow capacity expansion: Update on the approach to the regulatory framework

Response by Heathrow Airport Ltd

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EXECUTIVE SUMMARY

Expansion is forecast to deliver up to £75 billion of consumer benefits through stronger competition, greater connectivity and lower fares. The question facing the CAA is no longer whether those benefits exist, but how quickly they can be delivered. After a year of consultation and analysis, the greatest consumer risk is increasingly not selecting the wrong regulatory model, but delaying implementation of the right one. Regulatory uncertainty carries real costs. If it increases financing costs, weakens procurement outcomes or delays capacity release, consumers ultimately pay through higher charges and deferred benefits. The priority should therefore be to move from framework development to framework implementation.

The current model needs to evolve for Expansion, not be replaced. Heathrow today delivers strong consumer outcomes, with 96% of passengers rating their journey good or excellent, 98% clearing security in under five minutes and we remain Europe's most punctual hub. Our capital delivery record is equally strong: Terminal 5 and Terminal 2 were delivered as world-class terminals, on time and on budget. The evidence does not point to a regulatory framework that is failing consumers. It points to one that now faces a challenge beyond its original design parameters. Expansion is larger, longer in duration and materially more complex than any investment programme previously undertaken at Heathrow. That does not justify wholesale redesign of the regulatory model or reliance on the original CAP3195 case for change, whose assertions on service, efficiency and delivery performance should be recognised as unsafe. The right conclusion remains evolution, not revolution: a targeted enhancement of a framework that is working today to meet the specific demands of Expansion.

The CAA should now move from model shortlisting to implementation. We welcome the progress the CAA has made over the past year in identifying the right building blocks for an expansion framework. CAP3286 rightly recognises that Expansion requires a framework built around enhanced capital governance and independent assurance (Model 1a), calibrated incentives (Model 2), enhanced procurement scrutiny (Model 4a), targeted third-party delivery applied to non-core assets and where it demonstrably adds value (Models 4b/5b), and a longer-term approach to financing (Model 3). The task is to turn these building blocks into a clear, coherent and investable framework. The prize is significant: timely delivery of new capacity, stronger airline competition, greater connectivity, lower fares and improved resilience for consumers, alongside the wider productivity, trade and economic benefits that Expansion can unlock for the UK. After a year of analysis, consultation and evidence gathering, the greater risk now is not moving too quickly, but failing to provide the certainty needed to realise those benefits.

The evidence for moving from framework development to framework implementation is now even more compelling. Independent modelling from UCL indicates that, by 2050, Expansion could reduce average economy fares by 17% relative to no Expansion. This work, alongside the DfT's Heathrow Expansion National Policy Statement (HENPS) modelling, corroborates the figure posited by Frontier: Expansion will generate between £45bn and £75bn for consumers in net present value terms. Those benefits are not automatic. They depend on timely delivery of new capacity, and timely delivery depends on early regulatory certainty. Delaying implementation of the framework delays investment, which delays delivery and therefore carries a real consumer cost: foregone airline competition, foregone connectivity, foregone fare reductions and billions of pounds of unrealised consumer benefit.

The CAA should use a proportionality test to guide the pace and breadth of its future work. Independent analysis from multiple sources indicates that each year of delay is likely to reduce consumer benefits by between £2.0bn and £2.6bn. The CAA should therefore treat this as a hurdle rate for further regulatory intervention. Where additional analysis, consultation or model development could delay Expansion, it should assess whether the expected consumer benefit of that work exceeds the consumer value placed at risk through delay. If it does not, continued framework development would be difficult to reconcile with the CAA's primary duty to further the interests of current and future consumers. Delay is not neutral. It is itself a potential source of consumer detriment.

The greatest consumer risk is no longer selecting the wrong model, but delaying implementation of the right one. We recognise that detailed calibration questions remain. However, after a year of consultation and analysis, the priority should now be implementing the core framework rather than continuing to explore models whose rationale has already been extensively tested and which have not been shown to deliver better consumer, efficiency or delivery outcomes. Heathrow stands ready to work constructively with the CAA and stakeholders to support that transition.

To support the CAA's September work programme, we consider the following confirmations are now needed.

1. Prioritise the models that unlock consumer benefits fastest:

- **Commit to the single RAB model and setting a fixed real cost of equity for at least 15 years.** We recognise this is a complex area that requires careful thought. However, the most cost-efficient route to delivering Expansion requires long-term financing certainty. Without it, investors, contractors and supply chains are likely to price greater uncertainty into their decisions, increasing costs and delaying delivery. The ultimate losers would be consumers, through higher charges, later capacity release and slower realisation of competition and connectivity benefits. We have carefully considered the points raised by the CAA, its advisers and airlines, and continue to believe that a fixed real cost of equity should be identified and set for 15 to 20 years as part of an enhanced single RAB framework, recognising the risk premium attached to undertaking Expansion activities. The beneficiaries of this are consumers. It should lower the overall cost of financing and therefore charges, while providing the certainty needed to mobilise investment and supply chains efficiently. Forecasting risk can be mitigated through reopeners, indexation and a wider framework that resets other building blocks every five years, while Models 1a, 2 and 4a provide strong cost pressure, assurance and scrutiny.
- **Outline a credible and swift timetable for implementing Model 3.** The issue is now one of timing. The level of investment required to fund Expansion is set to rise significantly from 2027 onwards. It is unrealistic to expect that any rational investor will make this commitment without a reasonable expectation of the cost of equity for the investment they are being asked to make. If DCO consent is granted in 2029, construction should be capable of commencing promptly thereafter - any delay is a direct cost to consumers. To achieve that, Heathrow will need to appoint contractors, secure long-lead supply chains and commit capital well in advance of consent. We cannot do so efficiently without clarity on the terms of return. The CAA should therefore establish a credible and swift timetable for establishing risk allocation principles and determining the fixed real cost of equity. We recognise that calibration is critical and welcome collaborative work with the CAA, its advisers and airline customers to design a model that gives investors certainty,

lowers costs for consumers and gives stakeholders confidence it can be implemented appropriately. That work should now move into structured joint-working aimed at reaching a decision, not further iterative exchanges through consultation rounds.

- **Progress the core governance, assurance and incentives package.** We welcome the progress the CAA has made in identifying higher quality governance, independent assurance and tailored incentives as central components of the Expansion framework. We agree that these measures should now move from concept to implementation. A senior Capital Oversight Group, supported by Independent Assurance, would provide the CAA, airlines, consumers and Government with earlier, independently assured visibility of material cost, scope, risk, procurement and delivery issues, while preserving Heathrow's clear accountability for delivery. Equally, well-calibrated incentives should sit at the heart of the framework, creating meaningful cost efficiency pressure and consumer protection while recognising differences in cost maturity, controllability and risk. As the scale, complexity and value of Expansion activities increase, the benefits of higher quality, not more, governance increase too. There is therefore real value in establishing them sooner rather than later. Doing so would strengthen confidence, improve decision-making and provide the foundations needed to support efficient investment and timely delivery. We stand ready to work closely with the CAA, airlines and other stakeholders to finalise and implement this package at pace.
- **Develop Model 5b on an evidence-led basis and rule out its application to core aeronautical assets.** We have consistently supported Model 5b where targeted third-party delivery can demonstrably improve consumer outcomes. But neither the case for change nor the evidence developed to date provides a basis for Model 5b being applied for terminals or other core aeronautical assets. The evidence instead points to increased complexity, delays to implementation, weaker financeability, greater delivery risk and higher costs for consumers. The analysis from Freshfields and Santander¹ shows that applying Model 5b to terminal-type assets requires more than 30% capital cost savings required in some scenarios simply to offset those higher financing costs. At the same time, the evidence does not demonstrate a material incremental consumer benefit over Model 4b, where competitive procurement and delivery disciplines can already be realised without introducing the additional financing, interface and implementation risks associated with Model 5b. Leaving open the possibility of applying Model 5b for core assets also creates regulatory uncertainty that feeds directly into the Expansion risk premium and the cost of capital. The CAA should therefore provide clear guidance on the scope and limits of Model 5b before establishing the long-term financing framework. Heathrow stands ready to work constructively with the CAA, airlines and other stakeholders to identify credible opportunities for third-party delivery where they can be shown to deliver better consumer outcomes.

2. Avoid distraction, overreach and premature read-across:

¹ Supporting documents to our response to CAP3195 and CAP3251. Unless otherwise specified, references in this response to 'Freshfields and Santander analysis' are to the documents identified above.

- **Model 7b should now be ruled out.** The evidence already shows that Model 7b would deliver worse outcomes than the other shortlisted models: greater fragmentation, weaker financeability, increased implementation complexity, higher operational risk and delayed consumer benefits. The draft HENPS reinforces that conclusion by envisaging a complete, integrated Northwest Runway scheme delivered as a coherent whole. As is already clear to the CAA, Model 7b would not create effective competition, it would create a heavily regulated duopoly requiring new arrangements for access, charging, common services, operational coordination and dispute resolution. The global evidence is clear, single integrated hub airport owner operators deliver materially better outcomes for consumers. The CAA should therefore focus its resources on implementing the framework required for Expansion and avoid allowing a speculative alternative promoter scenario to divert attention from the decisions that will determine whether consumers receive the benefits of new capacity on time. In our view, that is the approach most consistent with the CAA's duties: the relevant pro-competitive outcome is timely capacity release, stronger airline competition and lower fares, not structural fragmentation that increases cost, delay and financeability risk.
- **Guard against inappropriate read-across to BAU.** The case for change is Expansion-specific: scale, duration, complexity and construction risk. As set out elsewhere, the original case for change in CAP3195 was premised on concerns regarding service, efficiency and capital delivery are not supported by the evidence. It should therefore not be treated as a safe basis for changes to business-as-usual framework. Any changes to BAU capex should be separately justified, proportionate, consulted on through H8 and designed to avoid adding governance drag. We reserve our position in full against any attempt to rely on the case for change developed through CAP3195, CAP3251 or CAP3286 as a basis for reopening the H8 framework absent a separate evidence base, consultation and proportionality assessment.

We recognise the complexity of the task facing the CAA and the importance of getting the detailed calibration right. Heathrow stands ready to work openly, collaboratively and at pace with the CAA, airlines and consumer representatives to help resolve those issues. However, the principal challenge has now shifted from identifying potential regulatory models to making the critical decisions required to implement them. Those decisions are not straightforward, but nor are the benefits of delay neutral. As the scale and complexity of Expansion investment increases, there is growing value in providing the certainty needed to mobilise capital, procurement and supply chains efficiently. September should therefore mark the transition from framework development to framework implementation, allowing all stakeholders to focus on the shared objective of delivering Expansion efficiently and in the interests of consumers.

We recommend that the CAA use the September document to:

- **Commit to the single RAB model and setting a fixed real cost of equity for at least 15 years and establish a credible timetable for determining the Expansion risk premium and long-term fixed real cost of equity in early 2027.**
- **Progress the governance, assurance and incentives package into implementation, including the Capital Oversight Group and Independent Assurance arrangements.**

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- **Provide clarity on the scope and limits of Model 5b, including confirmation that there is no evidential basis for its application to terminals or other core aeronautical assets.**
 - **Rule out Model 7b as a recommended regulatory model, allowing effort to focus on the arrangements most likely to deliver timely consumer benefits.**
 - **Confirm that Expansion and BAU remain distinct regulatory questions, recognising that the original case for change is no longer a safe evidential basis for broader regulatory reform.**

1. INTRODUCTION

- 1.1. CAP3286 is another important next step towards the further development of the long-term regulatory framework for Expansion. As the draft Heathrow Expansion National Policy Statement (HENPS) has now been published and continues to be consulted on, and Heathrow works towards the public consultation process on our preferred scheme later this year, the pace of analysis and decision-making from the CAA is vital to support continued momentum on the Government's timetable ambitions. Early certainty and stability within the regulatory framework, ahead of important decision milestones over the next 12 months, is where the CAA could either constrain or maintain this momentum.
- 1.2. Our overall response is focused on providing the CAA with the necessary information required to inform and progress their decision-making process on the models that are taken forward. It also seeks to provide commentary on updated technical reports also published alongside CAP3286 – and outline where this analysis needs to be further explored, refined or restructured.
- 1.3. As such, this response is structured as follows:
 - Chapter 1 - Introduction
 - Chapter 2 – CAA Workplan – Delivering Consumer Benefits: we provide further detail and information on why early certainty of key elements of the regulatory framework support timely delivery, efficient cost, and consumer benefit.
 - Chapter 3 – Reflections on the Case for Change: we set out why the case for change continues to require revision - and as such should not be applied to a two-runway world - and outline the new information that the CAA should engage on.
 - Chapter 4 – Long Term Framework, Model 3: our response to the CAA's updated commentary on Model 3, the updated report from Centrus, and the issues that should be prioritised and why.
 - Chapter 5 – Mandating Competitive Procurement, Model 4a: our response to the CAA's updated commentary on Model 4a, the updated report from Centrus, and the basis by which further analysis should be prioritised.
 - Chapter 6 – Direct Competition, Models 4b and 5b: our response to the CAA's updated commentary on Model 4b and 5b, and an outline of how to practically take these models forward, and apply them when assessing asset type and scope.
 - Chapter 7 – Model 7b: our response to the CAA's updated commentary on Model 7b, outlining the continued concerns about further development/ prioritisation of this model versus other which unlock progress and deliver greater consumer benefits.
 - Chapter 8 – Capital Governance (Models 1 and 2a): our updated view on capital governance and incentives – both the progression made towards refining our proposals, as well as case studies to add context and information on how this model should be applied to Expansion, not BAU.

- Additional evidence:
 - Supporting Document 1: DCO timelines and milestones
 - Supporting Document 2: UCL report on the economic impacts of expansion
 - Supporting Document 3: Governance case studies
- 1.4. As ever, we remain committed to working constructively with the CAA, airlines, consumer representatives and Government to refine and implement that framework. The CAA's September 2026 publication should set out clearly where it intends to progress decisions and recommendations, as well as how stakeholders can engage meaningfully.

2. CAA WORKPLAN – DELIVERING CONSUMER BENEFITS

- 2.1. **Expansion benefits consumers only if capacity is delivered. Capacity is delivered only if Heathrow can secure investment, mobilise supply chains and procure efficiently. Those activities depend on regulatory certainty. The CAA should therefore prioritise the decisions that are on the critical path to delivery, particularly the long-term financing framework, governance and assurance arrangements, incentive design and clarity on competitive delivery models. Delay in resolving those issues is not neutral. It risks increasing financing costs, weakening procurement outcomes, delaying capacity release and ultimately reducing the consumer benefits Expansion is expected to create.**
- 2.2. As ever, we remain committed to working constructively with the CAA, airlines and consumer representatives. The CAA's workplan should be organised around the decisions that matter most for timely delivery, efficient cost and consumer benefit.
- 2.3. Expansion will deliver material benefits through increased capacity, stronger airline competition, wider route choice and lower fares over time. This has a real and tangible impact for consumers and wider UK economic growth – £45-£75bn in consumer benefits, a doubling of cargo capacity at the UK's most valuable port, up to 40 new destinations, and up to 60,000 jobs. But those benefits are time-sensitive and what is foregone cannot later be recovered. Delay in resolving the regulatory framework will delay investment, supply-chain mobilisation, DCO development and ultimately capacity release. Each year's delay reduces the benefits to consumers by £2.0-£2.6bn. The CAA should therefore treat timeliness as a core consumer-protection issue, not merely a programme-management issue (See Supporting Document 1 for more detail on current timelines and milestones for the DCO process).
- 2.4. It follows that the CAA should distinguish between workstreams (and models) that unlock timely consumer benefits and workstreams that may be relevant in principle but do not need to be resolved immediately to support investment, DCO development or supply-chain mobilisation.

Consumer benefits of timely delivery of Expansion:

- 2.5. We support the conclusion on consumer benefits of timely delivery, that the CAA reached in its final determination for early costs between 2025-26. In CAP3289, the CAA reflected that *“there are plausible scenarios where the benefits to consumers from expansion at Heathrow Airport would significantly outweigh the likely extra costs to passengers from higher airport charges, and that a proportion of these benefits would be lost if expansion were to be unduly delayed”*.²

² CAP3289, paragraph 1.28.

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- 2.6. That conclusion is important for the CAA's workplan: it means that delay is not neutral. Where regulatory uncertainty slows investment, procurement, DCO development or supply-chain mobilisation, consumers risk losing benefits that cannot be fully recovered later.
- 2.7. This distinction is important for the CAA's statutory duties. Consumer detriment does not arise solely from excessive charges or inefficient expenditure. It can also arise where regulatory uncertainty delays capacity, competition and connectivity benefits that would otherwise accrue to current and future consumers. The CAA should therefore assess both the costs consumers may bear and the benefits consumers may lose through delay.
- 2.8. Since CAP3251 was published, additional analysis has confirmed and strengthened the evidence on consumer benefits established by Frontier Economics' 2025 cost-benefit analysis report. This includes the DfT's *Heathrow Expansion Appraisal Review* and a recent further review commissioned by Heathrow from the Air Transportation Systems Laboratory (ATSLab) at University College London (UCL).³
- 2.9. Despite differences in scope and methodology, these analyses reach a consistent conclusion on the significant scale of the benefits that Expansion will deliver to consumers. The whole-market analyses estimate substantial consumer benefits, valued at between £45 billion and £75 billion.
- 2.10. The analyses also converge on the important losses associated with delay. Each year of delay would reduce consumer benefits by around £2.0 billion to £2.6 billion in present-value terms (see Figure 1).
- 2.11. The evidence is clear that delay is not neutral: postponement defers improvements in choice, competition, connectivity and fares, and permanently reduces the value delivered to consumers. Timely delivery of Expansion should therefore be treated as a key consumer protection. Note that the UCL work is an underestimate, due to the geographic scope of their work.⁴

³ Air Transportation Systems Laboratory (ATSLab) at University College London is an internationally recognised and independent research group specialising in aviation systems analysis and long-term transport modelling. The laboratory develops advanced computer models that simulate the behaviour of passengers, airlines and airports to understand how new technologies, market developments and government policies shape the evolution of the global aviation system, providing evidence to support strategic policy and investment decisions. Its research has informed the UK Department for Transport, the European Commission and the Aerospace Technology Institute, as well as Airbus and Rolls-Royce. ATSLab's models have also contributed to strategic analyses by organisations such as the International Energy Agency and the International Air Transport Association.

⁴ Heathrow has scaled and extrapolated UCL's estimates of consumer benefits so that the scale is comparable to the DfT and Frontier analyses. This scaling likely underestimates consumer benefits to Middle East and Asia markets, leading to this lower estimate.



Figure 1. Delays erode consumer benefits (Heathrow has scaled UCL results to generate an indicative figure. The results produced by UCL ATSLab are provided in Supporting Document 2)

2.12. The UCL review reinforces this overall conclusion and provides further detail on where the consumer benefits arise:⁵

- Consumer vs airline profits: Expansion is forecast to deliver an additional £3bn per annum in consumer benefits in 2050. Airline profits are forecast to be £1.16bn lower per annum than if Expansion did not happen.
- Ticket fare reduction: Expansion will see an average 17% reduction in economy class fares at Heathrow in 2050, and reductions in fares across all London airports.
- New traffic and competition: Across Europe and Transatlantic, approximately 40% of additional Heathrow capacity is 'new traffic' and not displaced from other London airports (vs 30% in Europe). In the Transatlantic market only: 100% of the Heathrow traffic is new and stimulates additional growth at Gatwick by increasing competition. For every new Transatlantic pax at Heathrow, there are 1.17 new Transatlantic pax at Heathrow + Gatwick. If the Transatlantic displacement extrapolates to the rest of Heathrow's LH traffic, then overall around 60% of new Heathrow capacity is 'new' - this is exactly in line with what the Airports Commission found in 2017.

⁵ UCL's work utilises its academically robust and independent Airline Behaviour Model, which it has been developing since 2019 with Research Council funding. UCL's work for Heathrow requested model runs of the Airline Behaviour Model to explore a specific set of sensitivity scenarios. Heathrow requested UCL's choice of the following parameters: Heathrow airport charges, APD level, SAF pricing, UK productivity and population growth assumptions, slot allocation assumptions, and a fleet delay sensitivity.

- 2.13. The practical implication is that delay preserves the current scarcity environment for longer. That benefits incumbent airlines that earn congestion-related returns from constrained capacity, while postponing the fare reductions, route choice and competition benefits that future consumers are expected to receive.
- 2.14. The cost increases because consumers must wait longer for the additional capacity and the associated benefits are worth less when they eventually arrive. Delay is therefore not simply a change in timing; it permanently erodes consumer value. Avoiding unnecessary delay should therefore be treated as a central consumer interest. Keeping Expansion on schedule would protect billions of pounds of value and allow passengers to realise its benefits sooner.
- 2.15. We appreciate the CAA's focus on ensuring a process that will select appropriate model(s) to deliver the required changes and protecting consumers from stranded cost risk. However, prioritising its time, resources and analysis on reaching conclusions expected to deliver the best overall consumer outcomes will unlock timely investment and delivery, balancing risk mitigation against the costs and foregone benefits of delay.
- 2.16. In our view, this is fundamentally a proportionality question. The CAA's duties do not require the elimination of every conceivable consumer risk before investment can proceed. Rather, they require a framework that delivers the greatest overall benefit to consumers, taking account of both the risks of action and the risks of inaction.
- 2.17. Early certainty is valuable because it is what unlocks investment, supports earlier mobilisation and procurement, and enables new capacity – the principal route through which Expansion can deliver meaningful benefits for consumers.
- 2.18. The CAA's September workplan should therefore prioritise decisions that are on the critical path to consumer benefit. In Heathrow's view, those are:
- early clarity on the long-term financing framework and setting the Expansion risk premium;
 - implementation of governance, assurance, calibrated incentives and proportionate procurement scrutiny;
 - clear boundaries around competitive delivery models that could otherwise affect financeability, procurement and the Expansion risk premium.

DfT's Heathrow Expansion Appraisal Report (HEAR)

HEAR is an important starting point, but it is key that the CAA now take the analysis further. DfT's results are sensitive to baseline-year assumptions and may not fully capture how airlines, airports and passengers respond when additional capacity changes competitive conditions. Unlike the DfT, the CAA must focus its assessment on the interests of present and future consumers in the market that Expansion would create. Completing that wider assessment is therefore both a statutory responsibility and a priority for timely decision-making.

Heathrow's UCL ATSLab scenarios, which we are sharing with the CAA, provide evidence to support the next stage of analysis. In particular, the CAA can expand and refine the benefits case by:

- **Assessing the market that Expansion would create.** The analysis should test how additional capacity affects competition, affordability, choice, connectivity, reliability and service quality across the London airport system.
- **Testing a wider range of demand responses.** This should include traffic displaced between London airports, demand stimulated by additional capacity, currently unserved demand, induced traffic and the implications for Heathrow's hub role.
- **Reflecting how airlines and markets respond.** Fares and demand are shaped by airline business models, slot allocation, airport charges and Sustainable Aviation Fuel prices. These relationships should be modelled explicitly rather than held constant.
- **Testing passthrough rather than presume it.** UCL's results indicate low passthrough of aeronautical charges in a reasonable central scenario and negligible passthrough on long-haul routes. The extent and timing of passthrough should therefore be an empirical question.
- **Capturing the full consumer benefit.** Lower fares matter, but consumers also benefit from more destinations, greater direct connectivity, improved reliability, shorter journey times and a more resilient airport system.
- **Making scarcity rents visible.** The assessment should explain how constrained capacity creates scarcity rents today, who receives them and how Expansion could redistribute value towards consumers.

Tackling these elements would give the CAA a stronger basis for decisions on affordability, risk allocation, incentives, resilience and financeability. Heathrow stands ready to work constructively with the CAA on how the UCL evidence can support that assessment.

Figure 2. DfT's Heathrow Expansion Appraisal Report (HEAR)

Why early certainty supports efficient cost

- 2.19. Early certainty supports efficient cost as well as investment confidence. It enables earlier market engagement, better front-end definition, stronger supply-chain mobilisation and more effective procurement. For a programme of the scale and duration of Expansion, uncertainty over the regulatory framework affects how suppliers assess Heathrow as a

client, whether they commit scarce capability, and whether they price risk conservatively into future bids.

- 2.20. The evidence on major infrastructure delivery is clear that early definition and early market engagement materially affect cost and schedule outcomes. Emerging evidence we have seen points to front end loading of securing material and labour can add around 25% to cost overruns compared with leading projects. This is in line with IPA Global's analysis of more than 25,000 projects similarly identifies Front End Loading completeness as one of the strongest predictors of safety, cost, schedule and operability outcomes.⁶ The conclusion is intuitive: where project definition, delivery strategy and market engagement are weak or late, risk is either discovered too late or priced inefficiently into procurement.
- 2.21. The same point is reinforced by the Centre for Construction Best Practice's analysis of 412 public-sector projects delivered by 55 contractors across the UK.⁷ It found that involving contractors at the earliest stages of project development materially reduces cost overruns and delays. Projects with early contractor involvement were delivered broadly on or under budget, with cost variances of around -1.8%, whereas projects where contractors were appointed later experienced average cost overruns of 8.6% at RIBA Stage 3 and 17.4% at RIBA Stage 4, alongside programme delays of over 11%. The report concludes that early contractor involvement improves buildability, cost planning and supply-chain input, reducing project risk and improving outcomes.⁸
- 2.22. The practical implication for Expansion is significant. If the DCO timetable assumes consent in April 2029, it is reasonable — and in consumers' interests — to avoid a gap between consent and meaningful construction. A consent decision does not itself mobilise the market. To begin meaningful construction from that point, Heathrow will need contractors and major subcontractors appointed, long-lead materials and manufacturing capacity secured, construction logistics planned, enabling works sequenced and key contract packages sufficiently developed. That requires a procurement process to have been run, and the market to have been sufficiently stimulated in advance so that competition is real rather than compressed.
- 2.23. That process can take 18 months or longer for major or specialist packages. It requires time to define the requirement, engage the market, test supplier capability, develop tender documentation, assess risk allocation, run a competitive process, negotiate contracts, confirm delivery interfaces and secure materials, labour and supply-chain capacity. The more compressed that process becomes, the greater the risk that Heathrow cannot secure the right labour, materials or supplier capacity in time for start on site; that procurement processes are curtailed; or that the market is not sufficiently stimulated to produce competitive and efficient bids.

⁶ [What Is Front-End Loading \(FEL\) in Project Management? | IPA](#)

⁷ [Early Contractor Involvement - CCBP](#)

⁸ [Early contractor involvement cuts project cost overruns](#)

- 2.24. That creates a direct consumer harm. If procurement and mobilisation are delayed, consumers lose the benefits of capacity, competition, lower fares and improved resilience for longer. If procurement is compressed to maintain the timetable, consumers risk paying inefficient costs through weaker competition, higher risk pricing, greater reliance on negotiated positions, reduced ability to optimise contract packaging and diminished supply-chain appetite. Either outcome is contrary to the consumer interest: delay defers benefits, while compression increases the cost of delivering them. The impact of choices on the procurement process and mobilising investment therefore has to take account of the cost of delay – and the evidence that each year of delay costs consumers approximately £2.5bn.
- 2.25. Early certainty gives investors confidence to fund procurement and mobilisation; staged commitments, options and break clauses protect consumers if consent is refused or Expansion stops. The CAA should therefore not treat early procurement as inherently risky for consumers. Properly structured, it is a way of preserving the ability to start construction promptly after DCO consent while limiting stranded cost exposure if the project does not proceed.
- 2.26. This is why early regulatory certainty matters. Suppliers will not assess Heathrow only on technical scope; they will also assess whether the programme is financeable, whether the regulatory framework is sufficiently stable, and whether procurement and delivery decisions can be made to a credible timetable. Without that confidence, the programme is likely to face weaker market appetite, higher risk pricing, less ability to secure long-lead capability and a greater risk of delay. Those costs ultimately fall on consumers through higher charges, delayed capacity release or both.
- 2.27. The same principle is reflected in regulatory precedent. As outlined in our response to CAP3251, a key lesson from Ofgem’s Accelerated Strategic Transmission Investment framework (ASTI) is that providing early regulatory certainty to delivery partners and the supply chain can be critical to achieving timely project delivery and maximising consumer benefits. ASTI was introduced because Ofgem recognised that conventional regulatory arrangements were not well suited to a programme of nationally significant infrastructure projects where delays would impose substantial costs on consumers and the wider economy.
- 2.28. ASTI did not remove cost discipline. It sequenced it differently. Ofgem adapted its framework to provide greater certainty over project progression and funding, enabling transmission owners to engage suppliers, place early orders and support supply-chain investment ahead of conventional regulatory milestones. The framework also retained governance, assurance, delivery incentives, funding controls and cost scrutiny as projects matured. Its relevance to Heathrow is not that the mechanics should be copied directly, but that it demonstrates a regulatory principle: where delay itself creates consumer harm, early certainty can be a consumer protection.
- 2.29. For Expansion, the lesson is clear. The CAA’s September workplan should provide enough certainty on the target framework to allow Heathrow to stimulate the market, progress

procurement and mobilise the supply chain in time to support a meaningful start on site after consent. That means prioritising the decisions that are on the critical path to consumer value: the long-term financing framework, the governance and assurance model, calibrated incentives, proportionate procurement scrutiny and the boundaries around competitive delivery models. These are the decisions that determine whether Heathrow can mobilise efficiently and whether the benefits of Expansion can be delivered on time.

- 2.30. Early certainty should therefore not be seen as a concession to Heathrow or investors. It is a practical precondition for efficient delivery. A clear, stable and credible regulatory framework allows Heathrow to engage the supply chain earlier, test delivery options more effectively, secure capability before markets tighten and reduce avoidable risk premia. A delayed or ambiguous framework risks doing the opposite: increasing uncertainty, weakening procurement outcomes and postponing the consumer benefits that Expansion is intended to deliver.
- 2.31. A further reason why early certainty matters is that it allows the investability of the regulatory framework to be tested at an early stage. The value of regulatory certainty is not simply that it supports investment and mobilisation. It also provides clarity on whether the framework can attract the capital required to deliver Expansion efficiently. There is little benefit to consumers in spending additional years developing a framework that ultimately proves incapable of supporting investment at the scale required. Identifying and addressing any investability concerns early is therefore in consumers' interests. It reduces the risk of significant expenditure being incurred before fundamental financing issues are resolved and helps avoid stranded costs that would have limited or no economic value in a two-runway scenario.
- 2.32. In that context, the CAA should use September to move from broad exploration to implementation planning. The objective should be to provide enough certainty for Heathrow, investors and the supply chain to act, while continuing to develop the detailed safeguards needed to protect consumers. That balance — early certainty with disciplined assurance — is the route most likely to deliver Expansion at efficient cost and with timely consumer benefit.

What the CAA should prioritise in September

- 2.33. Consistent with the executive summary, the September publication should mark the transition from framework development to implementation. It should focus on the same five confirmations:
 1. Commit to the single RAB model and setting a fixed real cost of equity for at least 15 years and establish a credible timetable for determining the Expansion risk premium and fixed long-term real cost of equity in early 2027.

2. Progress the governance, assurance and incentives package into implementation, including the Capital Oversight Group (COG) and Joint Independent Assurance (JIA) arrangements.⁹
3. Provide clarity on the scope and limits of Model 5b, including confirmation that there is no evidential basis for its application to terminals or other core aeronautical assets.
4. Rule out Model 7b as a recommended regulatory model, allowing effort to focus on the arrangements most likely to deliver timely consumer benefits.
5. Confirm that Expansion and BAU remain distinct regulatory questions, recognising that the original case for change is no longer a safe evidential basis for broader regulatory reform.

What Heathrow will provide to support implementation

2.34. We will support those five workstreams by providing information in a timely and structured way, linked to the decisions the CAA needs to make. The level of detail will mature through scheme design, consultation, DCO preparation and business planning. In particular, we will provide:

- **Model 3 evidence**, including analysis on the fixed real cost of equity, Expansion risk premium, financeability, credit metrics, investor requirements and the timetable needed to support DCO, procurement and mobilisation milestones.
- **Continue developing the proposals for Governance, assurance and incentives**, including the COG, JIA, information standards, escalation routes, cost maturity, controllability, risk categorisation, staged baselines, reopeners and indexation.
- **Model 5b asset-specific analysis**, including the suitability framework, separability tests, critical-path impact, interface risks, legal and financing considerations, market appetite and whole-system consumer value, as well as access to and ability to scrutinise the new Ecosystem Live can provide a practical and auditable route for sharing much of this evidence, including supplier accreditation, pre-qualification criteria, market-capacity evidence and the logic for procurement phasing.
- **Model 7b evidence and input to support the CAA's tightly bounded contingency assessment of** implementation complexity, financeability, operational integration, HENPS implications, competition effects, regulatory architecture and the consumer cost of delay, international precedents, and definition of wholesale access and services.
- **Expansion/BAU separation evidence**, including the distinct problem statement for Expansion, the limits of the CAP3195 case for change, and the evidence, consultation, proportionality and statutory-duty analysis that would be required for any BAU read-across.

2.35. The CAA's workplan should recognise that some information can be provided now, while other evidence will mature through the programme. The most effective approach is therefore

⁹ As described in our March submission on High Quality Governance and Incentives for Expansion, and our response to CAP3251.

regular structured engagement, with clear information requests linked to specific regulatory decisions, rather than relying solely on periodic consultation submissions.

3. REFLECTIONS ON THE CASE FOR CHANGE

- 3.1. **The fundamental question is not whether the regulatory framework should evolve, but why. CAP3195 framed the case for change around wider concerns regarding Heathrow's service, efficiency and capital delivery performance. The evidence used to make these claims has been shown to be unsafe: Heathrow continues to deliver strong consumer, operational and capital outcomes, and the CAA itself now frames reform principally through the lens of Expansion. The case for change is therefore not that the existing framework has failed. It is that Expansion presents a challenge beyond its original design parameters. The appropriate response is targeted evolution of the framework to support Expansion, not the assumption that Expansion-specific reforms should automatically be read across to Heathrow's business-as-usual activities.**
- 3.2. We agree that Expansion requires the regulatory framework to evolve. A project of this scale, duration and complexity requires higher-quality governance, independent assurance, better-calibrated incentives and longer-term regulatory commitments than the current framework was designed to provide. We therefore welcome the CAA's continued focus in CAP3286 on developing the regulatory framework "for expansion", and its statement that it now intends to "focus on developing and implementing the shortlisted regulatory models as part of the regulatory framework for expansion¹⁰".
- 3.3. That is an important evolution in the CAA's thinking, because the evidence developed since CAP3195 no longer supports the original case for change as a safe evidential basis for broader regulatory reform. The evidence does not point to a regulatory framework that is failing consumers. We continue to deliver strong service outcomes, strong operational performance and a proven record of capital delivery. Instead, the evidence points to a framework that now faces a challenge beyond its original design parameters as Heathrow undertakes Expansion. The relevant case for change today is therefore Expansion-specific: scale, duration, complexity and delivery risk. The right conclusion remains evolution, not revolution.
- 3.4. We believe CAP3286 recognises this position. The CAA states that it remains of the view that "there is a strong case for changing the current regulatory framework for Expansion, not least because the existing framework has been designed in the context of the business-as-usual operation of a two-runway airport."¹¹ We agree with that proposition. However, it is materially different from the original CAP3195 case for change.
- 3.5. As set out below, the evidence outlined to the CAA throughout 2026 points to a materially different reality from that outlined in CAP3195. For that reason, we consider that the original CAP3195 case for change should no longer be regarded as a safe evidential basis for regulatory reform. The appropriate focus now is implementing a framework tailored to the

¹⁰ CAP3286, paragraph 2.5.

¹¹ CAP3286, paragraph 2.4.

genuine challenges of Expansion, while preserving regulatory stability and avoiding unnecessary intervention elsewhere.

- 3.6. An updated case for change would support targeted enhancement of the existing framework for Expansion only and does not establish a basis for wholesale redesign of the regulatory model or read-across to business-as-usual regulation.
- 3.7. We therefore welcome the CAA's more cautious statement in CAP3286 that it will "consider which parts of the new framework should be applied in due course to the business-as-usual price control arrangements".¹² The words "*in due course*" are important. Any future changes to BAU governance, incentives, procurement arrangements or price control mechanisms should be supported by their own evidence base, consultation, proportionality assessment and statutory-duty analysis.

New and Updated Evidence

- 3.8. Since CAP3251, Heathrow's service performance has remained strong:
 - QSM performance, on which basis Heathrow regulatory targets are set, are at record levels. The full year 2025 outperformed both 2024 and target, with a 0.05 YoY increase in Overall Departure Satisfaction. At the close of 2025, 10 of the 12 months had achieved their best-ever monthly rating on record (excluding the Covid years). In H1 2026, 5 of the 6 months achieved either their best or second-best monthly rating on record (excluding the Covid years).
 - H1 2026 ASQ was 4.11, up from 4.06 in H1 2025 – improving on 37 out of the 38 metrics measured.
 - 98.6% of passengers waited less than five minutes at security; we maintained our position as the most punctual major airport in Europe;
 - Heathrow remains the most connected airport in the world according to OAG.
 - Heathrow returned to being ranked the best for airport shopping in the world.
- 3.9. These outcomes depend on integrated airport operation and clear system-wide accountability. They are not evidence that the integrated model has failed; they demonstrate the value of that model at a capacity-constrained hub.
- 3.10. We also provided substantial additional evidence in response to CAP3251 on charges, service quality and capital efficiency, including the structure of our airport charge, airline operating model effects, construction cost environment, operating restrictions, tax and commercial impacts, historic regulatory depreciation, and the CAA's own recognition that Terminal 5 and Terminal 2 avoided the substantial overruns and delays seen on many major projects. Heathrow is deeply concerned that CAP3286 does not yet engage fully with that

¹² CAP3286, paragraph 2.5.

evidence, notwithstanding the CAA’s statement that it will “take account of new information as we develop further the regulatory framework for Heathrow Airport.”¹³

- 3.11. CAP3286 is a high-level update on next steps for the Expansion framework. It is not a consultation on changes to the H8 BAU settlement, and it cannot provide the evidential or procedural basis for such changes. Any BAU read-across must follow the development, implementation and assessment of the Expansion framework, and must be separately justified through the H8 context.
- 3.12. Consistently, proposed changes to BAU should therefore be supported by a separate evidence base and clear problem definition, subject to proper consultation and a proportionality assessment, and guided by the CAA’s statutory duties. This is particularly important given Centrus too recommended that changes to BAU could lead rating agencies to recalibrate their credit assessments.
- 3.13. The CAA should therefore consider carefully how market participants may respond if it pursues wholesale changes to the current framework. It would also need to demonstrate that any intervention is targeted and proportionate, consistent with the H8 framework, furthers the interests of present and future consumers, promotes economy and efficiency, and does not delay necessary investment. Mechanisms designed for a once-in-a-generation Expansion programme should not be assumed to be suitable for routine capital investment.

Conclusion

- 3.14. We therefore reserve our position in full in relation to any attempt by the CAA to rely on the case for change developed in CAP3195, CAP3251 or CAP3286 to justify changes to business-as-usual capex governance, incentives, procurement arrangements or H8 delivery mechanisms absent a separate and properly evidenced case for change, consultation, proportionality assessment and statutory-duty analysis. We do not accept that Expansion-specific reforms could lawfully or reasonably be used as a backdoor route to reopen the H8 BAU framework or impose additional governance requirements that could delay investment needed to maintain a safe, resilient and high-quality airport.
- 3.15. Any further change should be evolutionary, evidence-led and specific to the issue identified; it should not be treated as a general reopening of the regulatory settlement.
- 3.16. The right approach is clear. The CAA should prioritise developing and implementing the Expansion framework, as CAP3286 indicates. That framework should then be assessed on its merits, with any potential BAU lessons considered only in due course, on a separate and properly evidenced basis. That is the approach most consistent with regulatory stability, investor confidence, timely delivery and the CAA’s primary duty to further the interests of present and future consumers.

¹³ CAP3286, paragraph 2.4.

4. LONG TERM FRAMEWORK, MODEL 3

Introduction

- 4.1. **Model 3 is fundamentally about managing uncertainty. Consumers bear the cost of uncertainty whether it sits in financing markets, procurement decisions or – where lack of certainty drives delayed delivery – in deferred benefits. The purpose of Model 3 is to reduce avoidable uncertainty while preserving strong consumer safeguards. Properly designed, Model 3 should help deliver Expansion more efficiently, on-time and at lower cost, while maintaining confidence that consumers remain protected. Model 3 should not be assessed in isolation. Consumers benefit not from certainty alone or protection alone, but from a framework that combines greater certainty with robust assurance, governance and cost discipline.**
- 4.2. Model 3 is therefore a core component of the integrated regulatory framework required for Expansion, and its development needs to be expedited. It should sit alongside higher quality governance and assurance, calibrated incentives and proportionate procurement scrutiny as part of a coherent package. Its particular importance is that long-term financing certainty is on the critical path to efficient investment, procurement and supply-chain mobilisation. Without a credible long-term financing framework, Expansion will not be investable at the scale, pace or efficient cost required to deliver consumer benefits.
- 4.3. Model 3 is not simply about financing. It is about whether Expansion can be delivered at efficient cost and pace. Consumers ultimately bear the consequences of regulatory uncertainty. If uncertainty increases financing costs, weakens procurement outcomes or delays delivery, consumers pay through higher charges, later capacity release and slower realisation of competition and connectivity benefits. The relevant question is therefore not whether greater certainty benefits investors. It is whether consumers benefit from reducing avoidable costs.
- 4.4. The question for the CAA is not whether greater certainty benefits investors. It is whether consumers benefit when avoidable financing costs and delivery risks are reduced. Expansion can deliver consumer benefits only if capacity is delivered, and capacity can be delivered efficiently only if Heathrow can secure investment, mobilise supply chains and procure effectively. In our view, the most important contribution Model 3 can make is providing long-term certainty over the real cost of equity, reducing avoidable financing risk during the period when substantial capital must be committed. The purpose of Model 3 is not to fix every component of the regulatory framework for two decades. It is to provide certainty over the building block most capable of influencing investor perception of risk, while allowing other elements of the framework to continue evolving through normal regulatory processes.
- 4.5. This distinction is important. Consumers would not be exposed to two decades of forecasting risk. Other elements of the framework would continue to reset, while governance, independent assurance, procurement oversight, incentives, reopeners and

indexation mechanisms would continue to protect consumers from inefficient costs and changing circumstances. The objective is not to fix the entire regulatory settlement, but to provide certainty over the single building block most capable of supporting efficient long-term financing and timely investment. This should reduce avoidable financing costs, support earlier delivery and help bring forward the consumer benefits that Expansion is intended to unlock.

- 4.6. We therefore welcome the CAA's continued progression of Model 3 in CAP3286, including its recognition that a longer-term framework could reduce the return investors require for bearing risk during the construction period and ultimately benefit consumers. We recognise that the CAA faces a complex task in balancing financeability, affordability, risk allocation and consumer protection. We stand ready to work constructively with the CAA, airlines and consumer representatives to support that process.
- 4.7. However, after a year of consultation and analysis, the principal challenge is no longer identifying potential financing models but determining how the preferred framework should be implemented. The evidence now provides a strong basis for progressing Model 3. The key questions are how Expansion-specific risks should be recognised, how greater certainty can be provided while protecting consumers, and when these decisions need to be taken to support efficient delivery. As the scale and complexity of Expansion investment increases, delay in resolving these issues carries real costs through slower mobilisation, higher financing costs and deferred consumer benefits. The remainder of this chapter focuses on those implementation questions and the decisions the CAA should prioritise in September.

Heathrow view on Model 3

- 4.8. Our view is that the first step in developing Model 3 should be to confirm Heathrow's existing single RAB and financing framework, with separate identification of Expansion assets for the purpose of calibrating the real cost of equity. That starting point matters because the choice facing the CAA is not simply one of how to finance Expansion, but whether Expansion should be financed through Heathrow's existing single RAB or not. That decision has significant implications for consumer cost, financeability, regulatory complexity and efficient delivery. Once that foundation is confirmed, the focus can move to the core Model 3 design questions: the appropriate Expansion cost of equity and risk premium, the duration of the commitment, the timing of regulatory certainty and the consumer protections that should accompany it. In other chapters, most notably concerning Model 5b, we identify how risk allocation can materially influence cost of equity and conclude why those questions need resolution before Model 3 can credibly be implemented.
- 4.9. It is important to distinguish between two different concepts that can otherwise be conflated. We do not support a dual RAB, SIPR¹⁴-style SPV or separate financing platform for Expansion. By contrast, we do support the separate identification of Expansion-related capex within Heathrow's existing single RAB for regulatory, accounting, governance and

¹⁴ Specified Infrastructure Projects Regulations

incentive-calibration purposes. That latter exercise is consistent with identifying specific investment categories within an integrated financing platform; it does not create the legal, financing or operational issues associated with a separate RAB or SPV.

- 4.10. The choice between these two approaches should therefore be treated as a threshold design decision for Model 3 and is summarised in the table below:

Table 1. single RAB (with Expansion capital identified) vs Separate Expansion RAB

Principle	single RAB (with Expansion capital identified)	Separate Expansion RAB
Operational integration	Maintains the link between the third runway, terminals, baggage systems, airfield infrastructure, surface access, utilities and existing airport operations as one integrated system.	Creates artificial boundaries between assets that are operationally interdependent, increasing complexity and disputability – likely to materially affect the quality and consistency of passengers' end-to-end journey.
Consumer cost	Benefits from the strength, scale and diversification of Heathrow's existing financing platform, supporting efficient financing.	Less efficient financing due to the requirement for significant committed debt and equity funding from the outset. Maintaining an investment-grade rating is likely to require material government support (which is unavailable) and/or Heathrow guarantees. This weakens the rationale for ring-fencing construction risk, increases financing costs and reduces the consumer benefits associated with Heathrow's existing financing platform.
Risk and Revenue allocation	Allows Expansion-specific risk to be priced transparently through the Expansion risk premium while preserving a single system-wide financing platform, and ensures revenue allocation is consistent.	Creates disputes over which costs, revenues and risks sit in which RAB and how shared infrastructure, operating costs and financing costs should be allocated.
Regulatory simplicity	Builds on a framework investors, the CAA and stakeholders understand, while allowing targeted adjustment for Expansion risk.	Requires new allocation rules, additional controls, monitoring and governance to police boundaries between RABs.
Investor confidence	Provides a clear, predictable revenue framework and avoids unnecessary fragmentation of Heathrow's financing platform.	Adds complexity to the revenue and regulatory framework, increasing uncertainty and potentially the cost of capital.
Consumer protection	Can combine long-term cost of equity certainty with reopeners, indexation, governance, assurance and incentives.	No additional protections beyond what is available in a single RAB model.

- 4.11. Once the principle of a single RAB is established, there are three key design considerations:

- **The real cost of equity is the building block that merits long-term commitment.** As Centrus recognises, the principal financing benefit of Model 3 comes from reducing equity uncertainty during the construction period, rather than from any mechanical debt-side saving.
- **The commitment period should be aligned to the construction and early operational phase of Expansion.** As set out in our response to CAP3251, a 15-20 year commitment is required to

align the return framework with the period during which the greatest revenue and construction uncertainty exists.

- **Certainty needs to be provided early enough to influence investor behaviour, procurement choices and supply-chain mobilisation.** These activities are on the critical path to efficient delivery and timely capacity release. The longer regulatory uncertainty persists, the later investment decisions are made and without the opportunity to stimulate supply chains, delaying the consumer benefits it is intended to unlock.
- 4.12. Early clarity on Model 3 is also important for the DCO timetable and supply-chain mobilisation. Expansion requires early market engagement, development activity, property work, design, enabling works and procurement well before new capacity enters service. Major suppliers and contractors will assess whether the project has a credible route to financing and whether key commercial parameters are sufficiently established to justify investment in people, capability, manufacturing capacity and long-lead materials. A supplier noted at a recent industry roundtable, *“knowing you as a client have the resource secured, and are committed to seeing a scheme through, changes how we look at you as an opportunity.”*
- 4.13. The timing of Model 3 certainty therefore matters as much as its design. Providing confidence on the long-term real cost of equity affects not only investor confidence, but also the quality, depth and timing of market engagement. That matters for consumers because earlier and stronger market engagement supports more competitive procurement, better supply-chain commitment, more efficient cost discovery and faster mobilisation. In turn, that improves the prospects of delivering Expansion benefits sooner and at efficient cost.
- 4.14. The ASTI framework is a relevant regulatory precedent. Ofgem recognised that conventional regulatory processes could delay nationally significant infrastructure where early certainty was needed to mobilise supply chains and deliver consumer benefits. ASTI is not a direct template for Heathrow, but it demonstrates an important regulatory principle: where delay itself creates consumer harm, regulators can legitimately place weight on delivery certainty and early investment, whilst continuing to protect consumers through governance, assurance, incentives and cost scrutiny as projects mature. The same principle applies here. Long-term certainty on the cost of equity can support efficient financing and mobilisation, whilst consumers remain protected through periodic resets of other regulatory building blocks, together with governance, independent assurance, procurement scrutiny, reopeners and incentives.
- 4.15. We recognise that implementing Model 3 is not without challenges:
- Where Expansion investment attracts a distinct risk premium, there needs to be confidence that expenditure is allocated consistently, transparently and on the basis of clear principles. We do not underestimate the importance of this issue. However, it is a governance and assurance question: appropriate safeguards can be established through clear cost-allocation principles, transparent reporting, independent assurance and regulatory oversight. In our view, Independent Assurance would have an important role in providing confidence that expenditure

has been allocated appropriately, mitigating any perceived incentive to over-attribute costs to Expansion activities and giving investors, airlines, consumers and the CAA confidence that the framework is operating as intended.

- We also recognise that some stakeholders raise reasonable concerns about whether long-term regulatory commitments could weaken cost discipline, regulatory oversight or fair risk allocation. Those concerns are legitimate and should be addressed directly through the design of the overall Expansion framework. Our position is not that Model 3 should proceed without safeguards; it is that those safeguards should be built into an enhanced single RAB framework through independent assurance, higher-quality governance, targeted incentives, rules-based reopeners, symmetrical indexation mechanisms and calibrated risk-sharing. Taken together, those protections should give airlines, consumers and the CAA confidence that long-term cost of equity certainty can reduce the Expansion risk premium and support efficient capital commitment, while maintaining strong discipline on cost, scope and delivery. This would provide certainty over the efficient cost of equity, not guarantee the return on equity actually earned by shareholders, which would remain exposed to performance risk.
- The length of the commitment period inevitably involves a trade-off and we recognise this will require further deliberation with the CAA, advisers and stakeholders. A longer commitment increases theoretical exposure to forecasting risk, but it also provides greater certainty during the period when uncertainty is most costly to consumers. In our view, certainty over the cost of equity is most valuable during the construction phase and the early years of operation. This is the period when substantial capital is committed, cashflows are most uncertain, and investors, contractors and supply chains are making decisions that materially affect efficient delivery. It is also the period during which demand is stabilising around the new capacity and planning constraints on that capacity, including those envisaged by HENPS, are being tested and validated. The commitment period should therefore align with the delivery of the runway and associated terminal infrastructure, together with the initial period after opening when the airport transitions to steady-state operation. This approach is consistent with the rationale adopted in other major infrastructure sectors, including nuclear and energy projects, where longer-term regulatory commitments have been used to support efficient financing of investments with extended construction and ramp-up periods.

Our response to CAP3286 commentary on Model 3

- 4.16. The CAA states in CAP3286 that “by providing certainty that the framework will not be inappropriately amended once capital is committed, investors may require less compensation for bearing risk over the expansion construction period”. We agree that this is the central premise of Model 3.
- 4.17. We welcome the CAA’s statement in CAP3286 that, for option 3.1c, it is “considering further the merits of adopting a single RAB for business-as-usual and expansion capex and whether

this option could provide greater financing certainty during the construction phase to benefit consumers.”¹⁵ That is the right question and the CAA should now prioritise answering it.

- 4.18. We also welcome the CAA’s commitment to “make progress on these arrangements in a timely way”¹⁶, while recognising that the policy area is challenging. Timely progress is essential because the timing of Model 3 certainty is itself a consumer issue: if certainty is needed to mobilise capital, then the timing of that certainty affects the timing of benefit delivery. Delay in resolving Model 3 risks delaying investment, weakening supply-chain engagement and deferring the capacity, competition and connectivity benefits consumers are expected to receive. It also risks higher costs, because later supply-chain mobilisation gives Heathrow less ability to secure materials, labour and delivery capacity efficiently in constrained markets. The CAA should therefore treat early Model 3 certainty as a route to timely consumer benefits and efficient cost, not simply as an investor-confidence issue. That conclusion is consistent with the CAA’s statutory duties. If the evidence shows that earlier certainty lowers financing costs, supports efficient procurement and accelerates delivery of consumer benefits, then delay becomes a consumer issue in its own right rather than merely a financing issue.
- 4.19. At the same time, CAP3286 continues to leave several Model 3 sub-options open, including a separate Expansion RAB, cap-and-collar mechanisms and wider risk-sharing approaches. It is understandable why these options may appear attractive: they are intended to provide additional consumer protection, address concerns about asymmetric risk allocation and preserve the CAA’s ability to respond if outcomes differ materially from forecast. Those are legitimate objectives. However, as set out in our response to CAP3251 and the supporting evidence from Freshfields and Santander, a separate RAB SPV structure does not deliver better consumer outcomes than an enhanced single RAB framework supported by rules-based reopeners, indexation, assurance, governance and calibrated risk-sharing, and it is not clear that a cap-and-collar mechanism would have any financing benefit.
- 4.20. The CAA should also recognise that airline views on Model 3 are not uniform. While some airlines oppose longer-term cost of equity certainty, Qantas recognised in its CAP3251 response that “a longer-term commitment, aligned to the construction and early operational period, reduces this risk premium and benefits airlines and consumers through lower charges”.¹⁷ That is an important point for the CAA’s workplan.
- 4.21. The evidence suggests that longer-term commitments can reduce avoidable financing costs, support more efficient procurement and supply-chain mobilisation, and improve the prospects of delivering Expansion benefits in a timely manner. Consumers benefit both from lower financing costs and from earlier access to the competition, connectivity and fare benefits that new capacity can unlock. The remaining questions are therefore ones of design, calibration and implementation. They should be addressed through the wider package of

¹⁵ CAP3286, paragraph 4.12.

¹⁶ CAP3286, paragraph 5.7.

¹⁷ [qf_cap3251_15062026_public.pdf](#)

governance, assurance, incentives and risk-sharing measures, rather than by delaying decisions on the core financing framework itself.

Response to CAP3286 adviser reports

- 4.22. We recognise that Centrus raises important design questions for the CAA to resolve. That is precisely why Model 3 should remain a priority. The key issue is no longer whether greater financing certainty could benefit consumers, but how it can be introduced in a way that supports timely delivery, efficient financing and appropriate consumer protections.
- 4.23. We agree with Centrus that this is principally a cost of equity issue rather than a mechanical debt-side saving. The table below sets out the key issues identified by Centrus and how they can be addressed within an enhanced single RAB framework, drawing on the evidence submitted with our CAP3251 response. We do not seek to provide a final answer to every technical question at this stage. Some issues, including investor requirements, credit metrics and financeability, require further analysis and should form part of the structured work programme now being developed. The purpose of this section is therefore to identify the issues that matter most, explain our position, and set out how we can support the CAA's further assessment.

Table 1. Response to Centrus report

Centrus issue	Heathrow response
Model 3 benefit is principally cost of equity, not cost of debt.	We agree. This is why the CAA should focus on the Expansion cost of equity as the key building block. The purpose of Model 3 is not to create a mechanical debt-side saving, but to reduce the equity risk premium required for a long-duration construction programme by providing confidence that the return framework will not be reopened once capital has been committed.
The WACC horizon needs to be justified.	As we set out in response to CAP3251, the commitment should first and foremost align with the construction and early operational period – but reflect the longer term nature of the project as was also supported by the analysis from Freshfields and Santander. This is because it better aligns with the extended timeline for delivery, return on equity requirements reflecting the greenfield project risk associated with Expansion and the mainstream infra investors targets for long-horizon stable rates of ROE.
The CAA needs to understand shareholder return expectations and funding plans.	We agree that the CAA should test market and investor evidence. That should include Heathrow's funding plan, direct engagement with rating agencies, and evidence from Freshfields and Santander on how different structures affect financeability, rating headroom, creditor security, cash-flow risk and efficient financing costs.
Reopeners, indexation and risk-sharing are needed to protect consumers.	We agree. These are the right consumer protections and should form part of the wider Expansion regulatory framework. Heathrow is not proposing that the entire WACC or price control framework be fixed for 15-20 years. Other regulatory building blocks, including the cost of debt and wider assumptions, can continue to evolve through normal regulatory processes. Reopeners, indexation, governance, assurance and risk sharing through efficiency incentives ensure consumers remain protected from forecasting error, changing circumstances and inefficient costs, whilst allowing long-term certainty over the Expansion cost of equity.

Centrus issue	Heathrow response
Cost-allocation issues need to be considered.	We agree the issues should be considered, but Freshfields and Santander analysis shows why a separate Expansion RAB is not neutral. It would create legal, financing, cost-allocation, covenant, creditor-security, reporting and rating-agency complexities. It is also a fundamental change to the overall regulatory regime, adding complexity to the operating environment and allocation of risk and revenues. Unless the CAA can identify a defined consumer problem that cannot be solved within Heathrow's existing platform through Expansion-specific treatment of the cost of equity, separate-RAB analysis should not delay the core decision.

- 4.24. This means the Centrus report should be read as identifying the design questions the CAA must answer. Properly understood, those questions point toward an integrated single RAB financing platform with early certainty over the Expansion cost of equity and rules-based consumer protections. The material from Freshfields and Santander provides the evidence for why that approach is more financeable, more practical and more likely to benefit consumers than delay or the complexity associated with separate financing structures.
- 4.25. In particular, the Freshfields and Santander analysis shows that consumer protections such as reopeners, indexation, cost-allocation principles, independent assurance, governance and tailored incentives, can be incorporated into the existing single RAB framework to deliver neutral to marginally positive financeability benefits without introducing the legal, financing and allocation risks associated with a separate Expansion RAB.
- 4.26. The emerging analysis we are developing with KPMG¹⁸ reaches the same conclusion. Comparing Expansion and BAU over five-year and 15-year horizons, it assesses risk by reference to the asymmetry and uncertainty of outcomes and exposure to extreme downside events. KPMG concludes that Expansion is materially riskier than BAU on all three measures. These risks are greatest during the programme's formative stages, when substantial capital must be committed before the regulatory treatment of future revenues and RAB additions is settled.
- 4.27. KPMG's analysis assumes, consistently with UK infrastructure precedents, that high-impact, low-probability risks—such as major policy or legal changes and force majeure events—are addressed through the design of the regulatory regime. Residual regulatory uncertainty during the formative stages would therefore introduce an additional risk for investors to price. Early clarity would reduce avoidable risk, support capital commitment and help maintain timely delivery.
- 4.28. The precedent set by the Phoenix Natural Gas determination reinforces the central premise of Model 3: where uncertainty weakens confidence in the predictability of the regime, investors and lenders will price that risk. The Competition Commission recognised that can

¹⁸ We are working to share the KPMG analysis with the CAA as soon as possible, noting that the results are work in progress, as details of the regulatory framework and masterplan continue to evolve. We will engage bilaterally with the CAA about this project, and to understand evidence that would be useful to support the CAA as it develops its analysis and views.

deter investment, increase debt costs through rating pressure and raise the cost of equity for both existing and future infrastructure investment, potentially over a prolonged period. The lesson for Expansion is not that the circumstances are identical, but that delay and ambiguity have a cost. Early regulatory certainty reduces avoidable risk, supports efficient financing and timely investment, and therefore protects consumers from higher charges and deferred benefits.

Comments on proposed CAA workplan

- 4.29. We recognise that Model 3 requires careful calibration of financeability, affordability, risk allocation and consumer protection. But that is precisely why it should be a priority. The long-term financing framework not only determines the cost of equity recovered through charges, it will shape whether Expansion can be delivered at efficient cost, whether supply chains can be mobilised with confidence, and whether consumers receive the capacity, competition and connectivity benefits of Expansion in a timely way.
- 4.30. We recognise that the CAA will also need a clear view of Heathrow's own process, evidence base and timetable in order to set realistic milestones in September. As set out in Chapter 2 and Supporting Document 1, the maturity of information will develop through consultation, DCO preparation and business planning. We will provide Model 3 evidence in a structured way, including analysis on the Expansion cost of equity, risk premium, financeability, investor requirements, credit metrics and the interaction with timetable supporting DCO, procurement and mobilisation milestones. Some information can be provided now, other evidence will mature as scheme design, consultation and the 2027–29 Business Plan develop. The workplan should therefore be based on regular structured engagement and clear information requests linked to specific regulatory decisions, rather than waiting for periodic consultation submissions.
- 4.31. We have set out below our response to each issue/topic set out in CAP3286; however, it is important to be clear where the workplan should be focused:
- 4.32. First, the September document should provide direction of travel. In our view, that should be confirmation that Expansion will be financed through Heathrow's existing single RAB, rather than through a separate RAB, SPV or financing platform. It should also confirm the CAA's intention to develop a long-term framework for the real cost of equity, supported by rules-based consumer protections. This does not require every parameter to be finalised in September. It does require sufficient clarity that the CAA is prioritising the model most capable of supporting timely delivery, efficient financing and consumer confidence, while leaving detailed calibration questions to be resolved through structured engagement.
- 4.33. Secondly, the CAA should set out a timetable for providing a meaningful early view on the Expansion cost of equity or the methodology for determining it. The workplan should therefore align with the DCO timetable and supply-chain mobilisation, and provide the early steer needed to support timely delivery and efficient cost. We recognise that calibrating the cost of equity is a complex task and that the CAA will rightly wish to engage with stakeholders

as its thinking develops. However, the challenge has now shifted from establishing whether long-term cost of equity certainty is required to determining how it should be delivered and on what timetable. The September publication should therefore establish a credible pathway to providing an early steer.

- 4.34. Thirdly, the CAA should develop the consumer protections required for effective implementation of Model 3 through the wider Expansion regulatory framework. We recognise that airlines and other stakeholders have legitimate concerns regarding cost discipline, regulatory oversight and fair risk allocation. Those concerns should be addressed through the combined operation of the framework as a whole: higher-quality governance, independent assurance, procurement scrutiny, targeted incentives, reopeners, symmetrical indexation mechanisms and calibrated risk-sharing. Importantly, we are not proposing that the entire WACC or wider price control framework is fixed for 15 to 20 years. Other building blocks, including the cost of debt and wider regulatory assumptions, can continue to evolve through normal regulatory processes. These mechanisms ensure consumers remain protected from forecasting error and changing circumstances, while allowing long-term certainty over the cost of equity – with actual returns to equity determined by actual performance and outturns.
- 4.35. Lastly, the CAA should be clear on the role that alternative Model 3 structures continue to play in its analysis. The priority should now be determining how Expansion-specific risk is recognised and how the associated cost of equity is calibrated. Alternative approaches should only continue to be developed where the CAA can identify a defined consumer problem that cannot be addressed through that framework. The objective should now be progress towards implementation, not continued exploration of alternative financing platforms whose consumer benefits remain unproven.
- 4.36. As the CAA consider the work plan for Model 3, a key area where further information and certainty are required is on the long-term cost of equity. This response outlines where we believe an early view on cost of equity is vital and would urge the CAA to confirm in September 2026, its intention to prioritise this above other areas where there is greater time to consider before impacting the pace of the programme overall. The ability for Heathrow to run analysis of financial implications of the programme (i.e. affordability) is made more difficult without an early steer from the CAA on the cost of equity.

Table 3. Heathrow's views on CAA Workplan, Model 3

CAA Suggested Topic/ Issue in CAP3286:	Heathrow response:
<i>Further consideration of setting a separate expansion RAB and analysis of the Implementation issues, including the concerns raised by HAL over the legal and financial implications and the issues raised by Heathrow Reimagined on cost allocation;</i>	▪ Our position remains that the appropriate foundation for Model 3 is Heathrow's existing single RAB. Expansion should continue to be financed through the airport's established financing platform, credit profile and licence rather than through a separate RAB, SPV or financing vehicle. ▪ Expansion investment should be identified separately for regulatory and accounting purposes, allowing the CAA to calibrate an Expansion-specific cost of equity that reflects the distinct risks of the programme whilst preserving a single financing platform and a single blended airport cost of capital. ▪ A separate Expansion RAB would introduce legal, financing, cost-allocation, creditor-security, reporting and rating-agency complexity without a clearly identified consumer problem that cannot be addressed through this approach. ▪ The CAA should therefore focus on how Expansion-specific risk is recognised within Heathrow's integrated financing platform, rather than allowing further separate-RAB analysis to delay decisions on the long-term cost of equity and wider financing framework.
<i>Considering different methods for estimating the cost of capital for expansion, including how we would ensure that we retain appropriate consumer protections, drawing on analysis that the CAA carried out prior to covid-19 and further information on the types of costs and risks from the current Heathrow expansion proposals;</i>	▪ We agree that the CAA should consider different methods for estimating the cost of capital for Expansion and how consumer protections should be embedded. However, the priority should be the real cost of equity, because this is the building block most directly affected by uncertainty over a long-duration construction programme and the area where Model 3 is most capable of ensuring financing Expansion is efficient. ▪ The CAA's work should also test financeability and debt-side consequences more explicitly than is currently reflected in the Centrus report. This should include engagement with rating agencies and market evidence on how different Model 3 structures affect credit metrics, rating headroom, creditor security, cash-flow risk and efficient financing costs. ▪ We will continue to develop our evidence on these issues and share it with the CAA as this work progresses.

CAA Suggested Topic/ Issue in CAP3286:	Heathrow response:
<i>Identifying options for setting caps and collars on overall returns where this approach can be implemented in a way that is credible and workable in practice</i>	▪ The CAA should first consider whether such cap and collar mechanisms would better address the below foundational questions, and whether these can be addressed more simply through the enhanced single RAB framework, supported by reopeners, indexation, assurance, governance and calibrated risk sharing through capital incentives. ▪ In particular, the CAA should assess: • Whether the mechanism addresses a clearly identified consumer problem. • Whether it improves outcomes relative to the wider framework already being developed. • Whether it introduces additional regulatory complexity or subjective judgement. • Whether it creates material incremental consumer value once implementation, financeability and delivery impacts are taken into account. ▪ Any cap-and-collar mechanism would need to be credible, workable and symmetrical. It should not undermine the long-term certainty needed to reduce the Expansion risk premium, nor introduce complexity that delays investment or increases financing costs. The relevant comparison should be against an Expansion-specific framework with long-term cost of equity certainty and robust consumer safeguards, rather than an abstract consumer-protection mechanism considered in isolation.
<i>Considering the use of re-openers and indexation mechanisms to ensure appropriate risk allocation and benefits to consumers; and</i>	▪ We support further work on reopeners and indexation as core consumer protections within Model 3. Properly designed, these mechanisms can protect consumers from material forecasting error, changes in market conditions and extreme downside outcomes whilst preserving the financing benefits associated with long-term certainty over the Expansion cost of equity. ▪ Importantly, we are not proposing that the entire WACC or wider price control framework be fixed for 15-20 years. Other building blocks, including the cost of debt and wider regulatory assumptions, can continue to evolve through normal regulatory processes. Reopeners, indexation, governance, assurance and incentives help ensure consumers remain protected whilst allowing long-term certainty over the building block most relevant to Expansion financeability. ▪ This work should now move into structured design and implementation engagement with Heathrow, airlines, the CAA and its advisers.

CAA Suggested Topic/ Issue in CAP3286:	Heathrow response:
<i>Identifying and analysing precedents for risk sharing for other major UK infrastructure projects in energy, water, rail and telecoms, to shape future implementation policy proposals.</i>	▪ We support the CAA's intention to examine risk-sharing precedents from other major UK infrastructure projects. That work should focus on the regulatory principle those precedents demonstrate: where delay creates material consumer harm, frameworks should combine early certainty, higher quality governance, independent assurance and calibrated risk-sharing rather than rely on uncertainty or late-stage ex post review. ▪ Sizewell C, Thames Tideway and Ofgem's ASTI framework are particularly relevant comparators. Each shows the importance of aligning risk allocation, financeability and consumer protection over a long delivery period. The lesson for Heathrow is not that any precedent should be copied directly, but that the CAA should design a bespoke framework that gives investors confidence, maintains discipline on cost and scope, and enables timely delivery of consumer benefits.¹⁹

Conclusion

- 4.37. Model 3 is a critical condition for delivering Expansion benefits at efficient cost. Without a credible long-term financing framework, Heathrow will not be able to commit capital, mobilise supply chains or progress the programme at the pace required to deliver the capacity, competition and connectivity benefits consumers need. The CAA should therefore prioritise Model 3 as a central part of its September workplan.
- 4.38. The right approach is to retain the single RAB while recognising transparently the distinct risk profile of Expansion investment. Expansion should continue to be financed through Heathrow's established financing platform, credit profile and regulatory framework, with Expansion assets identified separately for regulatory purposes so that the real cost of equity can be calibrated to reflect Expansion-specific risk. This preserves the benefits of Heathrow's existing financing platform while avoiding the legal, financing and cost-allocation complexity associated with a separate Expansion RAB, SPV or financing vehicle.
- 4.39. Importantly, we are not proposing that the wider price control framework is fixed for 15-20 years. The objective is to provide long-term certainty over the real cost of equity while allowing other building blocks, including the cost of debt and wider regulatory assumptions, to continue evolving through normal regulatory processes. Consumers would remain protected through periodic resets, reopeners, indexation mechanisms and the wider framework of governance, independent assurance, procurement scrutiny and tailored incentives. This provides certainty where it is most valuable in reducing the cost of financing expansion while preserving the flexibility and protections needed to safeguard consumer interests.

¹⁹ At Sizewell C risks were reassessed and managed throughout the project lifecycle via ongoing regulatory oversight, periodic reviews, licence mechanisms, and government support arrangements – see supporting documentation with Heathrow response to CAP3251.

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- 4.40. Centrus does not undermine this conclusion. It reinforces that the principal financing benefit arises from reducing equity uncertainty rather than generating mechanical debt-side savings. The evidence from Freshfields and Santander also supports the benefit of a long term determination of the cost of equity within Heathrow's single RAB, rather than through the introduction of separate financing structures. Together, the evidence points towards prioritising implementation of Model 3 and resolving the remaining design questions collaboratively, rather than delaying the framework needed to unlock timely consumer benefits.
- 4.41. The CAA should use September to confirm the single RAB, commit to developing the long-term fixed real cost of equity, and set a credible timetable for providing that guidance in 2027.

5. PROCUREMENT OVERSIGHT, MODEL 4a

Heathrow view on Model 4a

- 5.1. **Model 4a is ultimately about improving procurement outcomes for consumers. Expansion will succeed only if Heathrow can attract capable suppliers, stimulate competition, allocate risk effectively and secure scarce resources in a constrained market. The role of procurement scrutiny should therefore be to improve the quality of procurement decisions, not to replace them. Consumers benefit when procurement is transparent, competitive and well evidenced. They do not benefit when additional process delays decisions, weakens accountability or slows delivery. The central challenge for the CAA is therefore not whether procurement should be scrutinised, but how scrutiny can strengthen procurement outcomes while preserving Heathrow's responsibility for delivery.**
- 5.2. As outlined in our response to CAP3251, Heathrow supports the CAA's focus on enhancing procurement scrutiny for the Expansion programme. Expansion will require a broader, deeper and more competitive supplier landscape than business-as-usual delivery. Effective procurement will be central to securing market capacity, driving innovation, maintaining cost discipline and delivering consumer benefits at pace.
- 5.3. As set out in Chapter 2, the quality of procurement outcomes is heavily influenced by early market engagement, supply-chain mobilisation and front-end definition. Procurement scrutiny is therefore most valuable where it strengthens those activities before commitments are made, rather than retrospectively reviewing decisions after they have been taken.
- 5.4. The key design question is not whether procurement should be subject to scrutiny, but how that scrutiny is structured. In our view, Model 4a should operate as a proportionate mechanism for enhanced transparency, assurance and challenge over Heathrow's procurement strategy. It should help the CAA and stakeholders understand the evidence supporting supplier qualification, contract packaging, market engagement, risk allocation, value-for-money assessment and benefits management. It should not operate as a route for the CAA to direct individual procurement choices, particularly where Heathrow remains accountable for delivery, safety, operational resilience, cost and service outcomes.
- 5.5. Heathrow is already developing its supplier engagement and procurement capability to support a seamless transition from planning to delivery. Heathrow welcomes further engagement with the CAA on the information requirements that should support supplier qualification, procurement strategy and value-for-money assessment. That engagement will be most useful where it is forward-looking, proportionate and focused on the decisions that affect consumer value.
- 5.6. The main platform for this work is Ecosystem Live. This is being developed as a practical and auditable route for engaging the supply chain, understanding supplier capability and

capacity, supporting supplier accreditation, testing procurement phasing and aligning supplier selection with consumer value, resilience, sustainability and whole-life cost.

- 5.7. Ecosystem Live should help Heathrow and the CAA identify where market capacity is constrained, where early engagement is needed and how procurement choices affect delivery outcomes. Its value is not simply greater transparency. It is the ability to create a better informed and more competitive market before procurement decisions are taken.
- 5.8. In our view, the strongest consumer safeguard is not retrospective challenge, but better evidence and stronger competition before commitments are made. The evidence cited in Chapter 2 is clear that stronger front-end definition, early contractor involvement and early market engagement contribute materially to cost and schedule performance. Ecosystem Live should therefore be viewed not simply as a transparency tool, but as a mechanism for improving procurement outcomes before commitments are made.
- 5.9. In particular, Ecosystem Live should help to:
 - align procurement strategy with market capacity, supplier capability and programme phasing, reducing cost and schedule risk;
 - support early supplier engagement and accreditation, so that procurement decisions are informed by evidence on capability, resilience, sustainability, innovation and skills;
 - provide a transparent and auditable evidence base for supplier selection, pre-qualification and value-for-money assessment;
 - give the CAA and stakeholders earlier visibility of procurement strategy without creating duplicate approval processes or delaying supplier engagement; and
 - embed benefits management into procurement choices, ensuring supplier engagement supports Expansion outcomes for passengers, airlines, communities and consumers.
- 5.10. This approach is consistent with the wider regulatory framework we support for Expansion. Model 4a should strengthen procurement discipline and transparency, but it should do so in a way that preserves clear delivery accountability and enables flexible, work-package-specific procurement decisions. A one-size-fits-all approach to competitive tendering would not necessarily protect consumers if it increases delay, weakens supplier appetite, misallocates risk or raises whole-life cost. The consumer interest is best served by a procurement framework that combines competitive tension, early market engagement, robust assurance and clear accountability for delivery.

Our response to CAP3286 commentary on Model 4a

- 5.11. We welcome the CAA's broad direction of travel on Model 4a. CAP3286 recognises that the new regulatory framework should combine capital governance, incentives and procurement oversight, and states that "*greater focus on procurement should ensure competitive forces*

are relied upon to help drive further efficiencies".²⁰ We agree. Heathrow has consistently supported enhanced scrutiny of procurement strategy where it improves transparency, strengthens competitive tension and gives the CAA, airlines and consumers' confidence that Expansion is being procured efficiently.

- 5.12. However, the important distinction is between scrutiny of procurement strategy and direction of individual procurement choices. As set out in our responses to CAP3195 and CAP3251, Model 4a should remain a proportionate assurance and challenge mechanism. It should allow the CAA, the COG and JIA to test whether Heathrow's procurement strategy is robust, market-tested and aligned with consumer value, including through evidence on supplier capability, contract packaging, risk allocation, market appetite, whole-life cost and critical-path impact.
- 5.13. Heathrow remains accountable for delivery, safety, resilience, service quality, financeability and programme outcomes. It follows that while procurement strategies should be tested and challenged, accountability for procurement decisions should remain aligned with accountability for programme delivery. Model 4a should therefore strengthen transparency, challenge and assurance without transferring decision-making responsibility away from those responsible for delivering the programme.
- 5.14. We therefore support the CAA's proposed next steps on defining information requirements, assessing Heathrow's procurement plans and drawing on independent assurance. That work should be forward-looking, proportionate and focused on the decisions that matter most for consumers. It should not create duplicate approval gateways, additional veto points or a route for the CAA to mandate particular procurement routes by default. For scrutiny to add value, it must be timely, expert, and proportionate, free from actual or perceived conflicts, and grounded in the programme's objectives, maturity, constraints and delivery requirements.
- 5.15. This is particularly important because procurement choices must vary materially by work package. As outlined later in this response, a strategy that is efficient for a mature, separable or repeatable package may be inappropriate for complex, integrated or critical-path infrastructure. The CAA's September workplan should therefore confirm that Model 4a will focus on procurement quality rather than procurement form: testing the evidence, challenging the rationale and assuring the process, while preserving Heathrow's accountability for delivery, safety, resilience, cost, service and financeability.

Response to CAP3286 adviser reports

- 5.16. Steer's updated technical assessment supports our view that Model 4a should be developed as part of an integrated package with Models 1a and 2. Steer concludes that Models 1a, 2 and 4a preserve Heathrow's responsibility for "*system planning, delivery, ownership, and operation*" while strengthening governance, incentives and procurement scrutiny. That is the

²⁰ CAP3286, paragraph 4.33.

right framing: Model 4a should improve transparency and assurance within an integrated owner-operator model, not dilute accountability for procurement and delivery.

- 5.17. We also welcome Steer’s conclusion that enhanced procurement scrutiny should focus not only on whether Heathrow follows robust procurement processes, but also on whether *“contract strategies allocate risk efficiently, preserve operational integration and create appropriate incentives for suppliers to deliver assets that are fit for efficient long-term operation”*. We agree. This is the right test for Model 4a. Procurement oversight should focus on the quality of the procurement strategy and the consumer outcomes it supports — efficient cost, timely delivery, operational resilience, service quality and whole-life value — rather than on mandating a particular procurement route.
- 5.18. This is particularly important because Expansion will not be procured through a single uniform model. Procurement strategy will need to vary by work package, reflecting design maturity, supplier capability, market appetite, critical-path impact, operational interfaces, risk allocation, sustainability, resilience and whole-life cost. Some packages may benefit from early contractor involvement or long-lead commodity agreements; others may be suitable for more conventional competitive tendering once scope is mature. A one-size-fits-all approach would risk increasing cost, weakening supplier appetite, delaying mobilisation or misallocating risk.
- 5.19. We therefore support Steer’s view that the effectiveness of Models 1a, 2 and 4a depends on governance, incentives and procurement scrutiny being designed as *“an integrated set of measures rather than as separate interventions”*. Model 4a should be linked clearly to the COG and JIA. Those mechanisms can give the CAA, airlines and consumers confidence that procurement decisions are being tested against robust evidence, while preserving Heathrow’s accountability for delivery, safety, resilience, cost, service and financeability.
- 5.20. Steer also identifies the need for defined information requirements, approval gates, change-control processes and escalation mechanisms. We agree, provided these are proportionate, timely and outcome-focused. The CAA’s information requirements should therefore focus on the evidence needed to assess consumer value: market engagement, supplier capacity and capability, procurement phasing, contract packaging, risk allocation, whole-life cost, resilience, sustainability and benefits management. Ecosystem Live can provide a practical and auditable route for sharing this information, including supplier accreditation and market-capacity evidence.

Comments on proposed CAA workplan

- 5.21. We set out our view on the suggested topics / issues within CAP3286 on the future workplan for Model 4a alongside our comments on workplan for models 4b and 5b, in Chapter 6.
- 5.22. The September document should confirm that:
- Model 4a will be developed as a procurement scrutiny, assurance and challenge mechanism, not as a general power to direct individual procurement choices;

- the CAA will define proportionate and decision-useful procurement information requirements, including market engagement, supplier capability, contract packaging, risk allocation, whole-life cost, resilience, sustainability and benefits management;
- the CAA and any external advisers will engage with Heathrow’s procurement strategy and Ecosystem Live as the practical route for understanding supplier accreditation, market capacity and procurement phasing;
- procurement approaches will be assessed on a work-package-specific basis, reflecting asset complexity, market appetite, critical-path impact, operational integration, programme maturity and consumer value;
- any proposed CAA intervention to require a specific procurement route will be supported by a clear legal basis, defined intervention threshold, decision process, accountability framework and safeguards for cost recovery, financeability and delivery risk; and
- Model 4a will be integrated with the COG and JIA so that procurement scrutiny strengthens, rather than duplicates, the wider Expansion governance framework.

Conclusion

- 5.23. Model 4a is most valuable where it improves procurement outcomes for consumers. Its purpose should be to strengthen the evidence base for procurement decisions, improve transparency and challenge, and build confidence that competition, risk allocation and whole-life value have been properly tested before commitments are made. It is least valuable where it creates additional approval gateways, delays decisions or blurs accountability for delivery. The September document should therefore confirm Model 4a as a targeted assurance mechanism, integrated with the COG and JIA, that supports better procurement decisions while preserving Heathrow's accountability for delivery.
- 5.24. As set out in Chapter 2, efficient procurement and timely market engagement are on the critical path to delivering consumer benefits. Model 4a should therefore focus on improving procurement decisions rather than increasing procurement process. The September document should prioritise implementation of proportionate scrutiny, stronger market evidence and effective assurance arrangements that improve procurement outcomes without introducing additional delay or weakening accountability for delivery.
- 5.25. The focus should now be on implementation: defining proportionate information requirements, using tools such as Ecosystem Live to strengthen market engagement and procurement evidence, and ensuring that scrutiny improves procurement outcomes rather than adding process. That is the approach most likely to strengthen procurement discipline without weakening delivery accountability, and to deliver the consumer benefits of Expansion at efficient cost and pace.

6. COMPETITIVE TENDERING, MODELS 4b AND 5b

Introduction

- 6.1. **Model 5b should be developed where it can demonstrably improve consumer outcomes, not as a default solution in search of a problem. We support the targeted use of third-party delivery where it can be shown to deliver better outcomes for consumers through specialist capability or improved whole-life value. However, neither the original case for change nor the evidence developed through CAP3251 and CAP3286 establishes a basis for using Model 5b, or retaining the prospect of mandating it, for terminals or other core aeronautical assets.**
- 6.2. Clarity on Model 5b is now critical to implementation of the wider framework. Delivery models, financing arrangements and the Expansion risk premium are intrinsically linked. If the CAA intends to establish a long-term financing framework capable of supporting timely delivery, it should first provide clarity on the scope and limits of Model 5b. Leaving open the possibility that Model 5b could be mandated for core aeronautical assets creates uncertainty that will ultimately be reflected in financing costs, procurement decisions and delivery risk.
- 6.3. The priority should now be moving from exploration to evidence-based conclusions. We recognise that the CAA will want confidence that Model 5b can be applied appropriately and in the interests of consumers. However, the evidence developed through CAP3251 and CAP3286 does not establish a case for applying Model 5b to terminals or other core aeronautical assets. The September document should therefore draw a clear distinction: Model 5b should not be applied or mandated for terminals or other core aeronautical assets, but may be assessed for discrete, separable non-core assets through an evidence-led framework with no presumption in favour.
- 6.4. Clarity on where Model 5b is to be applied is increasingly important because delivery models, financing arrangements and the Expansion risk premium are intrinsically linked. Leaving open the possibility that Model 5b could be mandated for core aeronautical assets creates uncertainty that feeds directly into financing costs and the cost of capital. We therefore encourage the CAA to provide greater clarity on the scope and limits of Model 5b, while continuing to assess potential applications on an evidence-led, asset-by-asset basis where there is a credible route to improving consumer outcomes.

Heathrow view on Model 5b

- 6.5. Our position on Model 5b rests on four propositions;
 - we support third-party delivery where it can demonstrably improve consumer outcomes.
 - Model 5b should not be conflated with Model 4b: the benefits of competition, market testing and procurement discipline can often be achieved without transferring financing or operation to a third party.

- Neither the original case for change nor the evidence developed to date establishes a basis for applying Model 5b to terminals or other core aeronautical assets, where the evidence instead points towards higher financing costs, greater complexity and increased delivery risk.
 - Delivery models, financing arrangements and the Expansion risk premium are intrinsically linked. Leaving open the possibility that Model 5b could be applied to core assets creates uncertainty that ultimately affects investment decisions, financing costs and the timely delivery of consumer benefits.
- 6.6. We have consistently supported the use of competition, specialist delivery capability and third-party participation where they can demonstrably improve consumer outcomes. Our position is therefore not one of opposition to Model 5b. On the contrary, we have actively explored and promoted third-party delivery models where they are capable of unlocking investment, innovation, operational expertise or whole-life value. We proposed an Alternative Property Model in our H8 business plan, are progressing a Design-Build-Operate approach for Cargo East, and previously recommended exploring Direct Procurement for Customers-style approaches for suitable asset classes. These are not theoretical positions. They reflect a genuine willingness to deploy alternative delivery models where there is a clear route to consumer benefit.
- 6.7. We also believe it is important not to conflate Model 5b with Model 4b. Many of the benefits often attributed to Model 5b, including competitive tension, market testing, specialist capability and procurement discipline, can already be achieved through competitive procurement under Model 4b. The relevant question is therefore not whether Model 5b has theoretical benefits in isolation, but whether it delivers materially better consumer outcomes than the alternatives already available once financing costs, implementation complexity, operational interfaces, delivery risks and timetable impacts are taken into account.
- 6.8. The evidence developed through CAP3251 and CAP3286 has, if anything, reinforced the distinction between assets where further exploration may be justified and core aeronautical assets where it is not. For terminals and other operationally integrated airport infrastructure, neither the original case for change nor the subsequent analysis identifies a consumer problem that requires Model 5b to be mandated. Nor does the evidence demonstrate material incremental benefits relative to Model 4b. By contrast, the evidence points to greater complexity, weaker financeability, higher financing costs and increased delivery risk. Freshfields and Santander analysis indicates that terminal-style applications of Model 5b would require more than 30% capital cost savings in some scenarios simply to offset the increase in financing costs.
- 6.9. We remain committed to exploring our procurement strategy, including the potential application of Models 4b and 5b, with the CAA and stakeholders. That is why, in our responses to CAP3195 and CAP3251, we proposed an asset-by-asset framework for assessing suitability, including tests for separability, critical-path impact, operational

interfaces, market appetite, risk allocation, financeability and whole-system consumer value. The purpose of that framework was never to establish a presumption in favour of Model 5b. It was to ensure that any application of the model is grounded in evidence and consumer benefit. The evidence supports continued exploration for discrete, separable non-core assets where genuine value may exist, but it does not establish a basis for applying Model 5b for terminals or other core aeronautical assets.

- 6.10. The core question is therefore where, if anywhere, Model 5b can be shown to improve consumer outcomes. We stand ready to work with the CAA, airlines and other stakeholders to identify opportunities where third-party delivery can add genuine value. However, neither the original case for change nor the evidence developed through CAP3251 and CAP3286 provides a basis for applying Model 5b to terminals or other core aeronautical assets. Given the direct interaction between delivery models, financeability and the Expansion risk premium, we believe the CAA should now provide clarity on the scope and limits of Model 5b before determining the long-term financing framework. We support continued assessment of potential applications on an evidence-led, asset-by-asset basis, particularly for discrete and separable assets where there is a credible route to improving consumer outcomes. What should end is the uncertainty around whether Model 5b might be applied for core aeronautical assets, because that uncertainty will delay the implementation of the framework required to unlock investment.

Our response to CAP3286 commentary on Model 5b

- 6.11. CAP3286 develops the CAA's position on Model 5b by treating it as a potentially broader tool for delivery than the targeted approach we consider appropriate. We welcome the CAA's willingness to explore where specialist capability and third-party delivery could improve consumer outcomes. However, that exploration should start from a clear case for change and a disciplined assessment of whether Model 5b delivers materially better consumer outcomes than the alternatives already available, including competitive design-and-build procurement under Model 4b.
- 6.12. The starting point should be the same as for any regulatory intervention: a clearly identified consumer problem, evidence that intervention is necessary, and a proportionate remedy that is likely to improve outcomes for consumers. The relevant question is whether Model 5b can be shown to deliver materially better consumer outcomes than the alternatives available. Neither the original case for change nor the evidence developed through CAP3251 and CAP3286 identifies a consumer problem that requires Model 5b to be applied to core aeronautical assets. Nor does CAP3286 explain why the benefits it associates with Model 5b could not be achieved through less intrusive approaches, including Model 4b.
- 6.13. Nor has the case for consumer value been established through financing. The proposition that Model 5b reduces Heathrow's financing burden only has consumer value if there is evidence that Heathrow cannot raise efficient private finance through its established RAB-based financing platform, or that third-party financing would lower whole-system costs. The evidence before the CAA does not establish either proposition. On the contrary, Freshfields

and Santander analysis submitted alongside our response to CAP3251 indicates that applying Model 5b to terminal-style assets would likely lead to materially higher financing costs. That is a significant evidential hurdle which should not be assumed away by treating third-party financing as inherently beneficial.

- 6.14. The same point applies to revenue-risk allocation. CAP3286 places weight on the need to consider revenue risk and obtain further expert advice. We welcome that work, but it needs to consider whole-system consumer outcomes rather than simply whether risk can be contractually transferred. Demand risk is not symmetrical between Heathrow and a third party. Heathrow is better placed to manage demand effects across the airport system and passenger journey, whereas a third party would be exposed to a narrower and less controllable revenue base. If demand risk is transferred, that exposure is likely to be priced at a higher return than Heathrow would require. If availability payments are used to mitigate that risk, those obligations may be treated as debt-like and weaken the overall financeability case. In either scenario, the relevant question is whether consumers are better off once financing costs and delivery impacts are taken into account.
- 6.15. More fundamentally, the issues raised by Model 5b extend beyond financing and revenue risk. For terminals and other core aeronautical assets, the relevant considerations include delivery risk, interface risk, operational resilience, long-term service quality, accountability, implementation timing, legal powers, cost recovery and the effect of regulatory intervention on Heathrow's cost of capital. These issues are particularly acute because a terminal is not a discrete infrastructure project. It forms part of an integrated operating system involving passenger flows, baggage, security, stands, airline allocation, utilities, IT systems, resilience arrangements and disruption management. Fragmenting responsibility for assets of this nature creates interface and accountability risks that cannot simply be assumed away.
- 6.16. CAP3286 has not yet engaged sufficiently with these wider service, efficiency and resilience considerations. As we discuss in the Model 7b chapter, fragmentation within a live, capacity-constrained hub airport can create complex operational, regulatory and consumer risks. Similar issues arise where Model 5b is applied to core terminal infrastructure. The CAA should therefore avoid assuming that such risks can be resolved through contract management alone. Interface risk, accountability risk and long-term service obligations are all ultimately priced into bids. Where operational interfaces are complex and future service requirements difficult to specify, the costs of managing those risks are likely to be borne by consumers through higher prices, weaker resilience or delayed delivery.
- 6.17. The contrast with our own proposals is important. We have never opposed Model 5b or third-party delivery in principle. Indeed, we have repeatedly promoted alternative delivery models where they can unlock investment, innovation, specialist capability or whole-life value, including the Alternative Property Model, the Design-Build-Operate approach being progressed for Cargo East, and previous proposals to explore Direct Procurement for Customers-style approaches. CAP3286 therefore leaves an important question unanswered: why is the CAA not using H8 Proposals to progress alternative delivery models

for non-core assets where the route to consumer value is clearer, lower risk and more readily demonstrable?

- 6.18. This points to the real issue facing the September workplan. We remain committed to working with the CAA, airlines and other stakeholders to identify where Model 5b can genuinely improve consumer outcomes. However, the evidence developed through CAP3251 and CAP3286 does not currently establish a basis for applying Model 5b to terminals or other core aeronautical assets. If the CAA nevertheless wishes to retain the ability to require Model 5b for particular assets or classes of assets, it should explain the legal basis, intervention threshold, decision process and safeguards that would apply. That should include how accountability would be allocated where a CAA-directed model causes delay, increases cost, weakens market appetite or creates operational resilience risk; how efficient costs would be recovered; how financeability would be protected; and how Heathrow's continuing responsibility for safe, resilient and integrated airport operation would be reconciled with third-party delivery or operation.

Response to CAP3286 adviser reports

- 6.19. The adviser material should not be read as supporting wider application of Model 5b. Rather, it strengthens the case for an evidence-led, asset-by-asset approach. Across financing, implementation, operational integration and consumer outcomes, the reports consistently point towards significantly greater caution for terminals and other core aeronautical assets, while leaving open the possibility that targeted applications may be appropriate for more discrete and separable assets. The key question is therefore not whether Model 5b can theoretically be applied, but where it can be shown to deliver materially better consumer outcomes than the alternatives already available.
- 6.20. Steer's updated technical assessment recognises that Models 4b and 5b depend on clear asset scope, contractual responsibilities and interface management. It also recognises that the benefits of competition and risk transfer can be weakened by coordination costs, disputes over responsibilities, or delays in resolving technical interfaces where governance and interface arrangements are not sufficiently defined. That supports our proposed asset-by-asset gating framework and argues against any broad presumption that Model 5b should be applied across whole asset classes.
- 6.21. Steer also recognises that Model 5b is less suitable for assets that are intrinsically dependent on integrated airport-wide operational control, particularly runway and taxiway operations. We agree with that principle, but consider that the same logic applies more broadly to core aeronautical assets where operation is deeply embedded in airport-wide systems. Terminal assets should not be treated as directly comparable to car parks, logistics areas or landside commercial property. A terminal is not simply a discrete building; it is a live operational system connected to security, baggage, passenger flows, airline allocation, stands, airfield interfaces, utilities, IT, resilience and disruption response. Any implication that terminals are presumptively suitable for Model 5b should therefore be rejected unless supported by detailed asset-specific evidence.

- 6.22. We also disagree with any conclusion that additional coordination costs would necessarily be materially lower than potential construction and operating cost savings. That comparison is incomplete unless it also considers financing cost impacts, cost of capital effects, delay costs, resilience costs, interface management costs, dispute and change-control costs, and any retained contingency or step-in obligations. Without that full assessment, there is a risk that theoretical procurement savings are overstated and the full consumer cost of fragmentation is understated.
- 6.23. Centrus' updated financeability commentary similarly supports the need for caution. Centrus recognises that the impact of Model 5b on our credit rating depends on which risks are genuinely transferred to a third party and how any availability-based payment obligations are treated by rating agencies. It also recognises that if such obligations were treated as debt-like, this could weaken the value-for-money case, and that the impact of Model 5b is likely to depend materially on asset size and contract structure. Those points are consistent with our position that Model 5b may be appropriate for discrete, separable assets, but should not be extended to core assets without a much more developed assessment of risk transfer, financeability and consumer value.
- 6.24. We do not agree, however, that Centrus' view that our financing impact estimates may be overstated is a sufficient basis for discounting those concerns. Centrus has not provided a complete quantitative alternative and has not yet tested the specific asset perimeter, payment mechanism, risk allocation, security package, bondholder consent requirements, rating agency treatment or interface risks that would arise for particular assets. Until those matters are defined, it would be premature for the CAA to infer that Model 5b can be implemented without material financing impacts.
- 6.25. Nor should the CAA assume that transferring construction responsibility to a third party is necessarily credit-supportive for us. That conclusion only follows where risk transfer is genuine, enforceable and does not create debt-like obligations, retained system risk or material step-in exposure. For core operational assets, Heathrow may continue to retain interface risk, operational resilience risk, reputational risk, timetable risk, integration risk and ultimate accountability to the CAA and airport users, even where a third party is formally responsible for delivery and operation.
- 6.26. There are also important points in our original supporting evidence that the CAA's advisers have not yet addressed in sufficient detail. In particular, our financeability analysis identified the risk that availability-based or end-of-concession payment obligations under Model 5b could be treated as debt-like where the asset is core to our airport operations and Heathrow remains the practical delivery and operational backstop. It also highlighted practical legal and financing issues that would need to be resolved before any terminal-style Direct Procurement for Customers (DPC) could be financeable, including land carve-outs, long lease arrangements, security over connected assets, release from existing creditor security, compliance with our financing covenants and any required bondholder or creditor consents. These are not implementation details to be deferred; they raise important questions about

the practical applicability and efficient financing of Model 5b and therefore bear on whether it is in consumers' interests.

- 6.27. The adviser material has also not yet answered the central points made in the BRG report we submitted alongside CAP3251 response (BRG)²¹. Model 5b may offer only limited incremental benefit over Model 4b: where operating costs are predictable and low, the additional operating-period incentive may be modest; where operating costs are material and uncertain, bidders are likely to require stronger protections or higher returns, reducing or eliminating the expected efficiency benefit. This issue is particularly important where the claimed incremental benefit of Model 5b over Model 4b rests on whole-life operating incentives.
- 6.28. Those incentives only have value if future operating costs, service obligations and performance standards can be specified with sufficient confidence at the point of procurement. For core, integrated assets such as terminals, that is inherently difficult: operating costs depend on airport-wide systems, passenger flows, airline allocation, resilience obligations, security processes and disruption response. If those matters cannot be forecast and contractually specified with sufficient certainty, bidders will either price the uncertainty through higher returns or seek contractual protections, reducing the incremental value of Model 5b over a design-and-build model. For complex assets, an effective tender cannot be run until the future contractual and regulatory framework is defined ex ante. Nor has the adviser material yet addressed the risk that cost-led tenders may weaken service quality unless long-term standards can be specified, monitored and enforced robustly, which is particularly challenging for terminal assets.
- 6.29. Finally, UK water sector precedents such as DPC are informative, but not directly transferable. The CAA should approach these precedents with caution. Ofwat's own technical discreteness guidance reinforces that point: even in the water sector, DPC is not treated as automatically suitable for major projects, but depends on whether the project is sufficiently technically discrete, including by reference to construction, operational and maintenance interfaces with the incumbent's wider system.
- 6.30. The recent Independent Water Commission Final Report, chaired by Sir Jon Cunliffe, reinforces this cautious approach. It recognises that competitive delivery models such as DPC and Specified Infrastructure Projects Regulations (SIPR) can play an important role in delivering major infrastructure, but also identifies practical implementation issues and cautions against further change before current reforms have embedded and a broader evidence base is available. Consistent with those findings, Heathrow urges particular caution before applying insufficiently tested delivery models to core Expansion assets, where the risks to timely delivery, resilience, financeability and consumer outcomes are materially greater.

²¹ [assessment-of-competition-models-for-heathrow-expansion.pdf](#)

- 6.31. The emerging evidence from water sector DPC-style models also suggests that implementation can be complex and time-consuming, with examples of delayed procurement and higher financing costs, including Haweswater Aqueduct Resilience Programme (HARP). It is not yet clear that those additional costs have been, or will be, consistently offset by delivery or cost-efficiency benefits, including in relation to Portsmouth Water's Havant Thicket Reservoir. That uncertainty matters at Heathrow. Airport terminals are operationally integrated with live passenger, baggage, security, airline, airfield, IT and resilience systems in a way that makes simple read-across from water sector precedent unsafe. If any lesson is to be drawn, it is that implementation delays, less efficient financing and higher delivery costs seen in sectors with simpler interfaces could be magnified in a more complex, live airport environment.
- 6.32. This concern is not theoretical. In response to CAP3195, Heathrow set out evidence that competitive delivery and third-party infrastructure models in other regulated sectors have required lengthy policy, legislative, regulatory and procurement processes before any consumer benefit could be realised.
- Competitively Appointed Transmission Owner (CATO): approximately ten years from the framework first being proposed to implementation, with no licences granted at that stage.
 - Offshore Electricity Transmission (OFTO): around four years to implement, followed by approximately eighteen months between Ofgem inviting the first tender and granting a licence.
 - SIPR: approximately three years to implement, after which Thames Tideway took more than a year to progress from specification notice to licence grant.
 - HARP under the DPC model: around three years from tender launch to preferred bidder award, despite being a greenfield scheme with materially simpler interfaces than an operational Heathrow terminal.
- 6.33. These precedents do not mean Model 5b should never be used. They do mean the CAA should be careful not to assume that competitive delivery models can be introduced quickly, or without affecting DCO timing, procurement sequencing, financing certainty and the timetable for consumer benefits.
- 6.34. Moreover, Thames Tideway is a valuable reference point, but it is not a close comparator for applying Model 5b to core airport assets. The Thames Tideway Tunnel is a highly separable asset relative to the rest of London's sewerage system, its cost of capital was underpinned by bespoke Government support arrangements, and its structure reflected the fact that the incumbent operator, Thames Water, was unable or unwilling to deliver the investment on balance sheet. Those features are materially different from Heathrow, where Expansion is being developed by an integrated airport owner-operator with an established regulated financing platform and without reliance on Government funding or guarantees.
- 6.35. Taken together, the Ofwat guidance, the Cunliffe Review and the adviser material support our proposed asset-by-asset gating framework and reinforce the need for the CAA to test

whether a Heathrow asset sits closer to a separable DPC-style project or to an integrated operational asset before drawing conclusions on Model 5b. More fundamentally, they do not establish that Model 5b delivers material incremental consumer benefits over Model 4b for core aeronautical assets, nor that the financing, implementation and operational risks associated with such assets can be overcome. Given the potential implications for financeability, implementation timing and operational integration, retaining uncertainty around Model 5b without a clear evidential basis also carries its own consumer costs. The CAA should therefore assess not only the risks of limiting Model 5b, but also the risks to consumers of leaving key delivery-model questions unresolved.

Comments on proposed CAA work plan

- 6.36. CAP3286 identifies a number of issues that the CAA intends to address as it develops competitive procurement models. We agree that these are the right broad questions. Heathrow also recognises the CAA's understandable desire to assure itself on the potential use of Model 5b before procurement decisions on major assets are too far advanced. The issue is therefore not whether that work should be done, but how it can be structured in a way that leads to timely conclusions.
- 6.37. In our view, the purpose of the next phase should be to determine where Model 5b can genuinely improve consumer outcomes, and where it cannot. We remain committed to the asset-by-asset framework outlined in our response to CAP3251, because it provides a practical and evidence-based approach to assessing suitability. The framework was designed to test separability, operational integration, financeability, implementation complexity, market appetite and whole-system consumer value before any conclusion is reached on delivery models.
- 6.38. The evidence developed through CAP3195, CAP3251 and CAP3286 does not currently establish a case for mandating Model 5b for terminals or other core aeronautical assets. Nor does it demonstrate material incremental consumer benefits relative to Model 4b once financing costs, implementation complexity, operational interfaces and delivery risks are taken into account. We therefore believe the CAA should use the next phase of work to build confidence around where Model 5b can add value, while providing itself with the evidence needed to conclude where it cannot.
- 6.39. The table below sets out the areas where we believe further analysis will be most valuable. Structured in this way, the workplan would help the CAA move from broad exploration of Model 5b towards evidence-based conclusions on its appropriate application, including confirming that the evidence does not support applying or mandating Model 5b for terminals or other core aeronautical assets, and focusing further assessment on discrete, separable non-core assets where there may be a credible route to consumer benefit.

Table 2. Evidence required for Model 5b

Evidence category	Why it matters
Procurement duration for DPC/DBO-style models²²	Tests whether Model 5b could delay critical-path Expansion assets.
Financing cost differential versus RAB-funded delivery	Tests whether procurement savings are offset by higher cost of capital or debt-like treatment.
Interface and integration costs	Tests whether fragmentation creates hidden costs not captured in headline construction bids.
Bidder market appetite and risk pricing	Tests whether risk transfer is genuine or simply priced back to consumers.
Operational resilience and service-quality impacts	Tests whether long-term consumer outcomes can be specified and enforced.
Transaction, advisory and regulatory cost	Tests full lifecycle value for money, not just nominal capex savings.
Precedent outcomes from water sector use of DPC	Tests whether comparable models have delivered benefits in practice.
Heathrow financing capacity and cost of finance	Tests whether reducing Heathrow's financing requirement is a real consumer benefit or only a theoretical benefit.
Demand-linked availability payment design	Tests whether reducing debt-like treatment for Heathrow simply transfers demand risk to third parties at a higher cost of capital.
Incremental value of Model 5b over Model 4b	Tests whether whole-life operating incentives add material value beyond competitive design-and-build procurement.

6.40. Taken together, these questions should provide the CAA with the evidence required to assess Model 5b against the alternatives available, including Model 4b. In our view, they are also likely to demonstrate why Model 5b may be suitable for certain discrete and separable assets, whilst not providing a basis for mandating its use for terminals or other core aeronautical assets. The September document should therefore set out a clear route to reaching those conclusions and provide clarity on the scope and limits of Model 5b before the long-term financing framework and Expansion risk premium are established.

6.41. The table below provides further commentary on each of the topics outlined by the CAA in CAP3286, including on elements of Model 4a:

²² Before treating Model 5b as preferred or required for any asset class, the CAA should identify the policy, legal, procurement, contracting and regulatory steps required, estimate the time each would take, and test whether any expected benefits remain positive once the cost of delay to consumers is taken into account.

Table 3. Heathrow's views on CAA Workplan, Model 4a, 4b and 5b

CAA Suggested Topic/ Issue in CAP3286:	Heathrow response:
<i>Defining information requirements for HAL to demonstrate in its procurement plans;</i>	▪ The objective should be to give the CAA, airlines and consumers earlier confidence in Heathrow's procurement strategy without creating duplicate approval processes or delaying supplier engagement. Therefore Heathrow welcomes the CAA defining procurement information requirements, provided these are proportionate, forward-looking and decision-useful. They should focus on the evidence needed to assess consumer value: market engagement, supplier capacity and capability, contract packaging, procurement phasing, risk allocation, selection criteria, whole-life cost, resilience, sustainability and benefits management. ▪ Ecosystem Live can provide a practical and auditable route for sharing much of this evidence, including supplier accreditation, pre-qualification criteria, market-capacity evidence and the logic for procurement phasing. Heathrow would welcome the CAA engaging in how this could serve its needs without duplicating new systems.
<i>Developing our approach to assessing HAL's plans and how this draws on the views of the capital committee and independent assurance. We consider this will require a framework for selecting assets that are appropriate for competitive procurement. We note HAL has provided initial views in its response on which assets might be suitable for competitive procurement;</i>	▪ Heathrow supports the CAA developing a framework for assessing procurement plans through the wider governance package, including the COG and JIA. That framework should operate as targeted assurance and challenge, not as a route for the CAA or other stakeholders to direct individual procurement decisions. ▪ The assessment should test whether the chosen procurement route is suitable for the relevant asset or work package, taking account of design maturity, market appetite, supplier capability, critical-path impact, operational integration, risk allocation, resilience, sustainability and whole-life consumer value. This is consistent with Steer's view that procurement scrutiny should consider whether contract strategies allocate risk efficiently, preserve operational integration and create appropriate supplier incentives. ▪ Where the CAA is considering more intrusive delivery models, including Models 4b and 5b, that assessment should be undertaken through Heathrow's proposed asset-by-asset suitability framework. That framework should test separability, operational integration, critical-path impact, financeability, implementation complexity, market appetite and whole-system consumer value before any delivery model is treated as preferred or required. In this context, the distinction between core and non-core infrastructure is fundamental. The evidence developed through CAP3195, CAP3251 and CAP3286 does not currently establish a basis for mandating Model 5b for terminals or other core aeronautical assets.

CAA Suggested Topic/ Issue in CAP3286:	Heathrow response:
<i>Considering the approach to enforcing competitive approaches where we assess this would be in the interests of consumers; and</i>	▪ If the CAA considers retaining a power to require a specific competitive procurement approach, the September document should explain the legal basis, intervention threshold, decision process and safeguards that would apply. It should also explain how accountability would be allocated where a CAA-directed procurement route causes delay, increases cost, reduces market appetite, weakens financeability or introduces operational resilience risk. ▪ Before any such power could be exercised, the CAA should demonstrate that: • a clearly identified consumer problem exists; • the relevant asset has passed an evidence-led suitability assessment; • the proposed model delivers materially better consumer outcomes than available alternatives, including Model 4b; and • the benefits outweigh the financing, delivery and implementation risks created by the intervention.
<i>Developing the appropriate design of the competitive approaches, which will look to draw on best practice from competitive models and regulatory precedent</i>	▪ The CAA's work on the design of competitive approaches should recognise that procurement strategy must vary by work package. The relevant trade-offs include asset complexity, design maturity, scale, market capacity, supplier capability, critical-path impact, risk transfer, whole-life cost, sustainability, resilience and operational integration. ▪ Competitive tendering should not be treated as a single model to be applied uniformly. Some packages may benefit from early contractor involvement, long-lead supplier engagement or strategic partnerships; others may be suitable for more conventional competitive tendering once scope is mature and interfaces are clear. ▪ Regulatory precedent such as ASTI is relevant because it shows that regulators can balance cost discipline with timely delivery, supply-chain confidence and efficient mobilisation. The lesson is not that a single procurement model should be copied, but that regulatory scrutiny should support clear accountability, appropriate risk allocation and timely consumer benefits. For Heathrow, that points to a flexible, risk-based and work-package-specific approach, with Model 5b applied only where evidence demonstrates material incremental consumer value relative to alternative delivery approaches.

Conclusion

- 6.42. We want Model 5b to play a constructive role in the Expansion framework where it can demonstrably deliver consumer value. Heathrow is already exploring practical opportunities for third-party delivery and remains committed to working constructively with the CAA, airlines and other stakeholders to identify where specialist capability, competition or

alternative delivery models can improve outcomes for consumers. The issue is not whether Model 5b should be available, but where it is appropriate and how it should be assessed.

- 6.43. The evidence developed through CAP3195, CAP3251 and CAP3286 should now give the CAA confidence to move from broad exploration towards evidence-based conclusions. Heathrow believes the asset-by-asset framework outlined in our response to CAP3251 provides the right structure for doing so. It allows the CAA to assess suitability through objective tests of separability, operational integration, financeability, implementation complexity, market appetite and whole-system consumer value, while recognising that different asset classes raise fundamentally different considerations.
- 6.44. On the evidence currently available, there is no demonstrated case for applying Model 5b to terminals or other core aeronautical assets. The evidence does not demonstrate material incremental consumer benefits over Model 4b, while pointing to increased financing costs, implementation complexity, delivery risk and operational interface challenges. The September document should establish the suitability framework for Model 5b and confirm that there is currently no evidential basis for applying or mandating Model 5b for terminals or other core aeronautical assets.
- 6.45. That clarity matters because delivery models, financeability and the cost of capital are intrinsically linked. Leaving open the possibility that Model 5b could be mandated for terminals or other core assets during the construction period creates uncertainty that will be reflected in financing costs, delayed mobilisation and ultimately consumer benefits. Heathrow therefore encourages the CAA to use the next phase of work to identify where Model 5b can genuinely add value for discrete and separable non-core assets, while confirming that there is no evidential basis for applying or mandating Model 5b for terminals or other core aeronautical assets. Doing so would allow stakeholders to focus on implementing the framework most likely to deliver timely Expansion, efficient financing and better outcomes for consumers.

7. DIRECT COMPETITION, MODEL 7b

Introduction

- 7.1. **Model 7b should now be ruled out. The competition consumers need is timely capacity release, stronger airline competition and lower fares, not structural fragmentation of a highly integrated hub airport. The evidence developed through CAP3195, CAP3251 and CAP3286 increasingly points in the same direction: Model 7b would increase cost, complexity, uncertainty and delay while creating a heavily regulated duopoly rather than effective competition. The publication of HENPS strengthens that conclusion further by envisaging an integrated Northwest Runway scheme delivered as a coherent whole. Continuing to develop Model 7b therefore risks distracting from the decisions that matter most for consumers: implementing the regulatory framework needed to deliver Expansion efficiently and on time.**
- 7.2. At its core, Model 7b does not create effective competition. Rather than relying on market discipline, it would require a new framework governing access, charging, common services, operational coordination and dispute resolution between airport operators. The result would be a heavily regulated duopoly within a single airport system, where outcomes remain driven by regulatory allocation and intervention rather than genuine competitive rivalry. The relevant question is therefore not whether Model 7b introduces another operator, but whether it delivers materially better outcomes for consumers. We do not believe the evidence supports that conclusion.
- 7.3. This is not simply a theoretical competition concern. Throughout CAP3195 and CAP3251, we set out evidence that fragmentation within a live, capacity-constrained hub airport can create material service, efficiency and resilience risks. Heathrow operates as a single integrated system, with terminals, baggage, security, stands, airfield operations, utilities, IT systems and disruption management all functioning together to deliver a seamless passenger experience. Separating ownership or operational responsibility across multiple airport operators would introduce new interfaces, coordination requirements, accountability boundaries and potential conflicts of interest. As Steer similarly recognises, these arrangements risk increasing operational complexity, weakening resilience, reducing efficiency and creating new governance and coordination burdens. The result is not more effective competition, but a more complex regulatory framework that risks worsening consumer outcomes through higher costs, greater disruption risk and delayed capacity delivery.
- 7.4. The publication of HENPS significantly strengthens this assessment. Earlier discussions of Model 7b focused on the possibility of competition for discrete elements of the scheme, particularly terminal infrastructure. HENPS instead envisages a complete and integrated Northwest Runway scheme delivered as a coherent whole. The relevant question is therefore no longer whether a third party could operate part of Expansion, but whether a split-operator model could credibly deliver and operate an integrated airport-wide scheme while

maintaining safety, operational resilience and service quality. In our view, HENPS makes that proposition substantially harder to sustain.

- 7.5. This distinction matters because the principal pro-competitive benefit of Expansion is not competition between airport operators, but competition between airlines enabled by additional capacity. Expansion is expected to increase route choice, strengthen airline competition and reduce fares over time. Those are the consumer benefits the regulatory framework should seek to unlock. Model 7b risks delaying those benefits by increasing implementation complexity, regulatory uncertainty and financing risk. The relevant competition question is therefore whether Model 7b accelerates or delays new capacity. On the evidence available, it delays it.
- 7.6. Moreover, the appropriate market definition for assessing competition between airport operators is not competition within Heathrow, or even primarily between London airports, but competition between Heathrow and other major international hub airports. Heathrow competes with Eurohub airports such as Amsterdam, Paris, Frankfurt, Madrid and Istanbul for airlines, passengers, transfer traffic, cargo and investment. That competition is increasingly determined by available capacity. While Heathrow has been effectively full for more than two decades, many international competitors have continued to expand, adding capacity, connectivity and route options.
- 7.7. The consequence is that constrained capacity at Heathrow has not only limited competition between airlines, but has also constrained the growth in destinations, frequencies and connectivity that consumers would otherwise enjoy. UK passengers, freight owners and the wider economy have therefore foregone opportunities that competing hubs have been able to capture. The most important competitive outcome for consumers is therefore not the creation of a second airport operator within Heathrow, but the timely delivery of additional capacity that allows Heathrow to compete more effectively with other global hubs.
- 7.8. This distinction matters for the CAA's assessment of Model 7b. If the principal determinant of effective competition is the timely provision and efficient use of new capacity, regulatory effort should be focused on the models most likely to deliver that outcome. Models that increase fragmentation, uncertainty, implementation complexity or delay risk are not promoting competition if their effect is to postpone the capacity expansion that enables stronger airline competition and improved connectivity. The CAA should therefore ensure that its assessment is grounded in the relevant market definition, rather than assuming that competition between airport operators within Heathrow is inherently beneficial where it risks crowding out the greater consumer benefits associated with timely capacity release, stronger airline competition and more effective competition between Heathrow and its international hub competitors.
- 7.9. The costs of Model 7b are not limited to a hypothetical future implementation. Continuing to treat it as a live option creates uncertainty today. It diverts regulatory effort away from implementation of the preferred framework, prolongs uncertainty over financing arrangements and delivery responsibilities, and creates additional complexity for investors,

suppliers and stakeholders. Consumers ultimately bear those costs through delayed capacity, higher financing costs and deferred competition benefits. The September publication should therefore move beyond continued exploration and rule out Model 7b as a recommended regulatory model, allowing effort to focus on the framework most capable of delivering Expansion efficiently and in the interests of consumers.

Heathrow view on Model 7b

7.10. Our view is that Model 7b should now be ruled out. There are three reasons for that conclusion:

1. First, it would not create effective competition; it would create a complex regulated duopoly.
2. Secondly, the draft HENPS points to a complete, integrated Northwest Runway scheme, making the previously considered terminal-only version of Model 7b effectively redundant.
3. Thirdly, keeping Model 7b open would delay the framework that consumers need now: timely capacity release, stronger airline competition, lower fares and efficient financing. Where a model is likely to increase cost, delay and risk, the CAA should say so clearly rather than allow planning optionality or the existence of an alternative promoter to drive regulatory policy by default.

7.11. This is not a rejection of competition. We support competition where it strengthens delivery and improves consumer value. Models 4b and 5b can do that by applying competitive tension, specialist delivery capability and whole-life incentives to suitable assets. Model 7b is different in kind. It would fragment the operation of a live, capacity-constrained hub airport where terminals, baggage, security, stands, airfield operations, passenger connections, surface access, utilities, IT and resilience arrangements operate as a single system. It would therefore substitute the practical benefits of competitive procurement with the risks of structural fragmentation.

7.12. The most important pro-competitive effect for consumers is the timely release of new Heathrow capacity. As set out elsewhere in this response, Expansion is expected to strengthen airline competition, increase route choice and lower fares over time. Heathrow's modelling with UCL forecasts a 17% reduction in average economy fares at Heathrow by 2050. That is the competition benefit consumers need the regulatory framework to unlock. Model 7b would put that benefit at risk by diverting attention from implementable reforms, increasing regulatory and financing uncertainty, and delaying the capacity release that creates stronger airline competition.

7.13. The CAA should therefore distinguish clearly between competition that accelerates consumer benefits and structural fragmentation that delays them.

7.14. In practice, Model 7b would not allow the CAA to step back and rely on market discipline. It would require a new regulatory architecture for wholesale access, common services, charging, market power assessment, interface standards, dispute resolution and operational coordination. The result would be a complex regulated duopoly inside a highly integrated hub airport, rather than effective competition.

- 7.15. This is not a new concern. In response to CAP3195, we explained that: “If a third party operator is introduced at the airport, a new market power assessment would be required. The CAA recognised, in 2018 that ‘[w]hilst there is an existing MPD in respect of Heathrow, that determination dates from 2014, relates to a single operator and does not consider the new areas to be developed as part of the expansion.’ A new operator would clearly alter the market dynamics necessitating a revised MPD.” We repeated the same point in response to CAP3251, explaining that Model 7b would require “a new framework for competing airport operators, wholesale access, interface regulation, market power assessment, charging arrangements and operational coordination.” CAP3286 does not yet explain how those threshold legal and regulatory steps would be completed without delay to the Expansion timetable.
- 7.16. The BRG report reinforces this conclusion from a competition-policy perspective. BRG finds that Model 7b would be likely to create a duopoly, with a single entrant dependent on Heathrow for upstream infrastructure while competing with Heathrow in downstream airport operation services. Its analysis of telecoms liberalisation shows that a duopoly with a vertically integrated incumbent was not sufficient to deliver effective competition and required continuing regulation to protect end users. Applied to Heathrow, BRG concludes that outcomes under Model 7b would be more likely to be driven by regulation and cost asymmetries than by effective competition. That supports our view that Model 7b is not a market-led route to consumer benefit, but a complex regulated duopoly with additional cost, delay and implementation risk.
- 7.17. The CAA should also avoid treating airline views as aligned in support of Model 7b. While some stakeholders have advocated a stronger role for direct competition, other airline evidence points to caution. Delta, for example, has indicated that its experience at JFK suggests models where multiple entities operate assets within a single airfield may not be effective in generating competition.²³ That is consistent with the wider evidence from BRG and Steer: the central question is not whether competition is attractive in principle, but whether a particular model can deliver effective competition, timely capacity and better consumer outcomes in practice. On the evidence now available, Model 7b does not meet that test.
- 7.18. IAG’s proposed model also illustrates the implementation problem rather than solving it.²⁴ A multi-RAB framework combined with a single cross-campus maximum average yield would be difficult to reconcile with effective competition between terminal operators. A common campus-wide yield would not ensure that each operator recovers its own efficient costs, investment requirements or risk-adjusted return, and would weaken the ability of operators to compete through differentiated prices. It would replace an integrated regulatory framework with a complex cross-operator allocation exercise, with unclear precedent and

²³ [Letter](#)

²⁴ [iag-response-to-caa-working-paper-on-regulatory-models-cap-3195-vpublic.pdf](#) and [IAG Response to CAP3251](#)

material financeability risk. That reinforces the conclusion that Model 7b would depend on regulatory allocation rather than market discipline.

- 7.19. Some stakeholder responses appear to rely on the Competition Commission's 2009 market investigation into BAA's common ownership of UK airports as support for Model 7b. That precedent should be addressed directly, but it does not support the case for structural fragmentation within Heathrow. The Competition Commission's concern was common ownership across separate airports, and the remedy it adopted was airport-to-airport divestment: the sale of Gatwick, Stansted and one of BAA's Scottish airports.
- 7.20. Competing terminal operators within Heathrow would not replicate that dynamic. Passengers generally do not choose terminals independently of airlines as airline switching is constrained by slots, alliances, connecting traffic, baggage systems, terminal facilities and operational requirements. Moreover, any terminal operator would remain dependent on shared runway, airfield, security, baggage, utilities, surface access, IT, resilience and operational coordination arrangements. More fundamentally, the principal competitive constraint on Heathrow is not a hypothetical competing terminal operator within the airport, but competition from other major international hub airports. The key determinant of effective competition is therefore the timely provision and efficient utilisation of new capacity, rather than structural fragmentation within Heathrow itself.
- 7.21. Properly understood, the BAA precedent supports our position. The relevant pro-competitive outcome for consumers is timely capacity release at Heathrow, which strengthens airline competition, increases route choice and enables Heathrow to compete with other global hubs to the benefit of consumers. Model 7b would not create another airport competing with Heathrow. It would create a second regulated operator inside the same integrated airport, dependent on extensive access, charging, common-service, interface and dispute-resolution rules. That is not the form of competition the Competition Commission remedy was designed to promote.
- 7.22. The point also reinforces the market power and licensing issues we have already identified. In our response to CAP3195, we explained that if a third-party operator were introduced at Heathrow, a new market power assessment would be required because the existing Heathrow market power determination dates from 2014, relates to a single operator and does not consider the new areas to be developed as part of Expansion. A Model 7b scenario would therefore require the CAA to revisit fundamental questions of market definition, operator status, market power, licensing, access, charging and regulatory obligations. These are threshold regulatory steps, not implementation details. They would need to be evidence-based, consulted on and resolved before Model 7b could credibly be treated as workable or in consumers' interests. Based on previous CAA market power assessment processes, such an exercise would not be timetable-neutral and could add a substantial regulatory workstream at precisely the point where the CAA should be focusing on the models most capable of unlocking timely consumer benefits.

Our response to CAP3286 commentary on Model 7b

- 7.23. CAP3286 usefully narrows the purpose of Model 7b by linking any further development to the possibility of a third-party DCO outcome. We welcome that narrowing. However, the September document should go further and confirm that Model 7b is not in consumers' interests and should be ruled out as part of the CAA's recommended framework. It is not enough to describe it as a contingency if that contingency continues to absorb regulatory resource, create uncertainty for investors, or leave open the possibility that the CAA may later treat structural fragmentation as equivalent to the more practical competition routes available through Models 4b and 5b.
- 7.24. The CAA should not approach the planning process as a neutral recipient of whatever outcome emerges. Its statutory duties and consumer protection role are directly relevant to the planning assessment. If a proposal would depend on an economic regulatory model that is unlikely to be workable, financeable or in consumers' interests, the CAA should make that clear through its engagement with the planning process. Its role is not limited to designing a framework after consent has been granted; it should also ensure that the planning process is informed by whether the regulatory model required to support a scheme can credibly further consumers' interests.
- 7.25. CAP3286 also states that the draft HENPS allows a third party to bring forward an application for a DCO for the full scheme, and that whether such proposals comply with the HENPS would be a matter for the planning regime. We do not read that as requiring the CAA to remain neutral on the regulatory implications. On the contrary, the HENPS materially strengthens the case for ruling Model 7b out. It describes Expansion as a complete, integrated Northwest Runway scheme, not simply a new runway or terminal capacity. It expects an application to provide for a complete scheme, with phasing only where there is a clear, coherent and deliverable pathway to the completed scheme as a whole. It also expects the key elements of the scheme to be included in the design and for their implementation and delivery to be secured. That points towards integrated delivery of the airport system, not a regulatory model built around competing terminals or fragmented airport accountability.
- 7.26. The CAA should therefore engage directly with whether Model 7b is even applicable in light of the HENPS guidance. The premise of Model 7b depends on a third party being able to develop and operate a material part of Heathrow Expansion in direct competition with Heathrow. But the HENPS points to a single integrated scheme, including the modernisation, reconfiguration and integration of existing airport infrastructure while maintaining continuity of operations. A rival promoter that does not operate the airport, does not control the existing terminal infrastructure and cannot unilaterally ensure the continued operation of Heathrow during construction would need to explain how it could deliver that integrated whole. The CAA should not treat that as a neutral planning question with no regulatory consequence. It goes directly to technical feasibility, maturity, financeability and consumer outcomes.
- 7.27. This is especially important for Model 7b. A third-party DCO proposal would not simply raise planning questions; it would depend on a new economic regulatory architecture for

wholesale access, common services, charging, market power assessment, operational accountability and dispute resolution. If the evidence shows that such a framework would increase costs, delay delivery, weaken financeability and fragment service accountability, the CAA should not defer that judgement until after the planning process. It should make representations on those issues at the appropriate stage, so that regulatory workability and consumer impact are properly considered before any consent decision is made.

- 7.28. This is not a new representation. We have already told the CAA that Model 7b would require regulatory steps going well beyond ordinary planning consent, including fresh or substantially updated market power and licensing analysis. The point remains unanswered in CAP3286. It is therefore not sufficient for the CAA to say it will review the steps that might be required to regulate a third party without also recognising that those steps are themselves a material implementation risk. They would need to be evidence-based, consulted on and capable of supporting any new licence conditions, access obligations, wholesale charging arrangements or price-control mechanisms before Model 7b could credibly be treated as implementable.
- 7.29. Heathrow also made clear in CAP3195 that these steps are not timetable-neutral. Regulatory models requiring “primary legislation, new market power determinations, or complex third-party contracting” risk material slippage, and Heathrow estimated that models requiring legislative change, regulatory implementation and commercial contracting could result in a delay of around 10 years, with an estimated £40bn of foregone consumer benefit. CAP3286 does not explain why Model 7b should now be treated differently.

Response to CAP3286 adviser reports

- 7.30. Read together, the adviser evidence does not support further development of Model 7b. It shows that the model fails across the tests that matter for consumers: deliverability, financeability, effective competition, service resilience and implementation timing.
- 7.31. Steer’s updated assessment supports the conclusion that Model 7b should be ruled out, not merely treated with caution. Steer identifies Model 7b as the most challenging model to implement and assesses it as having a negative impact on appropriate support for capacity expansion because of coordination and governance risks, structural fragmentation and increased operational interfaces. It also recognises that Model 7b would require early definition of asset boundaries, common service arrangements, regulatory triggers, performance standards, interface protocols, dispute resolution processes and transition plans. Those are not implementation details. They are preconditions for making a multi-operator airport model work at all, and they underline why the model is a poor fit for a live, integrated hub airport seeking timely delivery of nationally significant capacity.
- 7.32. Steer’s comments on airport charges are particularly important. If a single cross-campus maximum average charge were applied across all facilities, it is unclear how direct competition between terminal operators would operate in practice, particularly where price and service quality are expected to influence airline choice. Heathrow agrees. A common

charge would weaken the central mechanism through which terminal competition is supposed to discipline price. Without meaningful price competition, Model 7b would be left relying on regulated service standards, complex allocation rules and dispute processes rather than effective rivalry between operators. That is a regulated duopoly, not a clear route to consumer benefit.

- 7.33. Steer’s asset perimeter analysis also reinforces the HENPS point. Steer recognises that the draft HENPS expects promoters to submit a proposal for the entire scheme rather than only an individual infrastructure element, and that the possibility of two airfield operators would create duplication of resources to ensure safety levels and could reduce efficiency, resilience and air traffic movements. Any attempt to make Model 7b compatible would therefore require artificial separation between assets that are operationally integrated, such as an alternative developer building airfield infrastructure but transferring it to Heathrow while operating only terminal facilities. That is not evidence that Model 7b is workable. It demonstrates that the model only becomes plausible if it is reshaped into a complex carve-out from an integrated airport system.
- 7.34. Centrus’ updated financeability commentary does not displace these conclusions. Centrus argues that some of our financing impact estimates may be overstated and that further funding plans should be developed by Heathrow and any third party. We agree that funding plans would be needed if a third-party DCO outcome ever became a live scenario. But that does not provide a basis for treating Model 7b as a credible regulatory option now. The model would still require a third-party developer to finance a greenfield, operationally integrated asset without Heathrow’s established financing platform, while Heathrow would continue to face potential impacts on its own business risk profile, revenue predictability, credit metrics and cost of debt. Additional third-party capital is not the same as improved whole-system financeability if that capital is more expensive and weakens the financing platform that supports Expansion as a whole.
- 7.35. Nor should the CAA assume that transferring construction and demand risk to a third party is necessarily credit-supportive for Heathrow. The outcome depends on whether the transfer is genuine and whether the wider effects of direct competition, fragmentation and demand uncertainty weaken Heathrow’s credit profile. The Freshfields and Santander analysis identified that a third party delivery of a terminal with separate debt and equity funding could increase airport charges by at least £2.73 per passenger due to higher return requirements and lower gearing, rising materially if third party equity investors have high-teen return-on-equity requirements, and that very substantial capex savings would be required before consumers could be better off. The CAA should confront that evidence directly. A model that requires substantial and uncertain savings merely to offset higher financing costs is not an appropriate foundation for the regulatory framework for Expansion.
- 7.36. The same conclusion is supported by BRG’s competition analysis. BRG assessed the CAA’s competition models against the CAA’s own criteria and concluded that Model 7b performs worse than the CAA’s assessment assumes on avoiding disruption, cost of finance and competition. In particular, BRG finds that the CAA appears not to have fully considered the

complexity of Model 7b, is likely to be optimistic on the efficiency incentives that could arise, and has overstated the extent of competition that could be achieved in practice. It also identifies the risk that both Heathrow and the entrant would face an increased cost of capital because of uncertainty over the regulatory regime. That is directly relevant to the CAA's consumer duty: if competition is unlikely to be effective and would instead require extensive regulation while increasing cost of capital and delaying investment, the model should not remain on the shortlist as a plausible consumer-benefit option.

Comments on proposed CAA work plan

- 7.37. The CAA's September workplan should not include Model 7b. The evidence now available — including HENPS, Steer, BRG, Centrus and Heathrow's CAP3195 and CAP3251 submissions — points to a clear conclusion: Model 7b would not create effective competition, would require extensive new regulatory architecture, would fragment an integrated hub airport, and would increase cost, complexity, financeability risk and delay. The appropriate September action is therefore to rule it out as part of the recommended Expansion framework. If the CAA nevertheless considers that any further work is justified, it should first explain what legally available, practically implementable and consumer-beneficial scenario remains, why the existing evidence is insufficient to rule the model out, and how continued work would avoid delaying the decisions needed to deliver timely consumer benefits.
- 7.38. The CAA should use any legal analysis of the HENPS to support its September conclusion that Model 7b should be ruled out, not to create a further implementation workstream. In our view, the HENPS has materially changed the regulatory relevance of Model 7b. It points to a complete and integrated Northwest Runway scheme, including the modernisation, reconfiguration and integration of existing airport infrastructure, with phasing only where there is a coherent and deliverable pathway to the completed scheme as a whole. If that interpretation is correct, the version of Model 7b previously considered, in which a third party brings forward and operates a terminal or other discrete infrastructure element, is effectively redundant.
- 7.39. If the CAA nevertheless considers that any Model 7b scenario remains legally and practically available, the relevant scenario is no longer a simple competing-terminal model. It would need to test what is genuinely capable of passing through planning and regulation: a model in which a party other than Heathrow builds and operates the new runway, associated airfield infrastructure and new or reconfigured terminal capacity, including the replacement of T3 with an expanded T2, while Heathrow continues to own and operate the existing runways, T5, T4 and T2A. That is a materially more complex and higher-risk model than the one assessed in CAP3251.
- 7.40. Steer's analysis points directly to why that scenario is unlikely to be workable. It identifies the particular difficulty of applying Model 7b to airfield assets, the risk of duplicated safety resources, reduced efficiency and resilience, increased operational interfaces and weaker system-wide accountability. Those concerns would be magnified, not reduced, if Model 7b were applied to the whole integrated scheme contemplated by the HENPS while existing

airport infrastructure remained under Heathrow's operation. The CAA's workplan should therefore not continue to assess an abstract or outdated version of Model 7b. It should first confirm, with legal advice, whether the HENPS leaves any realistic application for the model at all. If the only remaining version is a whole-scheme split-operator model, the CAA should recognise that this is more complex, more risky and less implementable than the terminal-only model already shown to be inferior.

- 7.41. If, despite that conclusion, the CAA considers it necessary to retain a minimal contingency workstream for a third-party DCO outcome, that work should be tightly bounded and should not proceed on the same footing as Models 1a, 2, 3, 4a, 4b and 5b. The first step should be a threshold competition assessment informed by BRG's analysis. That assessment should test whether Model 7b could ever deliver effective competition, given the likely duopoly structure, high switching costs for airlines, dependence on upstream infrastructure, potential cost asymmetries, and the need for extensive regulation of access, non-discrimination, wholesale pricing, service quality and dispute resolution. It should also consider the relevant market definition.
- 7.42. In our view, the principal competition benefit from Expansion is not competition between airport operators within Heathrow, but stronger competition between airlines enabled by additional capacity. At the airport level, the relevant competitive constraint is competition between Heathrow and other major international hub airports such as Amsterdam, Paris, Frankfurt, Madrid and Istanbul. In both cases, the remedy is the same: the timely delivery and efficient utilisation of new capacity. The CAA should therefore ensure that its assessment is grounded in the relevant market definition rather than assuming that competition between airport operators within Heathrow is inherently beneficial. Where a model risks delaying capacity, increasing fragmentation or weakening integrated hub operation, it may crowd out the more valuable competition benefits associated with airline entry, connectivity, consumer choice and Heathrow's ability to compete effectively with other global hubs.
- 7.43. More fundamentally, the CAA should consider the proportionality of undertaking any further Model 7b assessment. As set out in Chapter 2, each year of delay is estimated to reduce consumer benefits by around £2.0bn-£2.6bn. Any additional work on Model 7b should therefore be subject to a clear hurdle-rate test: the CAA should be able to explain why the expected benefit of continuing to assess a model that remains unproven outweighs the consumer cost of delayed capacity, competition, connectivity and lower fares. Unless the CAA can demonstrate that case, further work on Model 7b would not be proportionate.
- 7.44. That residual assessment should also address the practical investor question identified by BRG. Before committing to a multi-billion-pound terminal investment, any entrant would need clarity on the post-entry regulation of Airport Operation Services, the price regime, access charges, common-service obligations, the regulation of the Heathrow-entrant relationship and the rules governing potential anti-competitive conduct. In telecoms, comparable access and equivalence frameworks developed over decades, and entrants were able to test the regime through phased or small-scale entry before committing larger

amounts of capital. Heathrow Expansion is different: a new terminal would require a large, indivisible investment upfront. Absent regulatory clarity, bidders would either require a material regulatory risk premium, defer commitment, or use delay as leverage to improve terms. That is precisely the type of delay and uncertainty the CAA's workplan should avoid.

- 7.45. Continued consideration of Model 7b imposes real costs today. Even if the CAA intends it to be relevant only in the event of a successful third-party DCO proposal, keeping the model live prolongs uncertainty around the future regulatory framework, financing arrangements and delivery responsibilities. That uncertainty ultimately feeds into investor confidence, financing costs and the pace at which Expansion can progress. In our view, the evidence developed through CAP3195, CAP3251 and CAP3286 now points clearly in one direction: Model 7b is highly unlikely to be workable, financeable or capable of delivering better consumer outcomes than the alternative models available to the CAA. In those circumstances, fair, predictable and proportionate regulation would suggest that the CAA should use its role in the planning process to make that conclusion clear, rather than simply remaining the recipient of a future planning outcome, and should rule Model 7b out from the regulatory framework for Expansion.
- 7.46. The table below provides further commentary on each of the topics outlined by the CAA in CAP3286, for Model 7b:

Table 4. Heathrow's views on CAA Workplan, Model 7b

CAA Suggested Topic/ Issue in CAP3286:	Heathrow response:
<i>A more detailed assessment of the potential for competition and fragmentation issues that could arise. HAL and other stakeholders have very different views on the materiality of these issues. Our consultants Steer have also expressed concerns about potential fragmentation issues. We plan to commission external advice to review these issues and look at international precedents where there are multiple operators in further detail, including to understand how any operational issues at Heathrow Airport could be mitigated;</i>	▪ We consider that the evidence already supports ruling out Model 7b. The CAA should not commission further implementation-focused work on fragmentation, operational coordination or international precedent unless it first identifies a legally available, practically implementable and consumer-beneficial scenario that could justify keeping the model live. ▪ We agree that any residual work on Model 7b should assess fragmentation, operational coordination and international precedent. However, that work should be framed as a threshold test of whether Model 7b is workable and in consumers' interests, not as implementation planning for a model that remains unsupported by the evidence. ▪ The assessment should reflect Heathrow's specific characteristics: a live, capacity-constrained hub airport; highly integrated terminal, baggage, security, stand, airfield, surface access, utilities, IT and resilience systems; private financing requirements; and the need to maintain safe, efficient and punctual operations throughout construction. International comparisons should therefore be used cautiously and only where they are genuinely comparable on ownership, funding, hub complexity, airline contestability, operational integration and regulatory architecture. ▪ The CAA should also distinguish Model 7b from targeted competitive delivery under Models 4b/5b. The latter can be assessed asset by asset. Model 7b would create structural fragmentation of the airport operating model and should be judged against the higher threshold that implies.
<i>Developing a broad view on the approach to the regulation of any wholesale services that HAL may be required to provide to support these arrangements and outcomes;</i>	▪ We consider that work on wholesale services should not be prioritised unless the CAA first establishes that a legally available, practically implementable and consumer-beneficial Model 7b scenario remains realistic. Developing a wholesale services framework before that threshold assessment is complete risks giving unnecessary credibility to a model that the evidence indicates should be ruled out. ▪ If the CAA nevertheless retains a residual contingency workstream, it should first define what it means by "wholesale services", which assets and services would be in scope, how access and charging would be regulated, how common-service obligations would be funded, and how disputes would be resolved. It should also explain how such arrangements could operate without weakening Heathrow's accountability for safe, resilient and integrated airport operation.

CAA Suggested Topic/ Issue in CAP3286:	Heathrow response:
<i>Further work to understand the potential benefits and risks of direct competition; and</i>	▪ After nearly a year of consultation and evidence development, there is no sufficient basis for further work on Model 7b. The proportionate and consumer-focused course is for the CAA to remove it from its workplan and prioritise the framework needed to deliver Expansion efficiently and on time. ▪ If it proceeds, the CAA should use this workstream to test whether Model 7b would create effective competition in practice, or instead a complex regulated duopoly dependent on continuing regulatory allocation of access, charges, service standards and common services. ▪ Our evidence in response to CAP3251, including the BRG analysis, shows that Model 7b is unlikely to deliver effective competition and is more likely to increase cost, delay, financeability risk and operational complexity. The main pro-competitive benefit for consumers is timely Heathrow capacity release, stronger airline competition and lower fares. The CAA should therefore assess whether Model 7b advances or delays that outcome. On the evidence available, it delays it.

CAA Suggested Topic/ Issue in CAP3286:	Heathrow response:
<i>Reviewing of the steps that would be required to introduce any form of regulation for a third party, including market power and operator assessments. This would not pre-judge the outcome of any such assessment and whether any form of regulation might be needed.</i>	▪ The CAA should be clear in September on the legal powers and statutory processes that would be required before any Model 7b scenario could be implemented. This includes the basis on which the CAA considers it could impose licence conditions or price-control arrangements to support a third-party operator, require Heathrow to provide access or common services, or regulate wholesale charges between operators. ▪ We raised this issue directly in CAP3195. We explained that a third-party airport operator would require a new market power assessment, because the existing Heathrow MPD “dates from 2014, relates to a single operator and does not consider the new areas to be developed as part of the expansion.” Heathrow also noted that before licensing any new operator, the CAA would need to conduct a market power test under section 6 of CAA12 and make a market power determination under section 7 if the test were fulfilled. In CAP3251, we repeated that Model 7b would require a framework for competing airport operators, wholesale access, interface regulation, market power assessment, charging arrangements and operational coordination. CAP3286 should therefore treat market power, operator-status, licensing and wholesale-access questions as threshold implementation risks, not matters that can be safely deferred. ▪ The CAA should also avoid assuming that asset transfer or compulsory acquisition issues can be treated as settled. No DCO has been granted, no Expansion scheme has been approved and the revised HENPS remains under consultation. Any regulatory framework that assumes transfer of Heathrow assets or operational control to a third party would therefore be premature and should not form part of the active September implementation workplan.

- 7.47. If any residual contingency work is retained, it should be tightly bounded, should focus only on whether any legally available whole-scheme split-operator model could ever be workable, and should not delay decisions on Model 3, capital governance, incentives or targeted competitive delivery. That position would be consistent with the CAA’s duties, because it would focus regulatory effort on the models most likely to deliver timely, efficient and financeable consumer benefits.

Conclusion

- 7.48. Model 7b should now be ruled out. This is the reasonable pro-consumer and pro-effective competition conclusion. The competition that matters most for consumers is the timely release of new Heathrow capacity, which will strengthen airline competition, increase route choice and lower fares over time. Model 7b would put that consumer prize at risk by

fragmenting the airport operating model, increasing regulatory and financing uncertainty, weakening accountability and delaying capacity release.

- 7.49. The evidence from CAP3286, Steer, Centrus, BRG, Freshfields and Santander, our CAP3251 response and the HENPS all points in the same direction. Model 7b would not deliver a market-led route to consumer benefit. Instead it would create a complex regulated duopoly in a highly integrated hub airport. The HENPS also appears to make the previously considered terminal-only version redundant, and the CAA should confirm that position after taking legal advice. It would also require the CAA to reopen fundamental market power, operator-status, licensing, wholesale-access and charging questions that Heathrow has already identified in its responses to CAP3195 and CAP3251, and which CAP3286 does not yet answer.
- 7.50. The CAA should use September to confirm the enhanced Single RAB framework and focus regulatory effort on the models that enable timely delivery. Ruling out Model 7b would not narrow competition; it would focus the framework on the forms of competition most likely to benefit consumers — airline competition enabled by timely capacity release, and targeted procurement competition where it improves delivery value.
- 7.51. The CAA should also use its role in the planning process to make clear that regulatory workability and consumer impact are not matters to be deferred until after consent. If a third-party proposal depends on a regulatory model that is unlikely to be workable, financeable or in consumers' interests, the CAA should say so through the appropriate planning channels.

8. ENHANCED CAPITAL GOVERNANCE AND INCENTIVES, MODELS 1A AND 2

Introduction

- 8.1. **Expansion requires higher-quality governance, not simply more governance. Higher-quality governance is not about creating more decision-makers. It is about providing better information, more effective assurance and clearer accountability to support better decisions. We therefore support enhanced governance for Expansion through strategic oversight, independent assurance, procurement scrutiny and tailored incentives. However, these arrangements should support expert delivery rather than create duplication, veto rights or governance drag.**
- 8.2. We support the CAA's direction of travel on enhanced capital governance for Expansion. Expansion requires a bespoke framework because the scale, duration, complexity and uncertainty of the programme are materially different from Heathrow's business-as-usual investment activities. In our view, that framework should combine higher-quality assurance, better information, earlier visibility of emerging issues and structured strategic challenge from competent experts. The goal is not additional governance for its own sake, but better-informed decisions and greater confidence that Expansion can be delivered efficiently and in consumers' interests.
- 8.3. A key principle running throughout this chapter is that challenge, assurance and accountability are complementary, not competing, concepts. Governance works best when it improves decision-making whilst preserving a clear and single point of accountability for delivery. This is why we support arrangements such as the COG, JIA, procurement scrutiny and tailored incentives. Collectively these mechanisms can improve transparency, scrutiny and confidence without creating overlapping decision rights or fragmenting accountability for delivery.
- 8.4. We have listened carefully to the concerns raised by airlines regarding transparency, cost discipline, assurance and meaningful engagement on major investment decisions. Those concerns are legitimate, particularly for a programme that will influence charges, service quality, resilience and operational outcomes for decades. Our proposed governance framework is intended to respond directly to those concerns through earlier visibility, clearer information, independent assurance and more effective strategic engagement, whilst preserving the accountability needed to deliver safely, efficiently and on time.
- 8.5. The remainder of the chapter develops four arguments. First, Expansion requires a bespoke governance framework built around higher-quality assurance, strategic oversight and proportionate incentives. Secondly, governance should improve decisions, not create additional veto rights or governance drag. Thirdly, the governance arrangements required for Expansion should not automatically be read across to H8 business-as-usual investment, where the case is for targeted evolution rather than wholesale redesign. Finally, effective governance depends not only on framework design but on capability, accountability and constructive participation from all stakeholders.

Governance principles and the case for proportionate change

- 8.6. We support proportionate changes to capital governance for Expansion. The framework should strengthen transparency, assurance and decision-making while preserving clear accountability and avoiding unnecessary process or delay. The same core principles should apply to Expansion and BAU, but their application should differ according to scale, complexity, risk and maturity: Expansion requires bespoke programme-level governance, while BAU should retain proportionate arrangements focused on targeted improvement.

Table 5. Cross-cutting principles for capital governance

Principle	What it means	Implications for governance design
Proportionate	Governance intensity should reflect the scale, complexity and maturity of the investment.	Proportionate scrutiny should differentiate between low-risk renewals and repeatable projects, and major infrastructure programmes.
Risk-based	Scrutiny and assurance should focus on issues with the greatest impact on cost, deliverability, operations and consumers.	Governance effort should be concentrated where it can materially improve outcomes.
Decision-led	Governance should improve decisions, not maximise process.	Governance should provide better information, clearer trade-offs and stronger evidence.
Consumer-focused	Governance should be judged by the outcomes it delivers for consumers.	Additional process should be introduced only where it improves affordability, service quality, resilience or timely delivery.
Accountability-preserving	Challenge and assurance should coexist with clear delivery responsibility.	Governance should not create overlapping decision rights, fragmented accountability or de facto veto powers. Appropriate involvement of 3 rd parties with asset delivery responsibility.
Capability-enabled	Effective governance depends on sufficient resource and relevant expertise to provide high-quality, timely challenge.	Participants should have the capacity, skills and information needed to be empowered to operate the framework effectively and exercise their powers within required timescales.

- 8.7. These principles point to different governance responses for different types of investment. Applied to Expansion, its scale, duration, interdependencies and uncertainty justify a bespoke programme-level model: stronger strategic oversight and assurance are needed, but they must support rather than diffuse delivery accountability.

Heathrow view on Models 1a and 2

- 8.8. CAP3286 proposes enhanced capital governance, incentives and procurement oversight for Expansion. Heathrow supports that direction. Consistent with our March paper on High Quality Governance for Expansion and our response to CAP3251, we propose a bespoke model built around senior strategic oversight, independent assurance, transparent procurement scrutiny and incentives tailored to the maturity and risk of the programme. The purpose is to improve the quality and transparency of decisions while retaining a single, unambiguous point of accountability for delivery.

- 8.9. At the centre of this model, the COG would provide strategic oversight, structured challenge and evidence-based escalation on material issues. JIA would test key evidence on cost, scope, risk and deliverability, giving decision-makers greater confidence without displacing Heathrow's responsibility for the programme. Procurement oversight would increase transparency over strategy, competition and value for money while leaving procurement and delivery decisions with Heathrow. Capital efficiency incentives would be calibrated to maturity, controllability and risk and, where practicable, operate at programme rather than project level. Together, these arrangements would strengthen scrutiny without creating veto rights, duplicating approval gateways or fragmenting accountability, as well as robust cost discipline.
- 8.10. This is our positive proposition for Expansion governance. Determining an overall cost cap as an additional cost control tool would not improve consumer outcomes.

An overall cap for Expansion

- 8.11. We support robust cost discipline and protection against unnecessary escalation as a crucial safeguard to consumers. There should be no element of the Expansion capital programme that is not subject to meaningful efficiency incentives and to robust governance and assurance.
- 8.12. However, the airlines' proposed overall cap is not grounded in the needs, scope or maturity of the Expansion programme, and its justification remains underdeveloped. It is therefore an artificial constraint driven by airline preferences rather than programme evidence. Imposed now, it would restrict delivery before the information needed to manage cost and risk properly exists.
- 8.13. A cap may be appropriate in limited circumstances once scope, delivery strategy, risk allocation and cost evidence are sufficiently mature. It is not appropriate as a fixed whole-programme constraint at the outset of a megaproject. We are not aware of a relevant precedent for doing so.
- **An outset cap would make risk harder and more expensive to manage, penalising consumers.** Before design, consenting, procurement and commercial strategy have matured, a fixed ceiling cannot reflect how risk will emerge, be mitigated or be allocated. Heathrow would either retain risks it cannot efficiently control or seek to transfer them prematurely. Contractors would price poorly defined risk through higher bids and contingency, qualify their offers or decline to participate. The likely result is higher capex and, ultimately, higher costs for consumers.
 - **A single early figure would create false precision rather than discipline.** Expansion will span several regulatory periods while scope, sequencing, statutory requirements, market conditions and delivery interfaces continue to develop. A tight cap may be undeliverable; one loaded with enough contingency to absorb that uncertainty would exert little meaningful discipline.

- **The cap boundary would be inherently contestable.** The framework would need to decide whether the ceiling covers inflation, financing, risk allowances, property, surface access, environmental mitigation, scope change and BAU interfaces, and who bears costs arising from Government, regulatory, planning, airline or supply-chain decisions. Those classifications would be repeatedly contested as the programme matured, diverting effort from cost management to cap administration.
 - **Enforcement would either misallocate risk or weaken the cap.** Without adjustment mechanisms, Heathrow could carry risks it cannot efficiently manage. With extensive reopeners and resets for changes in scope, law, market conditions or uncontrollable risk, the cap would no longer be hard and would become a complex regulatory process in its own right.
 - **Exceedance rules could undermine delivery and financeability.** Disallowing unavoidable expenditure, reducing or deferring scope, or requiring shareholders to absorb costs would each affect investment incentives, contractual pricing, financeability and suppliers' willingness to commit scarce capacity.
 - **A poorly calibrated cap could sacrifice whole-life value and timely capacity.** Optimising against a single ceiling could encourage scope deferral, underinvestment in resilience or quality, or postponement of expenditure that reduces whole-life cost, retires risk or protects the schedule. That would put the principal consumer benefit - the timely delivery of additional capacity - at risk.
 - **Relevant practice supports staged controls.** UK megaproject guidance and regulatory precedents such as ASTI, Thames Tideway and Sizewell C combine progressively firmer baselines with governance, independent assurance, risk sharing, reopeners, incentives and targeted protections. They do not support imposing a single enforceable ceiling before the programme is sufficiently defined.
 - **The better approach is a progressively calibrated cost-discipline framework.** Governance, independent assurance, transparent reporting, staged cost baselines, incentives calibrated to maturity and controllability, risk sharing and targeted controls should operate as one package. This would strengthen discipline as evidence matures while preserving the flexibility needed to manage risk efficiently and protect delivery.
- 8.14. Therefore, before consulting on any overall cap, it will be important for the CAA to establish the problem it is intended to solve and test whether it would improve consumer outcomes. CAA's assessment should cover timing, scope, risk allocation, change control, adjustment mechanisms and the consequences of exceedance. If the mechanism would increase contractor risk pricing, financing costs, delivery delay or scope distortion, it would be counterproductive.
- 8.15. The same principles of proportionality, risk focus and consumer benefit should inform H8 BAU, but the characteristics that justify bespoke Expansion governance also explain why its mechanisms should not be treated as the default for a more mature and diverse BAU portfolio.

Targeted evolution of H8 governance

- 8.16. We agree with the CAA that existing governance arrangements should continue while the new Expansion framework is developed. Expansion and H8 BAU should remain distinct workstreams because they present materially different governance challenges. Expansion is a nationally significant, multi-decade and highly interdependent programme, with exceptional complexity, uncertainty and delivery risk. H8 BAU is a diverse portfolio of renewals, operational improvements and more conventional investment delivered through a framework that has only recently undergone major reform. Common principles can inform both, but the mechanisms should be tailored to their different scale, risk, maturity and operational context. This separation is essential to avoid unnecessary delay to H8 investment, maintain certainty for projects already in development and preserve the stability needed for efficient long-term investment.
- 8.17. H7 already represented a major reform of Heathrow's capital governance, introducing project-level Delivery Obligations, ex ante incentives, stronger assurance arrangements, tighter capex controls and materially greater airline involvement in decision-making. As the table below demonstrates, these changes were substantially shaped by airline positions. Continued airline concerns despite this material movement warrant cautious, evidence-based assessment of further requests. The H7 framework's effectiveness should be assessed before another major overhaul is contemplated.

Table 6. CAA decisions shaping the H7 capex governance framework

Incentive element	Heathrow position in H7	Airlines' position in H7	CAA decision: fully aligned with or strongly shaped by airlines
Capex cap and indexation	▪ No capex adjustment mechanism: existing arrangements allow in-period changes. ▪ Index allowances to construction inflation, not CPI.	▪ Cap expenditure to prevent excessive outturn costs. ▪ Require CAA approval and airline agreement for increases. ▪ Remove the 5% margin.	▪ Overall capex cap plus 5% uncertainty. ▪ Two application windows for increases, with exceptional out-of-window requests.
Introduction of ex-ante	▪ Retain the Q6 framework: no evidence of material delivery inefficiency.	▪ Apply ex ante incentives to all projects not past G3.	▪ Apply ex ante incentives to all H7 capex, with limited exceptions.
Sharing rate	▪ Differentiate rates by project type. ▪ Avoid deterring innovation or prioritising early certainty over outcomes. ▪ Set the rate at 13–15%.	▪ Use a stronger asymmetric rate, with higher penalties for overspend.	▪ Apply a ±25% rate to under- or overspend against the G3 budget.

Incentive element	Heathrow position in H7	Airlines' position in H7	CAA decision: fully aligned with or strongly shaped by airlines
Introduction of DOs	- Project-level DOs add substantial time and resource. - Required information is not produced in standard project documentation.	Introduce project-level DOs at G3.	Require airline-agreed DOs at G3 covering outputs, quality and timing, weighted against baseline capex.
Timing: DOs and triggers	Timing DOs create double jeopardy: delays also raise costs and trigger incentive penalties.	Retain Q6 triggers alongside timing DOs.	Retain timing DOs; remove triggers.
Incentives WACC and returns on disallowed expenditure	- Use post-tax WACC for NPV calculations. - Remove returns on expenditure later disallowed from the RAB.		- Retain pre-tax WACC for capex incentives. - Remove returns on expenditure later disallowed from the RAB.
Third-party assurance	- No added value from reviewing standards and processes beyond existing assurance. - Explore jointly appointed independent experts for projects over £25m.	- Support independent review of HAL's standards and processes. - Allow airlines their own independent expert support beyond the IFS remit.	- Independently review HAL's common standards and processes. - Use jointly appointed SME reviews for selected projects.

8.18. The CAA itself recognised during the H8 process that the substantial governance reforms introduced for H7 should be allowed time to bed in before further material redesign is contemplated: it has stated in that the focus for H8 would be incremental improvement.²⁵ We continue to support this direction.

8.19. Taking a distinct approach to “...consider further phased changes to the business-as-usual arrangements during the H8 period...” as CAP3286 suggests,²⁶ would be inconsistent. Advancing additional changes in such a short period, potentially reopening the H8 settlement in-period, would be inappropriate and unlikely to be effective: it would create regulatory instability, disrupt delivery and make it difficult to distinguish genuine framework weaknesses from transitional implementation challenges. It would also be inconsistent with good regulatory practice, which requires interventions to be proportionate, supported by credible evidence and evaluated against their intended outcomes before further cumulative burdens are imposed.

8.20. This does not mean that governance should be static or unresponsive to practical experience. Heathrow supports continuous improvement where observations reveal a specific weakness and a targeted change can demonstrably improve decision quality,

²⁵ [H8 method statement and business plan guidance; H8 Initial Proposals Section 2: building blocks and incentives](#)

²⁶ CAP 3286, paragraph 5.5.

transparency or consumer outcomes. The appropriate response is to identify the issue, test the evidence and refine the relevant mechanism - not to redesign the framework from first principles.

- 8.21. We have taken that proactive and evidence-led approach. We have identified a package of evolutionary improvements in the H8 Business Plan, and further developed those proposals in our response to the CAA's Initial Proposals, drawing on experience of the H7 framework.

Table 7. Heathrow's proposed improvements to H8 capital governance

Heathrow's proposed improvements to H8 capital governance	Intended Impact
'Light' Governance Approach for Low-Complexity Asset Renewals <£10m - Remove G3 investment decision, instead agreeing scope upfront with progress updates and value for money assurance reporting. Projects are endorsed as scope is delivered. - Increase the DO exemption threshold to £10m for asset renewals in line with minor works.	Will allow greater focus for airlines and Heathrow on investment activities that drive most change and deliver for passengers whilst simultaneously reducing volume of materials and length of time spent in governance meetings.
Tranche-level investment decisions for rolling lifecycle/repeatable scope - Set the investment decision for repeatable/rolling lifecycle scope at a tranche level. - Set the DO at a tranche level. - Regular progress updates.	- Will save up to 85% in governance volume at a tranche level - Allows us to dynamically manage demand across the operation - Allows dynamic risk management
Targeted removal of Schedule element of DOs, unless: - Agreed with airlines on key projects - It is an airline-requested project critical to their daily operations.	- DOs have greater focus on delivering outputs to the right quality within the defined baseline cost - Heathrow to set more challenging schedules to deliver projects quicker - Allows project teams to adjust plans, schedules, and resources in real time, helping to keep projects on track and avoid costly delays - Reduce change burden on external changes
Sequential DOs for large, complex projects Introduce multiple sequential DOs within one investment decision (when relevant) for multi-disciplinary, >£100m projects.	- Large, complex projects have a much higher level of risk and uncertainty at the investment decision. DOs and ex-ante do not recognise this - Manage risk proactively without requesting large volumes of change - Heathrow wants to ensure it can continue to drive bigger investment decisions to realise economies of scale

- 8.22. We have also engaged proactively with airlines to understand their observations, test their suggestions for reform and identify areas where further targeted improvement may be justified in the context of H8 discussions. Building on that engagement and airline feedback, we are exploring a number of additional specific targeted improvements. At this stage, the points below are preliminary and illustrative: they indicate a possible direction of travel rather than final proposals.

- **Programmatic approach:** We support retaining the existing programmatic model and improving how it operates. This should include clearer prioritisation of scope and more robust project initiation discussions, stronger benefits reporting and improved change control for programmes and tranches. We also support increasing thresholds for low-complexity asset renewals so routine schemes are not exposed to disproportionate governance.
 - **Strategic portfolio prioritisation:** We intend to refocus the Future Portfolio Group as the main forum for strategic capital visibility, prioritisation and discussion of choices and trade-offs. This would shift engagement earlier in the process and reduce late project-level gateway challenges, where airlines feel that opportunities to influence scope, phasing or alternatives are constrained.
 - **Information quality:** Information quality should also be improved through standard business case templates, clearer guidance, better training, pre-release checks and a new Governance and Stakeholder Engagement function to review material before it enters external governance. These changes would provide stakeholders with clearer, more decision-useful information without creating unnecessary additional process.
 - **Independent Assurance:** We support retaining a jointly appointed Independent Fund Surveyor, rather than transferring appointment and management to the CAA. The IFS role could be refreshed for H8 through a joint appointment process and focused on areas where independent challenge improves confidence, including value for money, portfolio prioritisation, benefits forecasts and outcomes realisation.
 - **Engagement:** We are supportive of proposals to replace Stakeholder Programme Groups with a single Investment Stakeholder Group for portfolios, which would improve consistency, timeliness and decision quality. We are also working to improve airline operational engagement to ensure the appropriate level of consultation ahead of investment decisions.
- 8.23. Taken together, these emerging ideas illustrate what targeted evolution could look like: improving proportionality, strategic engagement, information quality, assurance, Delivery Obligations and engagement without creating duplicative approval rights, increasing delay or weakening Heathrow's accountability. They should be refined through evidence and engagement as H7 experience develops, rather than treated as support for wholesale H8 redesign.
- 8.24. It would be internally inconsistent to justify bespoke Expansion governance by reference to Expansion's unique characteristics and then treat those arrangements as the default for BAU. Therefore, any future H8 change should have its own clearly defined problem, evidence base, consumer-benefit assessment and proportionality case. Expansion experience may inform future learning once the relevant arrangements have been implemented and assessed, but it should not become a backdoor route to another major H8 overhaul before the H7 reforms have bedded in and their lessons are clear.
- 8.25. Proportionate framework design is therefore necessary, but it is not sufficient. Whether the bespoke Expansion model or the evolving H8 arrangements improve outcomes will depend on how Heathrow and airlines exercise their respective roles in practice. The argument must

therefore turn from governance architecture to the capability, timeliness and accountability of those who operate it.

Effective governance requires proportionate design and responsible participation

- 8.26. The design of the governance framework is important, but it is not sufficient on its own to deliver better consumer outcomes. Higher-quality governance depends not only on structures, committees and assurance arrangements, but on how participants engage with them in practice. Timely challenge, appropriately skilled participation, stable assurance positions, clear information and constructive engagement are all essential if governance is to improve decisions rather than create delay. The effectiveness of any future governance framework will therefore depend as much on behaviour and accountability as on institutional design.
- 8.27. Airline views are an essential input to capital investment at Heathrow. As the principal users of airport infrastructure, airlines bring operational expertise, customer insight and information on future requirements that can improve project scope, business cases and delivery choices. Heathrow is committed to continuing to listen to those views and to ensuring that airline involvement in governance is meaningful, structured and proportionate.
- 8.28. That commitment is reciprocal. Heathrow must provide timely, clear information, engage early and respond constructively to challenge. Airlines, in turn, need to deploy appropriately skilled and empowered representatives, raise concerns when decisions can still be influenced, respond within reasonable timescales and exercise their governance powers consistently and constructively. Governance creates value when it improves decisions. It creates costs when issues are identified too late, positions change without material new evidence or processes are repeatedly reopened after decisions have effectively been taken.
- 8.29. The T2 Baggage Renewal Programme is the clearest current illustration of the shared task of operating the governance framework effectively. For a programme of this significance, that requires Heathrow to provide early, clear and decision-relevant information, and airlines to offer constructive and timely challenge supported by appropriate expertise and operational evidence. The T2 Baggage Renewal Programme also illustrates the need to match governance to the characteristics of the investment. It is a large, complex and operationally integrated programme and should not be treated as representative of routine BAU capital governance. Rather, it demonstrates why a single governance model cannot be assumed to apply equally across routine BAU projects, major integrated programmes like Expansion. This does not diminish the importance of rigorous airline scrutiny; it ensures that scrutiny is exercised through arrangements suited to the investment being governed.
- 8.30. Further detail on the T2 Baggage Renewal Programme is set out in Supporting Document 3, alongside the other specific H7 cases. Although those cases differ in scale and context, they reinforce common principles: timely and consistent engagement, appropriate commitment of resources and expertise, disciplined decision-making and completion of agreed actions. In particular, the evidence includes instances where concerns were raised only at or close to

approval, assurance expectations changed after work had progressed, agreed actions were not completed in time to inform decisions, and established governance routes were revisited without material new evidence. These examples are relevant not as isolated complaints, but because they show how the value of airline influence can be reduced when challenge is late, inconsistent or insufficiently supported, ultimately impacting consumers.

- 8.31. The wider lesson is that no governance framework can operate effectively unless all stakeholders use it as intended. Heathrow and airlines share responsibility for providing the information, expertise, evidence and timely decisions needed for governance to add value. Meaningful influence over investment must therefore be accompanied by accountability for how that influence is exercised.

Comments on proposed CAA work plan

- 8.32. We welcome the CAA's proposed programme of work to develop the future capital governance and incentives framework. There is already significant alignment in relation to bespoke governance for Expansion, stronger independent assurance, enhanced strategic oversight and more tailored incentive arrangements. The next phase of work should therefore focus primarily on refining, testing and implementing these concepts, rather than revisiting first principles.

- 8.33. The table below sets out our view on each topic/ issue outlined in CAP3286:

Table 8. Heathrow's views on CAA Workplan, Model 1a and 2

CAA Suggested Topic/ Issue in CAP3286:	Heathrow response:
<i>Establish whether there are elements of the expansion programme which could be used to help develop and test new governance arrangements</i>	▪ We encourage the CAA to test governance arrangements through selected Expansion activities, building on existing Heathrow, airline and CAA analysis. Trials should focus on agreed principles—-independent assurance, Heathrow-led capital planning, strategic oversight, clear accountability and no stakeholder veto—and draw on the COG, JIA, H7 lessons and relevant UK precedent. Requirements should increase with programme maturity, while lessons from each trial inform subsequent policy and implementation.
<i>Work with HAL and airlines on the approach to the independent assurance of expansion costs, including early costs, to best support the governance of overall expansion and business-as-usual capex.</i>	▪ The approach for Expansion and BAU capital should place independent assurance at its core. Existing Heathrow, airline and CAA work should first be mapped to clarify roles, avoid duplication and ensure assurance informs decisions without displacing Heathrow's accountability. The priority should be timely Expansion delivery, with Expansion-specific arrangements kept distinct from any future H8 governance changes.

CAA Suggested Topic/ Issue in CAP3286:	Heathrow response:
<i>Consider incremental changes to the current approach to capital governance and incentives for business-as-usual capex as part of the H8 price control review. We will consider further phased changes to the business-as-usual arrangements during the H8 period to ensure a coherent framework with changes to the governance of expansion capex</i>	Expansion and BAU should remain separate workstreams because their governance, delivery and risk challenges differ materially. Any BAU reform should therefore be evidence-led, demonstrate consumer benefit and focus on targeted, incremental improvement while existing arrangements bed in.
<i>Commission an expert review to advise us on the practical design of the capital governance for expansion and major capital projects. We will consult HAL and airlines on the scope of the review. This will likely include:</i> <i>undertaking a review of how capital governance at Heathrow currently works in practice, identifying opportunities for enhancement to business-as-usual capex and learning points for expansion;</i> <i>establishing the best practice approach taken by other major projects, including reviewing the evidence submitted by stakeholders, and how to tailor these lessons for capex at Heathrow, taking account of the characteristics of expansion and the learning from the operation of the existing governance arrangements;</i> <i>developing the terms of reference and guidelines for a new capital committee and supporting governance, taking account of the existing programme and working groups; and</i> <i>developing other governance documents as appropriate, such as guidance, template documents and minimum information standards.</i>	The expert review should focus on implementation and build on evidence already submitted by Heathrow, airlines and other stakeholders. It should treat independent assurance, Heathrow-led capital planning, preserved accountability, strategic oversight and no stakeholder veto as established principles, then test the COG and JIA proposals against H7 experience and UK infrastructure precedent. The resulting terms of reference, guidance and templates should be proportionate to each activity's scale, complexity and maturity, with clear recommendations and ownership.

CAA Suggested Topic/ Issue in CAP3286:	Heathrow response:
<i>Develop our approach to setting strong, tailored incentives on capital efficiency and to protect consumers from cost escalation. We will publish a plan for this work in our September 2026 document, which could include:</i> ▪ <i>requesting further information from HAL on its capex plans and types of costs;</i> ▪ <i>commissioning our technical advisors to review how HAL's costs could be categorised in order to best support a tailored approach to capital incentives;</i> ▪ <i>developing and modelling options for how capital incentives could be adapted and tailored, and consulting on these options; and</i> ▪ <i>developing possible approaches to setting an overall cap for expansion costs and how this could be credibly enforced, for consultation.</i>	▪ Cost discipline should be developed as a coherent, progressively calibrated package rather than defaulting to an upfront whole-programme cap. The CAA should categorise activities by maturity, forecast certainty and controllability before modelling staged baselines, assurance, incentives, risk sharing and targeted controls. A cap could drive unbalanced risk allocation and eventually penalise consumers. Before consulting on any overall cap, the CAA would need to establish the problem it is intended to solve and test whether it would improve consumer outcomes. Its assessment should cover timing, scope, risk allocation, change control, adjustment mechanisms and the consequences of exceedance. If the mechanism would increase contractor risk pricing, financing costs, delivery delay or scope distortion, it would be counterproductive. ▪ The information plan should define the evidence required for each regulatory decision, who will provide it and when. It should build on material already supplied, accept ranges while design, planning and consenting remain uncertain, and increase detail proportionately as the programme matures.

Conclusion

- 8.34. Our position can be summarised in four propositions. First, Expansion requires a bespoke governance framework built around higher-quality assurance, strategic oversight, procurement transparency and tailored incentives, reflecting the scale, complexity and duration of the programme. Secondly, governance should improve decision-making, not create additional veto rights, duplicate accountability or governance drag. Thirdly, the arrangements required for Expansion should not be read across automatically to H8 BAU, where any future reform should be targeted, proportionate and supported by evidence that it improves consumer outcomes. Finally, the effectiveness of any governance framework depends not only on its design, but on the capability, timeliness and discipline with which all participants engage with it.
- 8.35. The September publication should therefore mark the transition from governance design to governance implementation. There is already substantial alignment between Heathrow and the CAA on the principal building blocks of the framework, including strategic oversight, independent assurance, proportionate procurement scrutiny and tailored incentives. The priority should now be to implement those arrangements in a way that improves decision quality, strengthens consumer protection and preserves clear accountability for delivery.
- 8.36. Accordingly, Heathrow asks the CAA to confirm in its September paper that:
- **For Expansion:** the COG and JIA will build on the existing Heathrow-airline work; the COG will provide strategic oversight and evidence-based escalation without veto rights; JIA will be risk-

based and decision-led; incentives and cost controls will be tailored to maturity, controllability and risk; and Heathrow will retain clear accountability for delivery.

- **For H8 BAU:** Expansion and BAU will remain separate workstreams, and any further BAU changes will require their own problem statement, evidence base, consultation, proportionality assessment, consumer-benefit case and statutory-duty analysis.
- **For operation of both frameworks:** governance arrangements will define clear, reciprocal expectations for timely engagement, clear information, appropriately skilled participation, stable assurance positions, provision of relevant operational data and disciplined escalation by all parties.

8.37. Ultimately, the test of the governance framework is not how much governance it creates, but whether it improves consumer outcomes. Higher-quality governance should provide better information, more effective assurance and clearer accountability, enabling better decisions, more efficient delivery and greater confidence that Expansion can be delivered in the interests of consumers. In our view, that should now be the focus of the CAA's next phase of work.