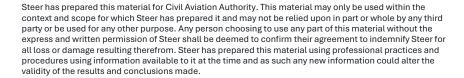# H8 Constructive Engagement - Independent Reporter report – Round Two

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H8 Constructive Engagement - Independent Reporter report – Round Two

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1 Introduction

Constructive engagement

1.1   In September 2024, the CAA set out its draft guidance (CAP3031[1]) on the Constructive Engagement process for Heathrow 8th price control review. The guidance provided the CAA's current views on the purpose and scope of each round of Constructive Engagement, the governance arrangements and outputs, as well as its own role in the process.

1.2   As part of its guidance, in discussion with stakeholders, the CAA agreed to the appointment of an independent reporter.

Independent Reporter role

1.3   As per CAA guidance, the role of the Independent Reporter is to be responsible for agreeing the outputs for each round of the H8 Constructive Engagement process between HAL and airlines.

1.4   HAL and the airlines jointly appointed the Independent Reporter by mid-October 2024.

Objectives of the Independent Reporter report

1.5   A report must be produced by the Independent Reporter at the end of each round that summarises the process followed and the key outcomes and conclusions. The report should be shared with HAL and airlines to check factual accuracy.

1.6   This report focussed on Round Two of the H8 Constructive Engagement which took place between March and May 2025 and was designed to seek to understand parties' views and, where practicable, reach a consensus on detailed building blocks that will comprise HAL's business plan. This should be appropriately targeted to allow in depth discussions of key issues and exclude areas where there is unlikely to be consensus and the CAA will need to consider evidence from a range of sources.

Organisation of this report

1.7   This report is organised as follows:

- Chapter 2 provides an overview of the process and examine the exchange of information between the parties;

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[1] https://www.caa.co.uk/publication/download/22894

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- Chapter 3 focussed on the areas of consensus and differences amongst HAL and the airlines, at this stage of the engagement; and
- Chapter 4 provides findings including an assessment of the Constructive Engagement against the CAA's CAP3031, lessons learnt and next steps.

2 Summary of the process and information exchange

2.1   In this report, we provide an overview of the process and examine the exchange of information between the parties during Round Two.

2.2   Note that a number of deep-dive sessions were organised alongside the formal meetings, in order to provide technical information on specific topics raised during Round One and Round Two formal meetings.

Organisation of Round Two meetings

Topics discussed

2.3   The table below presents the topics discussed during Round Two. This provided an exhaustive consideration of relevant aspects of engagement in relation to H8. No stakeholders expressed the view that there were issues with the scope.

Table 2.1: Topics presented and discussed during the formal Round Two meetings

Meeting date	Theme		Detailed topics	Led by
04/03/2025 (day-long meeting)	1	Baseline building blocks – Part 1	Passenger Forecasts	Airport
			Revenue and OPEX forecasting approach	Airport
			ORCs	Airport
			Commercial revenue strategy and benchmarking	Airport
			Day 1 wash-up	Co-chairs
05/03/2025 (day-long meeting)	2	Baseline building blocks – Part 2	Expected capacity horseshoes at H8 entry	Airport
			Changes over H8	Airport
			Occupancy and MH impact	Airport
			Resilience	Airport
			Day 2 wash-up	Co-chairs
26/03/2025 (day-long meeting)	3	H8 choices – Part 1	H7 Capital roll-forward	Airport
			Necessary capital spend	Airport
			H8 Choices: digital future – passenger automation	Airport
			Day 3 wash-up	Co-chairs
27/03/2025 (day-long meeting)	4	H8 choices – Part 2	Value for customers	Airport
			People and planet	Airport
			Non-capital choices	Airport

			Day 4 wash-up	Co-chairs
01/04/2025 (day-long meeting)	5	Round 2 wrap-up	MTI proposal review	Airport
			Airline passenger forecast	Airlines
			Wrap-up discussions	Airport
			Day 5 Wash-up	Co-chairs

2.4 Additional focussed meetings were organised to complement Round Two formal Constructive Engagement sessions. Note that a session planned for 15/05/2025 on commercial property was cancelled a day before at the request of airlines who declined to discuss further on an alternative approach.

Table 2.2: Topics presented and discussed during the focussed Round Two meetings

Meeting date	Theme	Detailed topics	Led by
20/03/25	Capacity enhancing projects and MTIs	Capacity-enhancing projects	Airport
		MTI proposal	Airport
02/05/25	Baggage MTIs	Baggage timely delivery	Airport
08/05/25	Security MTIs	Security MTIs (for Option 1, monthly measures)	Airport
		Proposed security bonus discussion	Airport
		Security MTIs (for Option 2, daily measures)	Airport

Meeting chairing and attendance

2.5 All formal meetings took place in person in the immediate vicinity of Heathrow airport. The table below shows that the attendance by non-HAL staff was adequate according to the attendance arrangements already in place between HAL and airlines[2].

Table 2.3: Attendance of the formal Round Two meetings by non-HAL staff

Meeting date	IATA co-chair	At least 2 airlines/alliances	AOC	CAA	IR
04/03/25	Yes	Yes (AA, BA, IAG, VS)	Yes	Yes	Yes
05/03/25	Yes	Yes (BA, IAG, Star, VS)	Yes	Yes	Yes
26/03/25	Yes	Yes (AA, AC, BA, IAG, VS)	Yes	Yes	Yes
27/03/25	Yes	Yes (AA, AC, BA, IAG, VS)	Yes	Yes	Yes
01/04/25	Yes	Yes (AC, BA, Star, VS)	Yes	Yes	Yes

[2] Note that Steer is not aware of the detailed attendance arrangements in place between HAL and airlines, so has relied on what was stated on slide 5 of the Scene setting session.

2.6   The focussed meetings of Round Two all took place online and usually lasted 2h.

Table 2.4: Attendance of the focussed Round Two meetings by non-HAL staff

Meeting date	IATA co-chair	At least 2 airlines/alliances	AOC	CAA	IR
20/03/25	Yes	Yes (AA, BA, IAG, VS)	Yes	Yes	Yes
02/05/25	Yes	Yes (BA, LH, Star, VS)	Yes	Yes	Yes
08/05/25	Yes	Yes (BA, Star, VS)	Yes	Yes	Yes

Exchange of documents and information

2.7   Adequate and timely information exchange is an important part of the process of Constructive Engagement. Documents were exchanged usually before and/or after each formal or focussed session.

Timeline for documents related to meetings

2.8   The following tables show that the airport sent the documents seven days in advance of the day-long meetings as planned according to the governance arrangements[3] of issuing pre-read at least seven, ideally ten days in advance of each Constructive Engagement session.

2.9   Draft minutes always took longer than planned (seven calendar days after the meeting). As this was also encountered in Round One, we would suggest that either the time period provided to issue the draft minutes is extended to 10 days or 2 weeks, or that HAL and the co-chairs change their processes to issue minutes as per target.

Table 2.5: Airport-led exchange of formal Round Two meetings documents

Meeting date	Pre-read issue (plan)	Pre-read issue (eff.)	Post-read issue	Draft minutes (plan)	Draft minutes (eff.)	Appr. minutes
04/03/25	25/02/25	18/02/25	14/03/25	11/03/25	21/03/25	20/06/25
05/03/25	26/02/25	18/02/25	14/03/25	12/03/25	21/03/25	20/06/25
26/03/25	19/03/25	18/03/25	04/04/25	02/04/25	11/04/25	20/06/25
27/03/25	20/03/25	18/03/25	04/04/25	03/04/25	11/04/25	20/06/25
01/04/25	25/03/25	25/03/25	No need	08/04/25	11/04/25	20/06/25

2.10   Airlines formally presented their views on one occasion in relation to traffic forecasts.

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[3] Note that Steer is not aware of the detailed governance arrangements in place between HAL and airlines, so has relied on what was stated on slide 5 of the Scene setting session.

Table 2.6: Airline-led exchange of Round One meetings documents

Meeting date	Pre-read issue (plan)	Pre-read issue (eff.)	Post-read issue
01/04/25	25/03/25	27/03/25	No need to issue post-read material

2.11 Contrary to formal Round Two meetings, for the first three focussed sessions, HAL did not issued pre-reads in advance of these sessions. HAL has said this was due to the short turnaround times following the formal Round Two sessions and the short time between the focused sessions. Heathrow also stated that its view is that they sit outside of the CAA's guidance on Constructive Engagement. Airlines who disagreed, raised this point as a critical issue as they rely on circulating pre-reads to colleagues in order to collect points to raise (especially important on technical issues).

2.12 Specifically in relation to focussed session of 08/05/25, HAL asked airlines on 07/05/25 to "provide a preferred direction of travel from the session, or at the latest COP on Friday", that is two working days after the meeting, without airlines having been sent the slides in advance, which appears to be a particularly short time.

2.13 For the fourth session planned for 15/05/2025, pre-reads were issued in advance (on 09/05/25), but the session was cancelled following airline community decision not to proceed on further discussion on the model for commercial property investments.

Table 2.7: Airport-led exchange of focussed Round Two meetings documents

Meeting date	Pre-read issue (plan)	Pre-read issue (eff.)	Post-read issue	Draft minutes (plan)	Draft minutes (eff.)	Appr. minutes
20/03/25	13/03/25	No pre-read issued	21/03/25	27/03/25	04/04/25	20/06/25
02/05/25	25/04/25	No pre-read issued	06/05/25 *	09/05/25	09/05/25	20/06/25
08/05/25	01/05/25	No pre-read issued	08/05/25	15/05/25	23/05/25	20/06/25
15/05/25	08/05/25	09/05/2025	The session planned for 15/05/2025 was cancelled earlier that day.			

Note: (*) stands for pre-read circulated the next working day after the meeting, without the requested additional information included. The additional information was provided two days later, on 08/05/25. Note (2): no colour-coding is displayed as focussed Round 2 meetings were not formal meetings.

Timeline for other information and documents provided

2.14 Beyond the copy of the presentations that were exchanged before and/or following the formal and focussed meetings, other documents were exchanged: documents formally requested during the formal and focussed meetings (with the request and action tracking included in the Action Plan), as well as ad-hoc documents or statement of positions.

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2.15   The Action plan is a stand-alone document available to all relevant parties. We comment below on how Actions have been implemented in the section titled "response to requests for further information".

2.16   In relation to ad-hoc documents or important statement of positions, these are sometimes included in the Action list, but we would like to highlight below the key ones that resulted in options being selected or views being clarified.

Table 2.8: Important Round Two ad-hoc documents and statements of positions

Date	Theme	Details	Sent by
23/04/25	MTIs, bonus/scheme	Airline community counter proposals for MTIs and bonus/rebate measures.	Airlines (IATA)
07/05/25	MTI/exclusions	Airline community counter proposals for exclusions.	Airlines (AOC)
14/05/25	Commercial property investments	Statement of position of airline community that they are not open to progressing discussion on the model for commercial property investments.	Airlines (IATA)

Quality and adequacy of the information exchange
General communications management

2.17   In terms of general communications to the airline community and other parties (CAA, IR) involved in Constructive Engagement, Heathrow has established a robust communication approach, based on:

- Access to all relevant parties to a shared drive, providing a repository of the materials issued by Heathrow since the start of engagement in October 2024, including presentations and minutes for each session (formal and focussed) for all rounds, the action log tracker, an availability tracker, and specific documents sent by Heathrow after clarification requests;
- Distribution of a fortnightly email of update, recapping key dates to come and availability of documents on the shared drive.

Meeting minutes

2.18   The responsibility for taking and issuing minutes fall on the airport. Draft meeting minutes were circulated on the dates indicated above (see Table 2.5), inviting meeting attendees for their feedback, before being officially issued.

2.19   Final versions of the minutes for Round Two became available by early and late May 2025. Meeting minutes were well organised, with a complete list of attendees, and a record of the discussion by topic (following the chronological order of the day of the meeting), with actions/recommendations linked to each topic discussion.

2.20   The minutes included the initials of the presenter, allowing the reader to understand who stated what point in retrospect.

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Response to requests for further information

2.21 An action log was created by HAL in order to manage the actions and responsibilities associated with them. It tracked the actions that emerged from each of the days of engagement, with a unique reference code, owner, dues dates and status update.

2.22 By the end of Round Two, just two actions from Round One were still outstanding.

2.23 It would be good for these Round One actions to be addressed as a matter of urgency, especially as their due dates have expired for a couple of months, or to have collective agreement to remove them from the action log if not relevant anymore. We would suggest that where due dates have expired, a reason for non-delivery of the action is stated on the action log by the action owner and perhaps that each next Round meeting starts with a review of outstanding actions from previous rounds.

Table 2.9: Status of the Round One action log as of 23/06/2025

Round	Theme		Due date	Action owner
One	Forecasting	Re-share H7 reports from traffic consultants on forecasting methodology	Exp.	HAL
One	Quality	Assess options to share NPS information with Heathrow	Exp.	Airlines

Source: H8 action log. Note: "exp." means expired, "not exp." means not expired.

2.24 In relation to the Round Two actions, these have expired by now and only four remain (as of 23/06/2025). Purely on process aspects, we note that the due date for Round Two actions which has been set is the same across all actions and is the formal end of Round Two: this appears to be an adequate deadline for the later meetings, but provides a two-month period for the earlier meetings which seems too long.

2.25 As the efficient sharing of information is an important part of constructive engagement, we would suggest that the due dates are set on a rolling basis (i.e. 2, 3 or 4 weeks after the meeting), and where possible do not exceed as much as possible the final session from the end of the Round.

Table 2.10: Status of the Round Two action log as of 23/06/2025

Round	Theme		Due date	Action owner
Two	Forecast	Share detail to the airline passenger forecast	Exp.	Airline (VS)
Two	Performance/procurement	Re-open NATS contract action from Round 1 Deep Dive	Exp.	HAL
Two	Capex	Provide evidence of support for PCA investment for short-haul flying	Exp.	Airline (BA)
Two	MTI/Baggage	Share data on baggage timely delivery for T5	Exp.	Airline (BA)

2.26   Resolution of one action is disagreed upon: this relates to the sharing of performance measures of the NATS tower contract with the airlines. Heathrow's Round One response stated that it was unable to share the specifics of targets and measures as the contract is commercially sensitive. This was raised again in discussion in Round Two Day one. Heathrow explained that it is working with NATS to agree what details can be shared.

Response to requests for further engagement

2.27   Airlines have commented that they asked Heathrow for an additional Round 2 focussed session on overall capital prioritisation and constraints in H8 a number of times (minutes indicate that this was explicitly raised from Day 3 of Round 2 on 26/03/25, as well as being mentioned in the wash-up of Day 4 Round One) but that an informed discussion on the overall capital prioritisation and constraints had not been scheduled by the end of Round 2.

2.28   Airlines proposed for the 15/05/25 session to be repurposed to discuss capital prioritisation when they declined on 14/05/25 to attend the 15/05/25 focussed session on commercial property investments. However, we observe that organising a meeting on capital prioritisation in less than 24h would have been particularly complex. Nonetheless no response on capital prioritisation was provided by HAL following this suggestion by the end of Round 2.

2.29   Note that a meeting on HAL capital programme was nonetheless organised and took place on 22/07/2025. However its focus was on H7 Inflight Projects where attendees reviewed the suggested H7 "rollover" and was therefore not attended by the H8 Independent Reporter.

Tone of the discussions and collaborative approach

2.30   There was respectful communication between attendees during the meetings held so far, even on points where they had different views. Steer supports this view as it observed that attendees engaged in Round Two meetings with good spirit.

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3 Areas of consensus and areas of differences

3.1   In this chapter, we provide an overview of the areas of agreement and disagreement between HAL and the airlines. In this Round, as in Round One, we did not identify individual differences between different airlines/airline groups/alliances.

Day 1 on Baseline building blocks – Part 1

Passenger forecasts

Summary

3.2   HAL recapped what had been discussed in Round One in terms of methodology (on business travel patterns, a/c density, connecting pax trends, growth in segments, etc). It explained what had changed since Round One.

3.3   Following a discussion, airlines presented their own annual forecast numbers at high level on Day one on one slide. HAL requested more information: on Day 5 airlines presented more details on underlying factors and assumptions (10 slides mainly on capacity and passenger load), with no change in the level of details of the forecast numbers compared to Day one.

Outcomes

3.4   The forecasting approach of the airport and the airlines is very similar, but the main differences are centred on the assumptions driving the numbers. Consequently the traffic forecast for H8 is disagreed by the airlines who believe that HAL forecasts are too pessimistic compared to their own. Currently across the total H8 period, there is:

- -0.5% difference between the airline's low case and HAL P50 (-2 million passengers)
- 2.3% difference between the airline's base case and HAL P50 (i.e. 10 million pax)
- 5.3% difference between the airline's high case and HAL P50 (or 23 million pax)

3.5   Based on the airline presentation on traffic forecasts during Day 5, areas of agreement include: the profile of the share of connecting passengers, increase in long-haul movements, levels of leisure traffic and geopolitical situation. Areas where further discussions are needed include:

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- Seats per ATM and cabin mix: there were different views on seat density increases in the context of wide-body aircraft: HAL was concerned of delays in delivery, whereas airlines explained that they have a track record of prioritising upgauging at Heathrow and have capacity reserves available also on short-haul aircraft as well as cabin mix changes. HAL did not disagree in principle but stated that they had no evidence from engagement with stakeholders that they would do so. Airlines clarified that they would not typically discuss fleet order or strategy with an airport owing to the commercially sensitive nature of this information.
- Load factors: the main area of disagreement is on off-peak load factors growth rates.
- Business travel: there is disagreement on whether a share of business travel has been permanently lost, but it should be explored if there is agreement that it has been replaced by more passengers in premium cabins. Shock factors: there was disagreement as to what was included in the shock factors (i.e. impact of war of aggression on Ukraine on airspace capacity and delays, Russia overflight restrictions).
- Fuel price assumptions.
- Share of connecting passengers continuing to decrease: there is agreement on the trend going forward, but different interpretation of what it means in terms of forecasting: airlines see this as a positive sign of demand, HAL was more reserved.

Revenue and operating expenses forecasting approach
Summary

3.6 Heathrow introduced its methodology for the non-aero revenues and operating expenses (opex) forecast, which is based on historic values and a top-down approach. It also presented its past forecast for H7 vs CAA's final determination as well as its list of largest suppliers.

Outcomes

3.7 Airlines had two main concerns with the methodology used: firstly they mentioned that with a top-down approach, they believed there is limited transparency compared with a bottom-up approach which renders the understanding of assumptions easier. The airport disagreed and explained that it believes a bottom-up approach is only possible for a couple of years, not for a long-term plan.

3.8 Secondly that with using a historic baseline, there was a risk of in-built inefficiencies in costs being used forward. The airport disagreed too and shared efficiency comparison made with other relevant airports. However airlines expressed scepticism because of differences in regulatory framework, tax systems and local circumstances between these airports and Heathrow (for instance cost comparisons can be difficult as a result of this).

3.9 On opex performance, there was again detailed discussion on the largest supplier contracts, where as in Round One, airlines stated that they would like to understand key aspects of relevant contracts (tower ATM, PRM assistance

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and baggage services). HAL responded and said that it could share some aspects of these contracts, but not commercial information.

3.10   Specifically on the NATS contract, in Round One HAL was asked by airlines what measures set on NATS could be shared. HAL responded that the NATS/HAL contract was commercially sensitive and as such confidential, so HAL was unable to share specific measures and targets.

3.11   In Round 2, after being raised again, HAL clarified in response to an action that it would like to share more details. But as it is a commercially sensitive contract, it is currently working with NATS to agree what can be shared.

3.12   In parallel airlines had asked whether it would be appropriate for the contract to be shared with the CAA for visibility and support the opex assessment and setting MTIs.

3.13   On non-aeronautical revenues, there was some discussion on surface access revenues and competition with other operators (especially Elizabeth line) in relation to Heathrow Express.

Other regulated charges (ORCs)
Summary

3.14   On ORCs, HAL started by presenting its views on possible changes to scope decision principles for H8 and on possible changes in the scope of ORCs. It then presented three possible models for ORC fixed costs as well as opportunities to simplify the structure of ORCs.

Outcomes

3.15   The discussion on ORCs at times touched on MTIs. Airlines were keen that both were considered together rather than separately, as for instance in regard to baggage.

3.16   There was agreement between the airlines and the airport on using H7 ORC scope decision principles into H8, however there was no clear decision on introducing levies on ORCs for sustainable initiatives within H8 as airlines did not appear to be in favour.

3.17   There was no support from airlines on new ORCs or removal of ORCs compared to H7 who stated that they preferred clarity in costs even if it meant under/over recovery. No specific thoughts were expressed on how to simplify the governance structure of ORCs.

3.18   On the possible models for ORC fixed costs (to address the cross-subsidisation of non-airline fixed costs by airlines), the airport suggested to use a marginal cost approach, but airlines expressed no support for it. They suggested a fourth approach based on differentiated prices between airlines and non-airlines.

3.19   HAL clarified that this had been explored this extensively during H7, further adding that no competition law compliant approach had been found then. HAL stated it remained open to this approach if airlines can propose a complaint route.

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3.20 No clear outcome emerged from the discussion on possible models for ORC fixed costs. At this stage, we may need to assume that airlines are in support of no change compared to H7 in approach on OCR fixed costs. Airlines stated that where costs are "airline-only" costs (such as on PRM), they wanted to be involved in cost determination, rather than being consulted.

Commercial revenue strategy and benchmarking
Summary

3.21 HAL and Pragma presented a detailed summary of its H7 commercial revenue performance to date (based on 2023 data), including a benchmarking versus other airports, information on income per passenger, and detailed information on retail, airline lounges, surface access, property, car rental and finished by a SWOT analysis. It then shared its proposals for H8.

Outcomes

There were no areas of disagreement following the presentation on H7 performance. The focus of the discussion that followed was on the best use of space and satellites, on finding the right balance between customer experience and revenue generation (with airlines emphasising focus on "brilliant basics" first) and on the size and scale of property.

Day 2 on Baseline building blocks – Part 2

Capacity, headroom and resilience
Summary

3.22 HAL presented its terminology on capacity, and its current and upcoming headroom.

Outcomes

3.23 Overall, airlines were interested to hear about the multitude of individual initiatives, but were concerned as to whether HAL was sufficiently taking a joined-up approach between all projects, especially in the same terminal area. HAL stated that it considers it is joined up.

3.24 Airlines were concerned to know how the airport was planning to deliver higher capacity, without restrictions on airlines and/or degraded consumer experience. They also stated that they had limited knowledge of the range of projects within Efficient Airport programme designed to unlock capacity for the start of H8 (and when) and were also concerned that projects would be achieved by H8 entry, questioning whether the entry capacity into H8 was realistic.

Changes/horseshoe over H8
Summary

3.25 Heathrow presented its touchpoints that are capacity constrained now and upcoming changes. It then explained what its horseshoe will look like in H8.

3.26   There was a detailed discussion on:

- Immigration capacity (staffing, e-gates, desks, etc) and the close interactions of HAL with the Home Office to ensure that their operating model does not constraint the process and flow in terminals (especially non-EEA);
- On whether IDL capacity was becoming a limiting factor;
- Stand capacity at various terminals. Airlines did not agree with the RAG[4] status presented for the stands.
- On baggage plans, airlines were particularly concerned on how the baggage capacity would cope based on the airlines forecast of 3 million of additional passengers per annum, including in peak periods. They were also very keen to look at some of the practical impacts that seat or aircraft upgauging may bring.
- On security lanes, airlines wanted to know how much headroom and resilience there was.

Changes over H8 – Efficient use of assets
Summary

3.27   HAL presented its approach to capacity changes through more efficient use of assets (hardware, software and heartware).

Outcomes

3.28   Airlines expressed their concerns that they do not feel that they yet have a comprehensive view of what the projects are, in terms of capacity, costs or benefits. They also stated that they were not able to reconcile all the information being provided in different forums or at different times in constructive engagement. HAL responded and said that it would communicate the information to the airlines, including terminal by terminal as this is a recurring airline's ask.

Changes over H8 - T5 capacity optimisation (Modernising Heathrow)
Summary

3.29   HAL presented its option and aspirations for Phase 1 and Phase 2 of T5 capacity optimisation.

Outcomes

3.30   The airport clarified that it was not yet ready to share specific designs and solutions, so the discussion did not go into much further details.

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[4] Red, Amber, Green assessment as per traffic light colours

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Strategic choices
Summary

3.31   HAL presented its summary of capacity changes and asks in H8. It also stated that it needed to balance demand and capacity at terminal level to facilitate resilient growth.

Outcomes

3.32   Most of the discussion focussed on one-stop security, how to streamline it and adapt terminals for it.

3.33   Overall, airlines did not respond to the questions asked by HAL but re-stated that they would like to have numbers and cost breakdown as well as enhanced understanding of the benefits on capacity/service resilience, etc.

Changes over H8 – Occupancy
Summary

3.34   HAL presented its high-level approach to balancing capacity through occupancy changes from 2028. HAL explained that it was delaying its Occupancy decision, as it sought to isolate the critical infrastructure elements key to the third runway. It hoped to confirm in April 2025 its revised Occupancy timeline.

3.35   Airlines noted the need to make progress on occupancy in H8 (as was the view when Occupancy originally kicked-off) and were nervous to delay decisions including on costs noting the risk in delaying the capacity and resilience benefits of occupancy.

Outcomes

This session did not provide any firm views on airline decisions, it was mainly an information session with discussions covering the extension of T2A, as well as obtaining a Development Consent Order (DCO) in relation to Occupancy plans.

Day 3 on H8 choices – Part 1

H7 Capital roll-forward
Summary

3.36   HAL presented Heathrow's H7 in Flight programmes that are currently progressing through the governance process, their cost ranges in H7, H8 and beyond and asked airlines whether or not they support their continuation in H8.

Outcomes

3.37   There were some discussions on whether capital costs should be kept within a single quinquennium period, or whether regulatory periods should be extended, but no definitive call to look further into these options.

3.38   In terms of areas for agreement, investment in baggage and next-generation security were highlighted. Airlines mentioned that they would like to give view on capital project prioritisation. They cited that the shared spreadsheet of projects gave them little information on the remaining projects making up the H7 roll-over elements. Because of this lack of prioritisation according to the airlines, there was no opportunity for agreement or disagreement in this session.

3.39   Further discussion would be needed on the governance on decisions on projects between various forums (potentially refer to proposed core external governance made in the Lite session of Round Two).

3.40   Overall, there was a concern from airlines about the volume/cost of projects that can be added to the H8 business plan considering the financeability impact, deliverability and affordability of the remaining H7 projects going into H8 coupled with uncertainty as to whether the H8 capex will have to be reduced because of the business rates re-evaluation.

Asset maintenance (excluding technology)
Summary

3.41   HAL presented its range of assets and its risk-based method for establishing priorities for asset maintenance (excluding here technological assets), renewals and maintaining compliance. The presenter explained that in H8, it will be increasingly challenging to maintain the assets around airport operations.

Outcomes

3.42   No specific choices were made on the three options for asset maintenance (no investment/minimum/all CRF 12+ investment), but there was agreement by airlines that asset maintenance must be an area where investments have to be made.

3.43   There were no areas of disagreement, but concerns were stated by the airlines on the financeability of the asset management (AMC P2) plan. Airlines also wanted to understand what the 3 options meant for each terminal. No clear decision was made on asset maintenance in the session or afterwards in Round 2. The airlines argued it was because of limited detailed shared.

Energy networks
Summary

3.44   HAL presented its forecast of available electric capacity to 2050, potential network constraints and possible capital investments to address these.

Outcomes

3.45   No specific choices were made at this stage on energy networks. Concerns were raised by airlines on the extent to which "efficiency" related projects would bring a benefit versus those that were focused on the provision of power.

3.46   No specific areas of disagreement appeared, but in relation to further discussions airlines stated that would like better understanding of the dependencies behind the provision of electricity for specific projects (such as on decarbonisation projects), as well as on the impact projects may have on the electricity supply of the airport.

H8 Choices: digital future – passenger automation
Summary

3.47   HAL presented its approach to passenger automation at Heathrow, specifically of physical touchpoints and broader passenger processing, which included discussions on CUSS, SSBD, universal bag drop, ATP gates, self-boarding gates, non-CUPPS, biometrics.

Outcomes

3.48   No choices were made by the airlines on any of these items during this session, apart maybe airlines mentioning that were generally not inclined with removal of CUSS. Airlines expressed support of technology in theory, and biometrics were recognised as important by the airlines and by Heathrow.

3.49   Beyond this, there were no explicit areas of disagreement, but clarifications were thoughts such as on having results of modelling of passenger flows in check-in areas to see if layouts are suitable, or better understanding of what has been considered/what the options are/what the limitations are/plans at terminal level/timeline or more disaggregation of costs and benefits. VS highlighted specific solutions for specific T3 areas.

3.50   For passenger automation, overall there was view in the room that "one size does not fit all" as service differentiation in this area is key to airlines. Airlines were also keen to hear about automation/digitalisation of the ramp (including taxi-bots), automation of cargo, digitalisation of control posts and upgrading technology at gates/stands. HAL stated that it would come back to the airlines on these two points as they had not been specifically covered in the presentations made.

Day 4 on H8 choices – Part 2

Value for customers/Customers
Summary

3.51   HAL presented its customer proposition choices, including on baggage, punctuality and security. Three options were presented in detail on PRM, airline operational / passenger performance and immigration.

Outcomes

3.52   On quality of service (indicators/measurement), airlines generally did not support HAL's use of ASQ metrics (as they have no access on the benchmark methodology being an ACI run survey). They advocated for the need for

investment to be based on the use of HAL's own quality of service metrics (QSM) and/or MTIs (when available).

3.53 On supplier contracts/incentives in relation to punctuality, there was disagreement between HAL and the airline community on whether it is possible for HAL to share the performance metrics of the HAL/NATS tower contract with the CAA.

3.54 Overall, there were no clear choices made yet on the three passenger experience capital choices presented. Instead the discussion focussed on principles and views related to capex priorities and choices:

- Airlines were concerned about the overall suggested balance of capex between customers experience vs sustainability areas. Specifically the need to bring T3 and T4 level of service in par with T2 and T5 was mentioned.
- Airlines were concerned that capex information was not provided with an overall approach based on the wider strategy and outcomes looking to deliver, coming instead "on a piecemeal basis". This made the balancing of capex priorities complicated, airlines also stated that they were unclear as to whether an H8 initiative was above and beyond what had been presented in other forums or where already part of the BAU of H7. HAL agreed to ensure that the BAU element of H7 is clearly separated from H8 proposals.
- On baggage (capex/priorities), HAL's focus on baggage in H8 is on resilience and addressing obsolescence. Airlines were concerned that this did not allow for improvements, and innovation and that they had not been able to review a list for improvement of functionality. They recognised that innovation may not be delivered in H8, said it would still need to be addressed then (such as requesting funds for trials).
- On this topic, there was also a specific concern in relation to the Occupancy plans: VS was concerned that the T5/T3/Tunnel – BagTrax/DCV replacement project may not be needed under either of the 2 occupancy scenarios. It queried if under one of the specific occupancy scenario, there was not a reduction in the number of bags needing to be transferred between T3 and T5.

People and planet/Sustainability
Summary

3.55 Heathrow presented new initiatives in H8 on sustainability (on heat, noise, waste, EVs, adaptation, airspace, surface access, nature, pre-conditioned air). The slides included capex costs for these 9 areas and qualitative benefits for users.

Outcomes

3.56 There was a discussion on the costs and possible priorities. Airlines stated that these were "directionally" fine, but that there was a need to address more urgent priorities. There was no agreement reached yet between HAL and the airlines on the priorities for capex investments across the 9 sustainability areas, nor on the overall budget figure for this capex.

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3.57   Specifically, airlines asked a number of questions about the costs and what was included in the figures (such as all terminals, or just a selection, etc). They also highlighted that they wanted some investments to address single-use plastic and hydration.

3.58   In relation to the capex (sustainability/noise), BA was concerned about possible inflation in the costs of the noise insulation scheme as it was concerned its structure may not provide incentives for middle-men to keep their costs down.

Non-capital choices – Commercial property and single till
Summary

3.59   HAL explained that, whilst it has land sometimes unused on its perimeter which could potentially attract high property rents, it had not made significant investments in its commercial property portfolio over 20 years, although airlines challenged this. As it believes that the risk remains that further projects will not be brought forward or stalled (for those in progress), HAL argued that a different approach is needed if airlines do not support commercial property investments of a large scale in H8.

3.60   Following Day 4, an additional focussed session was arranged in May in order for the airport to present an alternative regulatory model, based on the IAG's idea made orally during day 4.

Outcomes

3.61   On the topic of a potential change to the till perimeter, airlines provided comments based on the information presented by HAL in the pre-read and during the session of 27/03/2025.Following from their scepticism of HAL's proposal presented during Round One on 13/12/2024, airlines categorically opposed any changes that would compromise single till regulation, for multiple reasons ranging from anticipating the need for very complex cost-allocation arrangements that would result, issues with property that may have both aero and non-aero activities, risks of regulatory uncertainty, consumer affordability or perverse incentives to allocate costs and assets between the perimeters.

3.62   During this meeting, IAG made an oral comment on property investments about having no changes to the regulatory perimeter (which stays as single-till), guaranteeing a return for HAL on the life of the assets, entailing no risk for the airlines, with the airport carrying the investment risk and during the first years HAL to bear the costs of the project, but afterwards to bear all the benefits. In the case of over-performance, all benefits would go to the airport and would not be reflected in airport charges.

3.63   HAL agreed to assess IAG's oral comment and prepared to provide its opinion and an alternative regulatory model in a focussed session planned for 15/05/2025. However, on 14/05/2025, following airline community review of HAL's information that had been submitted ahead of the planned meeting on 15/05/2025, the airline community wrote to HAL to formally state its position of not wishing to progress further the discussion on the HAL model for commercial property investments.

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3.64   The reasons stated included believing that the proposal would compromise single till regulation, that it would add a high degree of complexity and legal/regulatory uncertainty for no discernible benefit to the consumer, that it would create perverse incentives, that it would have wider and unintended financial consequences and would ignore alternative existing delivery/commercial models.

3.65   HAL took note of the airline community's decision and expressed disappointment that the airlines did not wish to discuss this issue further, as the main purpose of the session was to further explore the suggestions and possible "way forward" and to seek to improve the way the issue is addressed within the current regulatory framework.

Day 5 on wrap-up

MTI
Summary

3.66   HAL had presented its proposal on MTI changes in H8 compared to H7 during a Lite session in the middle of Round Two. On Day 5 it invited feedback on the measures and changes proposed from the airline community. Airlines provided feedback orally during the session, and did not make a formal presentation.

3.67   Following Day 5, additional sessions were arranged in order to discuss further the MTI proposals: in relation to the Baggage Timely Delivery MTIs, on the Security MTIs, on the MTIs for the TTS and on the bonus/rebate scheme. In April and May, airlines sent counter proposals which have also been added to this section.

Outcomes

3.68   In relation to the Security MTIs presented that day ("Option1"):

- Airlines would like a XOVIS measure to form part of the MTI proposal for H8, and were keen for XOVIS data to be used as soon as possible, not just from 12 months after implementation. However HAL stated that it was essential to have mature data to base measures on. Airlines responded that they wanted to have a clear plan on the transition to XOVIS, per passenger measures in H8 and the timeline to do this. This was subsequently presented in focussed session on 08/05/25.
- Airlines wanted inclusion of daily measure (for central search and transfers) to be considered.
- Central Search proposal for percentage queue times <5 mins (95%) <10 mins (99%) measured monthly and < 25 mins (100%) measured daily:
  - Airlines wanted to clarify how the £4.2m additional opex spend had been elaborated and what risks were associated with it.
  - On the new proposed measure of percentage of queue times <25 mins, airlines were supportive of the measure but not of the choice of 25 minutes as they thought it would be too long and would be unacceptable for passengers.

- There was agreement to have a further discussion (which took place on 08/05/2025).
- Transfers proposal for percentage queue times <5 mins (95%) <10 mins (99%) measured monthly and < 25 mins (100%) measured daily: there was no agreement yet. Airlines were not convinced it was a trade-off worth making. They asked if the transfer measures could be aligned with the central search times.
- Other security MTIs: no proposed changes: this was agreed.
- Airlines also clarified in email exchange by end of April that they disagreed with security MTIs being dependent on proposed "Eligibility requirements" as MTIs are targeted within HAL's reasonable control according to them.

3.69 Following the session on 08/05/2025, more details were presented on Option 1 (as above) especially on the reason being a 25 minute back-stop or justification for additional opex. HAL also introduced a new option during this session ("Option 2") in order to address airlines' feedback that daily measures for direct and transfer be offered. Specifically on Option 2:

- Daily measures against a 10-minute queue time;
- As daily measures are more sensitive than monthly measures, the airport would require more exclusion periods (two 10-mis time slices for direct and four for transfer) than currently as well as requiring a new time slice exclusion regime to allow for situations beyond its reasonable control;
- To prevent daily measures being a perverse incentive, the airport would also apply the bonus/rebate scheme (for security MTIs transfers and directs) on a sliding scale. Overall, the "at risk amount" for HAL would not change between the current bonus/rebate scheme and the one suggested under Option2.

3.70 Airlines have not shared their views on preferred choice between Option 1 and 2 yet (as of 20/05/25). This was conditional on the analysis of data and ongoing parallel works looking at daily measures on past performance of security MTIs (data was sent by the airport on 08/05/25).

3.71 In relation to the overall PRM/PRS Satisfaction (Not measured in H7, H8 proposed financial incentive), airlines disagreed to a move to financial and instead asked for this MTI to be reputational given there are already requirements in place on HAL and service managed through ORCs. Airlines clarified in email exchange by end of April that targets should be aspirational to other passenger metric levels and reflect proposed investments and new PRM contract.

3.72 In relation to the Baggage timely delivery MTI (proposed move to financial incentive in H8, with a proposed target of 98% within 20 minutes versus 98% within 30 minutes in H7): there was agreement for a financial MTI, but there was disagreement on the targets. As a result of considerable discussion an additional deep-dive session was arranged on 02/05/25 focussing only on the

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Baggage Timely Delivery MTI. Specifically and including the discussion held on 02/05/2025 no decisions were made yet:

- On 30' vs 20': the airport clarified that with 30' the processes would not change, but would allow airport to be less reliant on the expediated processes. It also later explained that less bags would be at risks of being excluded and that the cut-off point for exclusion would decrease to 45' (15' to clear the HAL terminal added to the 30' target).
- On 98% vs 99%: no agreement was reached with the airport stating that investments would be required to achieve 99% contrary to 98%. Airlines were concerned about the consequences of such a choice but agreed to consider again 99% vs. 98% and 30' vs. 20'.
- On the indicator to be measured: airlines did not agree with the proposed choice of Actual Start Request Time (ASRT) indicator.
- On eligibility/ shared accountability, airlines asked for the data, they also suggested that it would be more fair at flight level, rather than at airline level. Airlines also stated that they strongly disagreed with the eligibility criteria, noting that these would concern competitive activities such as ground handling where they are already incentivised to perform due to regulation and/or CAA action.

3.73   In relation to other financial MTIs:

- Pier service – % passengers accessing pier served stand (excl. T5) proposed no change to target of 95%: this was agreed.
- Wifi performance proposed increase in target to 4.1: this was agreed.
- Wayfinding proposed no change to target of 4.2: this was agreed, but airlines clarified in email exchange by end of April that they proposed to reduce the rebate percentage and reallocate to baggage.
- Runway Operational Resilience proposed no change: no decision was made yet. Historically airlines have been comfortable with this measure, but in recent years, there have been occurrences of the target not being achieved. HAL explained it would share its methodology.
- Availability of PCA proposed no change to target of 98%: no decision was made yet as airlines disagreed to the target of 98%, instead proposing an increase to 99%. The airport explained that the new assets would be a lot more utilised than the old ones and that it would share the ages of the old assets. Airlines asked for clarification of the definition of "serviceable" - which was provided in late April.
- Availability of Jetties proposed no change to target of 99%: this was agreed.
- Availability of FEGP (ground power) proposed no change to target of 99%: this was agreed.
- Availability of SEG (Elect Guidance Planes) proposed no change to target of 99%: this was agreed.
- Stand Availability proposed removal of measure (financial MTI in H7 with target of 99%) and reallocation of the percentage in the rebate scheme: Airlines disagreed with the removal of the measure as issues of stand

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availability immediately translates into capacity and operational issues for airlines. HAL agreed to reinstate.

- Check In Infrastructure availability proposed retaining at 98%: no decision was made yet, as airlines mentioned they were unclear as to what was precisely is in scope: is it only self-service check-in, or does it cover baggage belts not working. HAL responded that its licence sets this out and that it is self-service only.
  - Airlines also proposed for the target to be raised to 99% to improve passenger experience.
  - Airlines clarified in email exchange by end of April that the scope should be "percentage of time that (a) Self Service Bag Drop hardware and software and (b) Common Use Self-Service (CUSS) hardware and (c) baggage input belts taking bags from Self-Service Bag Drops and traditional check-in desks, where any of these are provided by the licensee, are serviceable and available for use, independent of any other measures".
- Availability of lifts, escalators, travellators proposed reducing financial target to 98% from 99% in H7: no decision was made yet. HAL said it would articulate what was needed in terms of opex to maintain the target as it argued that the performance of this MTI was deteriorating. Airlines clarified in email exchange by end of April that they disagree with a lowering of targets.
- T5 TTS proposed moving to service days linked to volume in H8 compared to train availability in H7: no decision was made yet, although it was noted that a meeting taking place by mid-April may provide airlines with some enhanced clarity on the operating model of the TTS.
  - Subsequently, airlines clarified in email exchange by end of April that they agree the update with rebate allocation remaining as is – with details subject to discussions on overall operation.
- Baggage System Reclaim Availability, arrivals carousel proposed no change: this was agreed.
- Cleanliness proposed keeping the target the same at 4.15: no decision was made yet, although there did not seem to be disagreement but a discussion on the merits of higher spend on back of house cleaning. Airlines later clarified in email exchange by end of April that their proposal was to reduce the rebate percentage and reallocate to baggage. They did not explicitly agree to the same target, but our understand is that they did implicitly do so.
- Hygiene Amber Test Results proposed removing and reallocating the percentage to the rebate scheme: there was agreement to remove the MTI. However on the percentage to the rebate scheme, it was suggested that it could be re-distributing across all other measures (including in H7 if possible) and should be the subject of more information. HAL is considering.

3.74   In relation to reputational MTIs, for many the HAL proposal for the target was still outstanding and therefore no agreement could be reached yet. But there was agreement to move to financial MTIs Timely delivery from departures

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baggage system. On Percentage of the UK population within 3 hours of Heathrow by public transport, there was discussion on whether this would be a good idea in relation to the future DCO for the third runway. No decision was made but HAL noted that it will still monitor this indicator.

3.75 In relation to the approach to the MTI bonus/rebate proposal, there were some significant differences in views from the airlines to HAL's proposal:

- On the baggage misconnect rate, airlines lacked clarity on how this is defined and therefore stated that, at this stage at least, they could not see how thit at could be used for bonus.
- On the overall PRM/PRS Satisfaction, airlines were clear that as it is an ORC (with a cost-pass through), it could not be included in the bonus scheme as there would be no back-stop mechanism to stop spend to achieve the target.

3.76 Airlines stated that the key principles behind the bonus needed to be spelled out, including how overall passenger satisfaction would be measured. The airport was open for the airline community to send alternative proposals of how the bonus should be allocated, followed by a workshop between both parties. No agreement was reached either on the proposed rebate distribution on Day 5.

3.77 Airlines provided a counter proposal for MTIs, the bonus on scheme and for the rebate allocation on 23/04/2025:

- Airlines counter proposals on MTIs have been included in the text of this section on MTIs.
- Airlines counter proposals for the bonus scheme clarified that:
  – They agreed to remove wayfinding;
  – They proposed to retain central search < 5 mins, transfer search < 10 mins and cleanliness but with stretched targets or different weighting.
  – They disagreed with the use of Reputational MTIs in the bonus scheme by using baggage Misconnect rate, Departures Punctuality and Overall Satisfaction. Instead they suggested alternative ((financial) MTIs. They also kept disagreeing with the inclusion of Overall PRM/PRS Satisfaction in the bonus scheme based on unclear how interfaces with PRM contract, investments and incentives under ORCs. They also disagreed with the inclusion of Overall Security Satisfaction but instead proposed to include additional ones: Control Posts and Staff Search < 5 mins (but would need to understand alongside wider Security proposal), and Check-in.
- In relation to the rebate allocation, their main proposal is to use Baggage Timely Delivery as the baggage financial measure with a proposed 0.6% rebate based on: (i) Hygiene Testing allocation (0.2%); and (ii) reduction in Wayfinding and Cleanliness (0.2 and 0.2%). However, as there is no agreement currently on the target and other parameters for Baggage Timely Delivery, the rebate allocation may be subject to further change.

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- Airlines did not provide counter-proposals to the suggested changes to the bonus/rebate scheme from Security MTIs Option 2 presented by HAL on 08/05/25.

3.78   In relation to exclusions, no agreement was reached yet. Of the 3 proposals for changes and the inclusion of new exclusion on "all assets" suggested by the airport during Day 5, airlines stated by email dated 07/05/2025 that they did not support any of them and stated that:

- A3.2(f): Airlines stated that the change suggested did not reflect the current Licence wording. They also said that the AOC would agree if relevant passenger sensitive equipment was in the immediate vicinity of the stand, so there was no need to widen the scope.
- A3.2(h) and A3.2(k):
  - No change was suggested by HAL for A3.2(k), so in principle airlines should agree to continue as is with it. However, the HAL suggested change for A3.2(h) would be set against A3.2(k). So, airline's support for A3.2(k) is going to be condition to agreement on A3.2(h) wording.
  - On A3.2(h) HAL suggested changes, airline disagreed as under H7 A3.2(h) was specifically designed for emergency stop buttons and limited to 10 minutes. HAL suggested changes for H8 for A3.2(h) combined with A3.2(k) would mean HAL having an exclusion under 3.2(k) until an engineer attended the site, which could be a significant period of time according to airlines.
- A3.2(n): Scope of exclusion too wide for the airlines as it would potentially exclude any trial of changes to operational processes. They stated that security was specifically excluded in H7 due to the constraining nature of the number of security lanes in each terminal.
- New (where HAL is prevented from accessing the Asset): change is too broad. HAL has not specified reason for introducing the amendment in the information communicated during Constructive Engagement (in the slides)

3.79   During Day 5, airlines also called for adding a clause that the baggage bonus would be voided if there was a major system outage.

Passenger forecast
Summary and outcomes

3.80   Refer to paragraph 3.2 in Day one above.

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4   Findings, lessons learnt and next steps

| Findings

4.1   In its guidance for Round Two, the CAA indicated its views on:

- Scope;
- Purpose and desired outcomes; and
- Information and views to be provided.

4.2   In this chapter we present our findings for each of these areas.

Findings on scope
CAA guidance

4.3   With regards to scope, the CAA stated the following expectations for Round Two:

- Discussion of detailed price control building blocks: service quality metrics and incentives, cost building blocks (opex, capex, commercial revenues); Other Regulated Charges; capex incentives; traffic forecasts and incentives; level or direction of changes in charges.

Review of scope

4.4   We present below the status of each price control building block for Round Two that was indicated by the CAA, without providing any commentary on the outcome nor on the quality of the information exchanged. This is done later in this document.

4.5   On service quality metrics and incentives: There has been significant amount of engagement on MTIs, from the first focussed session on 20/03/25, followed by Day 5, with two additional focussed sessions on 02 and 08 May 25 and exchange of information in parallel. These discussions also covered the incentive scheme (also described in this document as bonus scheme) associated with service quality performance.

4.6   In relation to operating expenditure, there was engagement during Day one of Round Two. Some of the discussions held during other sessions on investments (especially during Day 3 and Day 4) were also relevant to opex.

4.7   Capital expenditure was discussed during Days 3 and 4 of Round Two: During Day 3, the discussions started with H7 roll-forward, moved to the necessary capital spend and introduced some capital options to the airlines. During Day 4

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the discussion continued on some more specific areas relevant for capex choices including capacity, value for customers and sustainability.

4.8   Commercial revenues: There has been engagement on Day 1 on commercial revenues, including retail revenues (duty-free, speciality retail and food and beverages), surface access revenues (car parking, car rental), property revenues (real-estate), rail revenues (Heathrow Express, track access charges), lounge revenues, advertising revenues and revenues from other services (bureau, VIP, fast track, premium). The strategy and potential change of approach of commercial revenues from real-estate activities was further discussed during Day 4 of Round Two.

4.9   Other Regulated Charges: There has been engagement on ORCs during Day 1.

4.10   Capex incentives: There was no discussion in Round Two on capex incentives.

4.11   Traffic forecasts and incentives: Day 1 and Day 5 led to detailed engagement on traffic forecast, with both HAL and airlines exchanging projections. However there has been no engagement on traffic incentives during these days or on any other occasions.

4.12   Level or direction of changes in charges: high-level estimates were provided orally to explain the potential impact on charges of additional H8 capex, with statements such as "£bn of capex roughly means £ of additional charges". Beyond this, there has not been specific discussion in Round Two on the level or direction of changes in charges.

4.13   Overall, we find that in this Round, engagement took place and covered the vast majority of the CAA guidance on scope: discussions were held on all relevant price building blocks components (traffic, revenues from ORC and non-aeronautical, opex and capex).

4.14   However, there were some noticeable gaps on scope: no discussions were implemented on traffic incentives, nor on capex incentives which should have been useful topics of discussions on how to ensure an efficient performance in H8.

4.15   In addition there was no discussion on the level or direction of changes in charges, which leaves a gap in scope. It is perhaps not surprising considering that Round Two ended without high-level agreement of the overall capex envelope or even without clear choices on the H8 capex strategy, and that the approach for commercial revenues, specifically from commercial property, also remained a topic without any form of agreement.

Findings on outcomes
CAA guidance

4.16   The CAA stated that its desired outcomes in this round would include:

- To understand the views of HAL and airlines on HAL's proposed approach to forecasting key building blocks to estimate charges and to developing key incentives, ahead of HAL finalising its business plan. HAL's plan should be informed by customer priorities or there should be a clear understanding

where there are differences in HAL and airline views. The CAA proposed that this engagement would exclude discussion of cost of capital and cost efficiency, with these matters to be considered separately based on evidence from stakeholders. It also noted that this engagement would inform its Initial Proposals.

Review of outcomes focussed on understanding the views of HAL and airlines

4.17   About HAL's proposed approach to the forecasting building blocks, there has been a good outcome on traffic forecasting, even if Round Two ended without an agreement on the main assumptions and projections between HAL and the airline community. However detailed discussions and exchanges of information on underlying factors, assumptions and forecast numbers have allowed HAL and airline stakeholders to clarify their respective views and have a good understanding of the approach used by HAL for its traffic forecasting. The detailed engagement should allow HAL to be adequately informed of areas that airlines will carefully review in the Business Plan.

4.18   In relation to commercial revenues and operating expenditure, HAL used Round Two engagement to provide its forecasting methodology for these two building blocks and provided an illustration based on two illustrations (one for each). In contrast with the level of detail of the traffic forecast, for opex and commercial revenues, the approach to forecasting was at high-level only and no annual projections were provided for H8. Please refer to next section for discussion on the quality of the information.

4.19   For Other Regulated Charges, the discussions focussed on scope and definition but did not provide information on the forecasting methodology or on any outputs. On key incentives, a lot of detailed and iterative engagement has taken place in relation to quality incentives, including the bonus/rebate scheme as it drives some HAL decisions. This provided a rich body of information to HAL to use in its Business Plan if relevant, with a solid understanding of the rationale for what alternatives suggested by airlines. However, as mentioned above in paragraphs 4.10 and 4.11, there has not been engagement on traffic incentives or on capex incentives, therefore this is an area where there is no knowledge by the airlines or the CAA on HAL's approach in this area.

4.20   HAL did not provide a precise methodology for its approach to capex forecast, but all the discussions held on capex (including in Round One) pointed to a bottom-up approach, that is where the capex forecast is designed based on an on/off selection of the costs of certain investments or packages of investments, somehow coupled with reference to "hoppers" in order to provide a very high level vision of capex costs.

- The approach to capex discussions that has been used by HAL in Round Two has been to select specific and very precise capex topics (such as One Stop security, airport accessibility, border experience, VIP investments, EV charging, etc) and present choices/options to the airlines.
- However, as far as we have observed from Constructive Engagement, the discussions on capex choices have not progressed further than what is being described in this document: more precisely, airlines request for further

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detailed information, costings and engagement remain unaddressed with no additional informed discussion on the overall capital prioritisation and constraints than what took place during Days 3, 4 and 5 of Round Two. Airlines therefore remain frustrated with the lack of clarity on capex choices and believe that they have been unable to provide their choices (or at least high-level indications of preferences).

- Therefore on capex overall, at this stage, there have not been any forms of airline choices being stated. No overall capex envelope has been pencilled in yet, and there is no indication either on the direction of travel in H8 for airport charges. As a result there has not been discussions on how to keep capex flexible to changing circumstances or on an efficient level of capex.
- On the topic of commercial property investments, airlines did not wish to progress discussions further after having stated their rejection of HAL's proposal on what the proposed investments in this area could be.

Review of outcomes focussed on ensuring that HAL's plan is informed by customer priorities or there should be a clear understanding where there are differences in HAL and airline views

4.21 At the end of Round Two, and without HAL's Business Plan being available, it is too early to assess whether HAL has ensured that its plan is informed by customer priorities. Clearly, the numerous discussions held in Round have allowed stakeholders to understand better their respective views, and on many topics listed above, there has been detailed engagement.

4.22 However, we also found some gaps in engagement on the topic of traffic and capex incentives in particular, as reported above, on which HAL has no precise knowledge of customers' priorities. In addition, capex remains an area where the outcomes reached do not appear to be satisfactory for either side: HAL has not received feedback from the airlines in the capex area where it consulted; airlines were not able to state their priorities on capital programme investments.

4.23 It is therefore not possible yet to assess the outcomes on capex including scope and constraints, which on a price building block of this importance is perhaps not ideal at this stage of constructive engagement. We take note of HAL's view that it considers it has met the CAA requirements on outcomes.

Findings on information exchange
CAA guidance

4.24 The CAA stated that its desired information and views to be provided in this round would cover:

- From HAL: In advance, HAL to provide its latest views on:
  – traffic forecasts and scenarios (high, low and base cases);
  – forecasting methodology for each cost building block;
  – current best forecasts for cost building blocks and charges, where available and at an aggregate level;
  – proposed policy approach in relation to ORCs, capex incentives and traffic incentives; and
  – proposed policy approach in any other key areas forming part of HAL's business plan.

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- This should be more detailed than information provided in round 1.
- From the airlines: to provide suggestions for improving arrangements for:
  - service quality incentives;
  - capex incentives; and
  - ORCs.

On general information exchange

4.25 Based on presentations, discussions sessions, we observe that HAL always provided the information in advance for all *formal* meetings. For non-formal focussed sessions, HAL presentations were often circulated afterwards-only which meant that airline representatives were not always able to engage during such meetings not having had the time to liaise with the expert colleagues. This created delay in terms of exchange of views on a constrained timetable. Airlines commented on this especially in relation to MTI sessions. Subsequently HAL sent documents in advance for the fourth non-formal focussed session on commercial property which was however cancelled.

On traffic, revenues and operating expenses

4.26 More specifically, on traffic forecasting, Round Two presentations from HAL built up on Round One information and provided base case figures as well as more detailed information on assumptions taken and rationale behind this. Airlines engaged as they disagreed with HAL projections (not so much the approach) and sent their own forecast for discussion, albeit only at a high-level (annual numbers for H8, with three scenarios). It is not clear yet whether this may lead HAL to revise its forecast. Looking at the CAA guidance which states for HAL "traffic forecasts and scenarios (high, low and base cases", this is assessed as following CAA guidance.

4.27 No proposal by HAL in relation of a traffic risk sharing scheme or other forms of traffic incentives was provided. Looking at the CAA guidance which states "proposed policy approach in relation to traffic incentives", this is assessed as not following CAA guidance, since no proposal was made nor a meeting focussing on the topic. Whilst this was included in the CAA guidance there was no request from either HAL or airlines that discussions should take place at this time.

4.28 On non-aeronautical revenues and opex, HAL presented its forecasting methodology during Day one of Round Two and provided an illustration based on two examples (one for each):

- In contrast with the level of detail of the traffic forecast, there was no presentation of which cost drivers per line item were considered relevant and their forecast evolution;
- H7 elasticities by category were presented, but no indication as to whether H8 elasticities would be similar. There were no details of the manual adjustments that will be made for H8 or the efficiency improvements assumed or the order of magnitude of these was available; Opex performance and non-aeronautical revenues was presented with a year-on-year comparison of H7 HAL and CAA forecast vs. outturn.

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4.29 Looking at the CAA guidance which states for HAL "forecasting methodology for each cost building block", this is assessed as following CAA guidance for the methodology of non-aeronautical revenues and opex. However, we note that the approach was much less detailed than it was on traffic, especially on underlying trends behind the assumptions, elasticities or adjustments.

4.30 As the presentation on non-aeronautical revenues and opex was done on the first day of Round Two and bearing in mind that HAL sought engagement from the airlines *afterwards* on some key aspects and options of non-aeronautical revenues and opex strategy, it is expected that forecasts could not be provided by then. By the end of Round Two, no forecast numbers for non-aeronautical revenues and opex were presented. Looking at the CAA guidance which states "current best forecasts for cost building blocks and charges, *where available* and at an aggregate level", not having forecast numbers for the end of Round Two is assessed as following CAA guidance.

4.31 On Other Regulated Charges, we suggest that adequate views were provided on the main aspects: the airport addressed the topic in terms of approach on scope decision principles and the scope of ORCs. Both airport and the airline community provided suggestions for a new model for fixed costs, but did not appear to agree on one at this stage. In relation to improved ORC governance arrangements, no party had suggestions, apart from airline request for involvement in the negotiation of ORC supplier contracts. What we have not seen as part of Round Two discussion is the forecasting methodology for ORCs nor its key assumptions (such as labour cost increases, efficiency assumptions, etc). Looking at the CAA guidance which states for HAL "proposed policy approach in relation to ORCs", this is assessed as following CAA guidance. Looking at the CAA guidance which states for the airlines "provide suggestions for improving arrangements for ORCs", this is assessed as following CAA guidance.

4.32 On service quality incentives (MTIs), there has been a high level of engagement from both sides. The airport provided detailed proposals for H8 and the airline community responded with some alternatives: they provided oral feedback in Day 5 of Round Two. Following this, it was apparent that further conversations were needed, and two focussed sessions were added by HAL which proved useful to allow an in-depth discussion on this topic. Looking at the CAA guidance which states for the airlines "provide suggestions for improving arrangements for service quality incentives", this is assessed as following CAA guidance.

On capex

4.33 Airlines have been presented with some capex options during Round Two and asked to provide a view on their choices. When options were presented (especially during the two H8 Choices sessions), we observed that:

- There was a heterogeneity between the various presentations leading to a lack of consistency and standardisation in terms of description, costs and benefits of the options.
- The level of details provided somehow lacked in important information to allow a good understanding of the options. For instance:

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- In most cases, a cost estimate was provided, but it was not explicit if this was H8 cumulative or per annum, and if so, over the entire H8 period, for a subset of years, or across H8 and H9.
- It was not always clear if investments meant capex only, capex and opex or just opex.
- It was not clear either which year cost estimates were based on (2025, 2027, etc).
- In a number of cases, benefits were only described qualitatively with vague descriptions such as "some opex savings expected for the airline community and Heathrow" without attempt to at least provide a detailed qualitative description of the sort of benefits expected, for whom, by when, whether they would be one-off/recurring, etc.
- The objective for the investments was not always stated, making it harder to reconcile with the ambition.
- Dependencies or key enabling factors were usually not presented, as projects are rarely delivered in isolation.
- Main risks or a risk profile of the investment delivery were not often provided.
- There was no terminal-by-terminal view, allowing airlines to understand the overall result between terminals through time.

4.34   More generally, as stated above, capex discussions were focussed on precise areas of investments, without much of a strategic overview nor information for knowing the overall size of the capex envelope. As a result, there were no discussions on the efficiency of the capex, on its affordability, nor on charges.

4.35   Looking at the CAA guidance which states for HAL "current best forecasts for cost building blocks and charges, *where available* and at an aggregate level", and *assuming* that HAL did not have its capex forecast at an aggregate level ready by Round Two, then this is assessed as following CAA guidance. However, even without precise numbers available to HAL at this stage, the lack of presentation and exchange on the strategy behind the capex choices, coupled with information often lacking in details to anchor the complex capex discussions does seem to be a missed opportunity in Round Two to collect airline views on this key building block.

4.36   It may be the case that more standardised information on the investments and greater level of detail has been provided to the airlines in another forum (such as through the Business as Usual engagement or through a Long Term Planning forum), but this is not something we have sight of or that would have taken place during Constructive Engagement. However, based on the fact that airlines kept asking for engagement on capital prioritisation until the end of Round Two and also during the precursor session of Round three on 12/06/25, it is clear that no such meeting related to the H8 capital has taken place, even outside Constructive Engagement[5]. HAL clarified that more standardised

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[5] Nonetheless note that a meeting on HAL capital programme was organised and took place on 22/07/2025. However its focus was on H7 Inflight Projects where attendees reviewed the suggested H7 "rollover".

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information on the investments and greater level of detail will be shared as part of the H8 Business Plan release and in the rest of Round three.

4.37 There was no specific discussion in Round Two on capex incentives, probably not surprisingly as a there were only limited capex discussions that took place in Round Two (as reported above). Suggested changes to MTIs that would result into capex incentives (such as availability of lifts/escalators/travellators), were made by airlines but that was on the margins of the MTI discussions. Looking at the CAA guidance which states for HAL "proposed policy approach in relation to capex incentives", this is assessed as not following CAA guidance since no discussion took place. Lack of information on capex plans and options is the reason that airlines stated for no exchange on capex incentives.

Lessons learnt
Pre-reads

4.38 No issue with the issuing of the pre-read documents was recorded during the formal meetings. However the three focussed sessions took place without the pre-read documents being issued. Whilst it is unclear as to whether or not this follows CAA guidance, in any case it causes issues for the adequate quality of engagement during these sessions as airline attendees have stated that they cannot expect to be experts on all topics, and will not have been able to consult with colleagues internally in advance of these sessions either.

4.39 As pretty much all topics of constructive engagement are complex and detailed, and as there are no apparent criteria to distinguish between a "formal" and a "focussed" session apart perhaps from the duration of the meeting, we would like to recommend that all sessions, whether formal or focussed, have pre-read documents issued before-hand. Since all sessions (formal and focussed) benefit from minutes of the same quality, this would simplify alignment in process expectations.

4.40 Pre-read documents for focussed sessions should follow the same requirements as the formal sessions, but a slightly shorter time requirement could probably be allowed on an exceptional basis, to allow for HAL internal quality control and confidentiality checks.

Minutes

4.41 As explained above, draft minutes have not been issued once according to the planned timetable. We would suggest that either the time period provided to issue the draft minutes is increased by an additional two weeks, or that HAL and the co-chairs change their processes to issue minutes as per target.

Action log

4.42 In relation to the "due dates for actions related to information exchange", we would suggest that due dates are set on a rolling basis rather be set for the end of Round Two. Due dates should also not exceed the formal end of Round Two.

4.43 On exchange of information, this appears to be working well. However, it would be useful to check that the remaining Round One pending actions that have

long expired can either be closed (if relevant) or that the reason for non-delivery of the action is stated on the action log where there is an issue. Where actions are still pending, each next Round meeting could start with a brief review of outstanding actions.

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