

# Proposals on the regulatory treatment of early costs of capacity expansion at Heathrow airport

CAP3201

Published by the Civil Aviation Authority 2025

Civil Aviation Authority  
Aviation House  
Beehive Ring Road  
Crawley  
West Sussex  
RH6 0YR

You can copy and use this text but please ensure you always use the most up to date version, credit the CAA and use it in context so as not to be misleading,

First published December 2025

Enquiries regarding the content of this publication should be addressed to: [economicregulation@caa.co.uk](mailto:economicregulation@caa.co.uk)

The latest version of this document is available in electronic format at: [www.caa.co.uk/CAP3201](http://www.caa.co.uk/CAP3201)

# Contents

---

<b>Contents</b>	<b>3</b>
<b>Chapter 1</b>	<b>6</b>
<b>Introduction and Summary</b>	<b>6</b>
<b>Background</b>	<b>6</b>
<b>Proposals</b>	<b>9</b>
Overall approach	9
Recovery of HAL's early costs in 2025 and 2026	10
Recovery of early costs for other promoters	14
<b>Next steps</b>	<b>15</b>
<b>Chapter 2</b>	<b>17</b>
<b>Consultation responses and CAA views</b>	<b>17</b>
<b>Introduction</b>	<b>17</b>
<b>Overall approach to the recovery of early costs</b>	<b>17</b>
The August 2025 Consultation	17
Stakeholders' responses	18
The September 2025 Update	21
Further submissions following September 2025 Update	21
Our views	23
<b>Duration of the regulatory arrangements for HAL</b>	<b>25</b>
The August 2025 Consultation	25
Stakeholders' responses	25
The September 2025 Update	25
Further submissions following September 2025 Update	26
Our views	26
<b>Approach to HAL's land and property costs</b>	<b>27</b>
The August 2025 Consultation	27
Stakeholders' responses	27
The September 2025 Update	27

Further submissions following September 2025 Update	28
Our views	29
<b>Regulatory arrangements to protect consumers</b>	<b>30</b>
The August 2025 Consultation	30
Stakeholders' responses	30
The September 2025 Update	32
Further submissions following September 2025 Update	33
Our views	33
<b>Mechanism for recovery of HAL's early costs</b>	<b>37</b>
The August 2025 Consultation	37
Stakeholders' responses	37
The September 2025 Update	38
Further submissions following September 2025 Update	38
Our views	38
<b>Approach to the recovery of other promoters' early costs</b>	<b>41</b>
The August 2025 Consultation	41
Stakeholders' responses	42
The September 2025 Update	43
Further submissions following September 2025 Update	43
Our views	44
<b>Chapter 3</b>	<b>47</b>
<b>Proposals and next steps</b>	<b>47</b>
<b>Introduction</b>	<b>47</b>
<b>Overall approach to the recovery of early costs</b>	<b>47</b>
<b>Approach to the recovery of HAL's early costs</b>	<b>48</b>
Regulatory arrangements to protect consumers	49
Reporting requirements for HAL's early costs	51
Licence modifications for HAL's early costs	51
<b>Approach to the recovery of other promoters' early costs</b>	<b>52</b>
<b>Next steps</b>	<b>54</b>
<b>Glossary</b>	<b>55</b>
<b>Early costs submissions from HAL and Arora</b>	<b>57</b>

HAL submissions	57
Arora Group submission	59
<b>Implementing our proposals</b>	<b>60</b>
<b>Introduction</b>	<b>60</b>
<b>Implementing the recovery of early costs, cap, “true up” mechanism and “reopener” mechanism</b>	<b>60</b>
<b>Proposed modifications to the Licence</b>	<b>62</b>
Proposed modifications to Condition C1	62
Supporting obligations to protect the interests of consumers	64
<b>Our duties</b>	<b>67</b>

## Chapter 1

# Introduction and Summary

---

## Background

---

- 1.1 In January 2025, the Government announced its support for capacity expansion at Heathrow Airport (“capacity expansion”) and asked interested parties to bring forward proposals by the end of July 2025. In July 2025, the Government received submissions from potential promoters of expansion, including from Heathrow Airport Limited (“HAL”) and the Arora Group/Heathrow West Limited (“HWL”).
- 1.2 On 25 November 2025 (“November 2025 Announcement”) the Government announced that:
- the north-west runway scheme promoted by HAL would be taken forward to inform a review of the Airports National Policy Statement (“ANPS”)<sup>1</sup> and the Government will consult on any amendments to the current ANPS<sup>2</sup> by July 2026;
  - the north-west runway scheme offers the most credible and deliverable option for expansion, citing the relative maturity of the scheme design, confidence in the feasibility and resilience of the associated surface access plans and comfort it provides over the efficient, resilient and sustainable operations of the airport over the long-term;
  - expansion must meet four tests (relating to economic growth, climate change, noise and air quality), be cost effective, minimise the burden on passengers, come at no cost to taxpayers and be privately financed;
  - it expects that an application for development consent for a north-west runway at Heathrow Airport will be brought forward by HAL after the review of the ANPS;

---

<sup>1</sup> This will set out the policy which will underlie any decision to grant permission for expansion in the form of a development consent order (“DCO”) under the Planning Act 2008.

<sup>2</sup> The current ANPS is available here: <https://www.gov.uk/government/publications/airports-national-policy-statement>

- its approach to engagement will ensure equal treatment of promoters, recognising that, even with a specific scheme informing the ongoing review of the ANPS, any promoter could seek to submit proposals for development consent; and
- it welcomes the CAA's work on the regulatory framework and approach to early cost recovery and will continue to coordinate closely with the CAA.

1.3 In June and July 2025, HAL and HWL respectively made representations to us on the regulatory treatment of “early costs”. These are the costs for delivering expansion that are to be incurred by potential promoters before the Government takes a decision on whether to grant a DCO to allow expansion to proceed, including planning, land and property purchase and enabling costs (for example, early work on site preparation). HAL said in a 31 July 2025 letter that it is seeking to recover around £320 million (2024 prices) of early costs that it expects to incur in 2025 and 2026. HAL provided an update on 9 December 2025 that it expects to incur additional costs in 2026 relating to commercial property and requesting flexibility on residential property costs (we provide further details on the additional costs in appendix B paragraphs 7 and 8).<sup>3</sup> HWL told us that it expected its early costs in 2025 to be around £3.5 to 4 million.

1.4 We published a consultation in August 2025 (the “August 2025 Consultation”) on the recovery of the early costs of expansion incurred in 2025 and 2026<sup>4</sup> and set out a range of options for the treatment of these costs:

- Option 1a: allow recovery of HAL's efficient costs under the existing H7 capital expenditure governance and incentives framework;
- Option 1b: allow recovery of HAL's efficient costs under a new framework;
- Option 2: allow recovery of efficient costs for alternative promoters only with credible and appropriately mature proposals;
- Option 3: allow recovery of efficient costs for both HAL and alternative promoters with credible and appropriately mature proposals; and
- Option 4: do not allow the recovery of early costs.

---

<sup>3</sup> Letter from Mike King (HAL) to Stewart Carter (CAA) on 9 December 2025.

<sup>4</sup> CAA, Heathrow Capacity Expansion – consultation on regulatory policy on early costs, CAP 3149, August 2025. See [www.caa.co.uk/CAP3149](http://www.caa.co.uk/CAP3149)

- 1.5 In September 2025, we provided an update (the “September 2025 Update”) on our approach, taking account of stakeholders’ views on the August 2025 Consultation.<sup>5</sup> We said that we:
- were minded to allow the recovery of the efficient early planning costs that HAL incurs in 2025 and the first half of 2026;
  - remained of the view that it will be appropriate for other promoters with credible and appropriately mature proposals to be able to recover efficient early planning costs that are incurred during the same period;
  - were not minded to include the costs of early enabling works, including land and property costs, in the above policy until we have carried out further work with potential promoters to understand these issues and whether there are potential solutions (for instance in relation to coordination and the sharing of information) to mitigate our concerns; and
  - expected to provide a further update on our approach in November 2025 (subsequently delayed to December 2025 to enable us to take account of the November 2025 Announcement).
- 1.6 We received a number of responses to the August 2025 Consultation and further representations and information following the September 2025 Update. Stakeholders who responded had contrasting views on the recovery of early costs by HAL and other promoters. While HAL, HWL and some other stakeholders supported recovery of efficient costs, a number of airlines said that no early costs recovery should be allowed.
- 1.7 This consultation sets out our proposals for the recovery of early costs associated with capacity expansion. These proposals aim to provide an appropriate level of clarity and certainty for HAL on the recovery of early costs incurred in 2025 and 2026. It also further clarifies our position on other potential promoters that provided credible and appropriately mature proposals in response to the Government’s July 2025 deadline. It includes:
- a summary of the August 2025 Consultation and September 2025 Update, stakeholder responses to them and further submissions that we have received, together with our views on key issues (see chapter 2);

---

<sup>5</sup> CAA, Heathrow Capacity Expansion – Update on the regulatory treatment of the early costs of capacity expansion at Heathrow airport. See [www.caa.co.uk/CAP3173](http://www.caa.co.uk/CAP3173)



- our proposals for the recovery of HAL's early costs incurred in 2025 and 2026, including the overall approach, scope and mechanism for recovery of those early costs. We also set out our proposals for the recovery of the early costs incurred by other promoters that provided credible and appropriately mature proposals in response to the Government's July 2025 deadline (chapter 3); and
- appendices, including an initial draft of modifications to the licence ("the Licence") granted to HAL under the Civil Aviation Act 2012 ("CAA12") that would give effect to these proposals and further information on the early cost estimates from HAL and HWL.

## Proposals

---

### Overall approach

- 1.8 The work that we have undertaken on these proposals has been guided by our duties under CAA12. Our primary duty under CAA12 is to further the interests of consumers regarding the range, availability, continuity, cost and quality of airport operation services, having regard to the matters set out in our "secondary duties" (including HAL's ability to finance its activities). Further details of these duties are set out in appendix D.
- 1.9 Our review of the current evidence, including a Frontier Economics report,<sup>6</sup> commissioned by HAL, shows the potential for net benefits to consumers from capacity expansion being delivered in a timely way. The Frontier Economics report shows that:
- unserved demand as a result of the capacity constraints at Heathrow Airport leads to higher fares than would be the case if capacity was unconstrained (the 'congestion premium' or 'scarcity rent'); and
  - capacity expansion would reduce the congestion premium and, hence, fares.
- 1.10 HAL has also said that it expects the additional capacity to increase the range of services and connectivity provided to consumers. These impacts would further the interests of consumers regarding the range, availability and cost of services at Heathrow Airport.

---

<sup>6</sup> Frontier Economics, Heathrow Expansion Benefits, Executive Summary, prepared for Heathrow Airport Limited, 29 January 2025 (see <https://www.heathrow.com/content/dam/heathrow/web/common/documents/company/about/expansion/Heathrow-Net-Benefits-Summary-29-01-2025-STC.pdf>).

- 1.11 However, while these are plausible outcomes, our view is that there also remains a wide range of uncertainty. For example, the high-level technical review we commissioned of HAL's expected costs shows material uncertainty around the total costs of expansion.<sup>7</sup> A number of airlines have also set out their view that the costs of expansion will lead to higher fares and a reduction in the range and availability of services from Heathrow Airport.<sup>8</sup>
- 1.12 To address our "primary" statutory duty under CAA12 to further the interests of consumers regarding the range, availability, continuity, cost and quality of airport operation services, we consider that our approach to early cost recovery should involve measured and proportionate steps aimed at reasonably securing the plausible benefits for consumers that could flow from the timely delivery of capacity expansion. This means, to the extent that it is reasonable and practicable to do so, providing regulatory certainty for the recovery of early costs to support HAL's (and, where appropriate, other promoters) access to resources to allow for timely delivery of its plans.
- 1.13 At the same time, we also need to make sure our approach protects consumers from inefficient and unnecessary costs, is consistent with the principles of better regulation, is transparent and proportionate, and is supported by a robust process. This is important given that HAL's forecast of early costs for 2025 and 2026 is £320 million, which would represent about 12% of its expected capital expenditure during these two years.<sup>9</sup>

## Recovery of HAL's early costs in 2025 and 2026

- 1.14 To secure the potential benefits to consumers from capacity expansion being delivered in a timely way, we are proposing to allow HAL to recover efficient early costs so that it can reasonably access the resources to continue with its work on capacity expansion. This is consistent with the broad approach set out in our September 2025 Update.
- 1.15 While it will still be subject to consultation as part of the ANPS review, the Government's November 2025 Announcement, that HAL's scheme will inform the ongoing review of the ANPS, provides additional certainty on planning and early costs required in 2026 to support the timely delivery of capacity expansion. In response, we propose to extend the period covered by our policy on the recovery of HAL's early costs from the approach set out in the September 2025

---

<sup>7</sup> Steer, Initial technical and cost efficiency assessment of capex expansion plans for Heathrow Airport, December 2025. We will be publishing this document on the CAA website in due course.

<sup>8</sup> This includes the published response to CAP3149 from British Airways, Airlines for America, AOC/LACC and IAG.

<sup>9</sup> Based on £2.8 billion (2024 prices) of expected capital expenditure in 2025 and 2026, comprising allowed capital expenditure of £2.4 billion from the CAA's H7 determination and £320 million of early costs.

Update. We now propose to allow recovery of efficient early costs for all of 2025 and 2026, and to include necessary land acquisition and enabling works within the scope of the proposed arrangements for early cost recovery.

- 1.16 This approach should allow HAL to plan its activities and secure resources in an efficient way to meet the challenging timetable for capacity expansion that has been set by the Government. Allowing initial funding for land acquisition and enabling works should allow HAL to make wider preparations for capacity expansion, including the construction programme. Not providing this certainty now could mean HAL slowing down its work on such planning and preparation, leading to delays to both the timetable and the delivery of potential benefits to consumers.
- 1.17 Our approach also needs to provide protections for consumers from inefficient and unnecessary costs. To address this, we propose the following mechanisms:
- an *ex post* review of all of HAL's early costs incurred to identify any demonstrably inefficient and/or wasteful early costs and any costs not incremental to those that HAL is able to recover as part of the H7 price control settlement, so that such costs would not be recovered from consumers;
  - independent technical assurance during 2026 on all early costs, to provide ongoing monitoring and assurance that the costs incurred are necessary and efficient. This should include a specialist's review of HAL's property strategy and costs. We expect HAL to commission this assurance, in consultation with airlines, and the CAA will approve the terms of reference and appointments. We will ensure there is a requirement for the party to report accurately to the CAA;
  - a cap on the costs for 2025 and 2026 recoverable by HAL, to reduce the risk to consumers from unexpected escalation in costs. We consider this cap should be set at £320 million (in 2024 prices) for 2025 and 2026, based on HAL's July 2025 forecast.<sup>10</sup> It is important to emphasise that this is a cap and not a target for spending;

---

<sup>10</sup> HAL's submission on costs for capacity expansion, 31 July 2025 (see <https://www.caa.co.uk/media/a05lta2u/caa-h7-857-heathrow-application-to-increase-h7-capex-cap.pdf>); and HAL's response to the CAA's consultation on regulatory policy on early costs (see <https://www.caa.co.uk/media/wilp145r/caa-h8-040-heathrow-response-consultation-cap3149-early-expansion-costs-final.pdf> ).

- given the evolving nature of the work on capacity expansion and that the Government has only just confirmed that HAL's scheme will inform its ongoing review of the ANPS, we will continue to assess HAL's early cost forecasts as we progress to our final decision. It is important to allow for flexibility in this cap where required to secure the potential benefits for consumers, although HAL will need to provide comprehensive evidence in advance if it plans to exceed this cap to explain why it would be necessary, efficient and in the interests of consumers;
- an obligation that HAL should take account of the uncertainties surrounding the scheme in developing its plans and arrangements for early costs. For instance, in the circumstances of a change of approach by Government, such as a result of a revised ANPS, HAL should be able to change its plans in an efficient and agile way. This obligation would be assessed as part of the *ex post* review of costs;
- a "reopener" provision should there be a change of circumstances, such as further evidence showing that the costs and risks from allowing early costs ahead of a decision on the DCO would outweigh the benefits to consumers. If the reopener were to apply, we would allow the recovery of efficient costs already incurred but reopen the cap to limit any further recovery of early costs to the minimum necessary to close down its early cost programme in an efficient way; and
- requirements for transparent reporting and independent assurance of early costs, supported by timely and regular submissions to the CAA of forecast and outturn costs, with supporting justifications and evidence.

1.18 The approach summarised above means that HAL will be able to recover its efficient costs in the circumstances where it has a genuine business reason for withdrawing from capacity expansion and it does so in an appropriate, timely and efficient way. As noted above in relation to the obligation to take account of uncertainty, if these circumstances were to arise, then HAL's costs would be assessed as part of the *ex post* review.

1.19 Our broad approach should both allow HAL to deliver its plans in a timely way and also create incentives and arrangements to promote efficiency. As well as being consistent with our statutory duties, this approach also supports key aspects of Government policy. The November 25 Announcement said that 'rigorous and effective cost control will be essential to the scheme's success both in minimising any impact on airline charges and costs to passengers' and welcomed our further work on early costs.

1.20 In the September 2025 Update, we also suggested an illustrative incentive for the recovery of efficient costs in the circumstances of HAL's application for a DCO being:

- unsuccessful (75% cost recovery); or
- successful (105% cost recovery).

The intention was to introduce an incentive on HAL to be successful in obtaining a DCO and provide some downside protection for consumers in the circumstances of an unsuccessful application.

1.21 We have considered further the information provided by stakeholders and are concerned that applying this incentive could have unintended consequences. In particular, this might create incentives on HAL to delay and/or spend more than would be appropriate on its DCO application process, in order to maximise both its chances of obtaining the bonus from the incentive and to maximise the size of the bonus. Neither of these outcomes would be in the interests of consumers.

1.22 Bearing these considerations in mind we have decided not to proceed with this incentive for 2025 and 2026. Nonetheless, we will continue to work with HAL and other stakeholders to develop incentive mechanisms for use in relation to early costs incurred in the period from 2027. These could be more targeted, for example based on the clarity provided by the Government's ongoing review of the ANPS, which is subject to consultation, and the CAA's regulatory model review.<sup>11</sup>

1.23 Looking ahead, we are also requesting that HAL provides a business plan during 2026 that sets out the details of its forecast of early costs for the period from the start of 2027 to the date on which it expects the Secretary of State to make the decision on whether or not to grant a DCO and evidence to demonstrate these costs are necessary during this period and in the interests of consumers. During 2026, we will review the approach to early cost recovery that should apply from the start of 2027.

1.24 In the September 2025 Update, we proposed to make a licence modification to implement our policy on early costs, consistent with what we have previously said about developing a separate regulatory mechanism to deal with the costs of capacity expansion and that HAL's H8 price control should focus on the operation of the two-runway airport.<sup>12</sup>

---

<sup>11</sup> CAA, Working paper on regulatory models, CAP 3195, November 2025. See <https://www.caa.co.uk/media/jyxkj3sx/working-paper-on-regulatory-models-v20.pdf>

<sup>12</sup> CAA, Update on the regulatory treatment of the early costs of capacity expansion at Heathrow airport, CAP3173, 25 September 2025

- 1.25 We remain of the view that a licence modification will be the best way of securing additional protections for consumers from inefficient and unnecessary costs, as these arrangements would be appropriately codified in the Licence.
- 1.26 In addition, a licence modification is procedurally the most appropriate approach to these matters, is consistent with our previously articulated approach and will give the most certainty to HAL, both on the timetable for the implementation of the decision, but also going into the H8 price control decision. This approach will create a defined window for appeal to the CMA in 2026, compared to the approach suggested by HAL of trying to make changes to the H7 price control settlement through directions under the uncertainty mechanism in the price control set out in the Licence, which would be subject to an indeterminate timetable for review under a judicial review.<sup>13</sup>
- 1.27 The early costs would be added to HAL's Regulatory Asset Base ("RAB"), which is used to set its airport charges, and we expect that the return on efficient early costs would start to be recovered from charges in 2027 and 2028, ahead of the grant of any DCO.

### **Recovery of early costs for other promoters**

- 1.28 In the September 2025 Update, we said we would allow the recovery of efficient early planning costs for other promoters with credible and appropriately mature proposals, as this should provide benefits to consumers by creating a "level playing field" to promote competition in the planning of capacity expansion.
- 1.29 We consider that, based on current information, the planning work by HWL up to the November 2025 Announcement was credible and appropriately mature. This is based on:
- the Government announcement in October 2025, which said that the HWL scheme was under active consideration to inform the review of the ANPS; and
  - the findings from our consultants that the HWL proposal was sufficiently complete and robust to carry out a high-level technical and cost efficiency assessment.<sup>14</sup>
- 1.30 We do not consider other promoters' plans were sufficiently credible and appropriately mature.

---

<sup>13</sup> This is set out in the Licence at Conditions C1.12 to C1.15. See: [heathrow-licence-01sep2024-final.pdf](#)

<sup>14</sup> Steer, Initial technical and cost efficiency assessment of capex expansion plans for Heathrow Airport, December 2025. We will be publishing this report on the CAA website in due course.

- 1.31 In view of the very significant costs of the scheme overall, the benefits to consumers from the competitive rivalry provided by HWL, which has created pressure on promoters to put forward more efficient plans and has allowed for a greater scope of optioneering to inform the Government's decision on the single scheme, will likely have expected benefits to consumers in excess of the £3.5 to 4 million costs that HWL estimated in July 2025. We also remain of the view that having an appropriate degree of rivalry between promoters, or by other competitive arrangements, could also benefit consumers in the future.
- 1.32 That said, following the 25 November 2025 Announcement, we consider there should be a reset and that no allowance should be made for additional costs incurred by HWL after this point, unless they can be shown to provide clear benefits for consumers and until such time as they are credible and appropriately mature plans. From the date of the 25 November 2025 Announcement, we would only consider assessing the potential recovery of costs that are incurred in support of plans that align with the single scheme announced by the Government as informing the review of the ANPS.
- 1.33 Our proposal is that it is appropriate to allow recovery of HWL's early costs up to the date of the 25 November 2025 Announcement and that this should be implemented through a mechanism provided for in the Licence. In order to make a final decision on these matters, we are requesting further information from HWL as set out in chapter 3.

## Next steps

---

- 1.34 Responses to this consultation should be sent by 12 noon on 26 January 2026 to [economicregulation@caa.co.uk](mailto:economicregulation@caa.co.uk). We expect to publish the submissions we receive on our website as soon as practicable after the consultation period ends. Any material that is regarded as confidential should be clearly marked as such, with an explanation of why the information is confidential, and included in a separate annex. We have powers and duties with respect to the disclosure of information under Schedule 9 of the TA00, Section 59 of CAA12 and the Freedom of Information Act 2000 and it may be necessary to disclose information consistent with these requirements.
- 1.35 Following consideration of responses to this consultation, we intend to publish our draft decision to modify the Licence as soon as practicable in 2026. Subject to the representations received, this will include the statutory notice on the modifications to the Licence which would give effect to our draft decision. Under the CAA12, our decision can be subject to appeal by certain parties to the Competition and Markets Authority ("CMA").
- 1.36 We will implement the reporting and review processes for HAL's early costs as set out in this document as soon as is practicable.

- 1.37 In 2026 we will develop our policy on early costs for 2027 onwards and consult on this with stakeholders with the intention of making decisions on these matters before the start of 2027.



## Chapter 2

## Consultation responses and CAA views

---

### Introduction

---

- 2.1 This chapter deals with the key issues raised in the August 2025 Consultation and September 2025 Update on early costs, including:
- the overall approach to the recovery of early costs for HAL and other promoters;
  - the duration of the regulatory arrangements for the recovery of early costs incurred by HAL;
  - HAL's land and property costs;
  - regulatory arrangements to protect the interests of consumers;
  - mechanisms for the recovery of HAL's early costs; and
  - the approach to the recovery of other promoters' early costs.
- 2.2 For each of these matters, we summarise our position in the August 2025 Consultation and September 2025 Update and the responses and representations we received following the publication of these documents.
- 2.3 We then set out our current views on these matters, which are reflected in our proposals in chapter 3.

### Overall approach to the recovery of early costs

---

#### The August 2025 Consultation

- 2.4 In the August 2025 Consultation, we said that our approach to early expansion costs would be guided by our statutory duties and set out the following considerations relevant to our assessment of early costs:
- supporting the timely and effective development of credible and appropriately mature proposals for expansion, for which we would provide reasonable certainty over the recovery of efficiently incurred early costs;
  - our approach should encourage an appropriate degree of competition in the infrastructure for, and provision of, airport operation services to drive more efficient cost, innovation and better service quality;

- at the same time, our approach should avoid consumers funding significant and unnecessary duplicate or wasteful planning or early construction costs, provide incentives for efficiency, and seek to ensure that any recovery of costs is reasonably smooth over time to avoid any undue increase in airport charges; and
- supporting and complementing Government policy where appropriate, so that there is an appropriately coordinated, efficient and effective approach to these matters, consistent with our statutory duties.

2.5 The August 2025 Consultation set out a range of options for the treatment of the early costs of expansion:

- Option 1a: allow recovery of HAL's efficient costs under the existing H7 capital expenditure governance and incentives framework;
- Option 1b: allow recovery of HAL's efficient costs under a new framework;
- Option 2: allow recovery of efficient costs for alternative promoters only with credible and appropriately mature proposals;
- Option 3: allow recovery of efficient costs for both HAL and alternative promoters with credible and appropriately mature proposals; and
- Option 4: do not allow the recovery of early costs.

2.6 Our initial view was that there was a strong case to allow HAL to recover both the efficient early costs that it had incurred to date and the efficient costs it was likely to incur over the remainder of this year. This would allow the DfT (supported by the CAA) to make an initial assessment of HAL's proposals for capacity expansion. We also considered that there were likely to be advantages to consumers in supporting the recovery of initial early costs (at least over the remainder of 2025) of other promoters with credible and appropriately mature proposals. Having a degree of rivalry between promoters would provide advantages to consumers in that it should promote efficiency and the thorough evaluation of a wide range of expansion options.

## Stakeholders' responses

- 2.7 We received eight responses to the CAA consultation, from HAL, HWL, airlines and other stakeholders, which are published on the CAA website.<sup>15</sup>
- 2.8 HAL said that it was seeking a clear policy decision on the regulatory treatment for the first stage of HAL's early costs for expansion and that it supported an

---

<sup>15</sup> Responses to CAP3149, <https://www.caa.co.uk/commercial-industry/economic-regulation-and-competition-policy/heathrow-airport/capacity-expansion/>

approach that would allow it to recover efficient costs. It also said that clarity and certainty is important at this stage to allow for momentum in delivering its plans, and that the regulatory treatment of these costs needed to be guided by proportionality and certainty, and should build on regulatory precedent.

- 2.9 HWL welcomed the CAA's recognition of the potential benefits of competition in delivering expansion and said a process of rivalry in the development of expansion proposals is likely to be beneficial to consumers. It supported the recovery of early expansion costs for HAL and other promoters (Option 3) and said that the ability of alternative promoters to recover early costs would be fundamental to establishing a level playing field for competition and encouraging efficient expenditure. It said the threshold for what constitutes a 'credible and appropriately mature proposal' should be set at a level that reflects the current, early stage of the process. HWL also said that HAL's relatively high costs illustrate the risks inherent in considering only the existing monopoly provider's approach to expansion.
- 2.10 British Airways said it is fully supportive of expansion where it is in consumers' and the UK's interests. It supported Option 4 ("do not allow recovery of costs"), with the caveat that efficient early costs should be reimbursed for the promoter whose proposal is both selected by the Government and when a DCO is secured. It said that costs incurred by any promoter prior to the selection of the successful promoter were normal business risks that should not be recoverable and that this approach would ensure that consumers would not bear the cost of failed proposals. It would also ensure HAL and other promoters have an incentive to control early costs including potential duplicative costs. British Airways provided examples from other UK regulated sectors such as energy, water and rail which it said supported a principle that regulation does not remove normal business risk for ventures initiated by a regulated company.
- 2.11 British Airways said providing assurances to HAL on early cost recovery (Option 1) would create uncertainty for airlines during H7 and H8, and this would be compounded under providing assurances to other promoters (Option 3), given the lack of:
- clarity around whether other proposals will be deemed credible and sufficiently mature; and
  - information on their early expansion costs.
- 2.12 It said that making decisions on early cost recovery at this stage would pre-empt the outcome of the CAA's ongoing review of the regulatory approach to capacity expansion at Heathrow. It also said that HWL was only asking for equal regulatory treatment with HAL, not an upfront guarantee of reimbursement and,

therefore, Option 4 would ensure equal treatment of all promoters. International Airlines Group (“IAG”) supported British Airways’ response.

- 2.13 Airlines for America (“A4A”) said it was opposed to the recovery of any early costs as it said they do not involve the provision of facilities and services and supported Option 4. It said that this was inconsistent with Article 10 of the US-UK Air Services Agreement which it said required user charges to be reasonably related to the services or facilities provided. A4A also said that Article 23 of the ICAO Manual on Charges discourages prefunding and requires exploration of potential contributions from non-aeronautical funds.
- 2.14 The Heathrow airline community (“AOC/LACC”) supported Option 4, as the most consumer-focused and efficient approach. It said this option avoids the risk of consumers funding speculative or failed proposals, maintains a level playing field among promoters, and should inherently drive stronger cost control. It disputed concerns that Option 4 would discourage participation or slow progress, citing the precedent of the Airports Commission where promoters bore their own costs. If the CAA allowed recovery of early costs from multiple promoters, the AOC/LACC said the CAA should put in place appropriate safeguards to prevent duplication and inefficiency in costs.
- 2.15 The Council for the Independent Scrutiny of Heathrow Airport (“CISHA”) supported Option 3 (“to allow recovery of efficient costs for both HAL and alternative promoters with credible and appropriately mature proposals”). It said this approach was consistent with the recovery of efficient costs where this provides clear benefits to consumers (and the community) by delivering an effective and timely DCO process and would introduce a degree of competition, which would benefit consumers. It said that if the decision was taken to only allow the recovery of HAL’s efficient costs then its preferred option is 1b. CISHA also said that early expansion costs need to be efficient, transparent and recoverable, and that if multiple promoters are in play for a protracted period, the risk of duplicate costs could become untenable and so it might be appropriate to place a ‘hard stop’ on incurring such costs.
- 2.16 Heathrow Strategic Planning Group (“HSPG”) said efficiently incurred costs should be reimbursed for all credible scheme promoters and agreed with our proposal to focus on options 1b and 3 depending on which of the promoters’ proposals are assessed to be credible and appropriately mature. It also said that the definition of early costs should include the reimbursement of costs that have been incurred by local authorities in respect to expansion. It noted that other mechanisms for reimbursement of these costs may be developed following recent legislation, but, in the absence of such other mechanisms, these costs should be considered as falling within early expansion costs.

## The September 2025 Update

- 2.17 In the September 2025 Update we confirmed that we would retain the same broad framework for decision making that we had set out for the recovery of early costs in the August 2025 Consultation.
- 2.18 We said we were minded to adopt an approach broadly consistent with Options 1b and 3 discussed above and to allow the recovery of the efficient early planning costs incurred by HAL and other promoters with credible and appropriately mature proposals.

## Further submissions following September 2025 Update

- 2.19 HAL provided a further response in a letter dated 17 October 2025.<sup>16</sup> HAL's response emphasised that it was important for the CAA to allow the recovery of efficient early costs in full so as not to jeopardise its ability to meet the Government's timetable for expansion. It said, based on analysis it had commissioned from Frontier Economics, that a one-year delay to expansion reduces the net present value ("NPV") of fare savings for consumers by £2.6 billion.
- 2.20 It included nine "asks" of the CAA to provide the required certainty to allow HAL to deliver a DCO by 2029:
1. Provide certainty on all efficiently incurred costs for activities that are part of a DCO planning application, to support investor confidence and timely deliverability for consumers, against Government's timetable.
  2. Revise the scope of recoverable early costs to include property acquisition preparation costs and limited residential acquisitions.
  3. Confirm the use of existing licence conditions to cover early costs up to the end of 2026 and setting arrangements beyond 2026.
  4. Confirm that pre-DCO costs which are efficiently incurred will be fully recoverable in the event of termination or cessation of the HAL expansion programme.
  5. Reconsider the CAA's evidence base to justify any proposed incentives on early costs, and in particular (but not limited to) the risks arising from poorly targeted incentives and their impact on investability, cost efficiency and timely DCO submission.

---

<sup>16</sup> 'Heathrow Response to CAP3173 - Update on the regulatory treatment of the early costs of capacity expansion at Heathrow Airport', Letter from HAL to the CAA, 17 October 2025

6. Not take forward any proposal to use Heathrow's Licence to recover costs of alternative promoters.
7. Provide full details and evidence on the CAA's concerns regarding enabling costs acting as a barrier to competition.
8. Provide full and clear guidance, at a sufficiently formative stage to inform our approach to expansion planning, on:
  - a. how Heathrow should categorise costs between planning and enabling (should the distinction remain);
  - b. how the CAA proposes to assess whether any costs have been "unnecessarily or avoidably duplicated across promoters";
  - c. what coordination and information sharing the CAA envisages between Heathrow and alternative promoter(s); and
  - d. what assurances the CAA will give, to protect Heathrow against any competition law enforcement action (both public and private) in relation to any proposed coordination and information sharing.
9. HAL offered to facilitate a workshop to explain the anticipated land acquisition procedures and timetable in more detail, including specific case studies.

- 2.21 IAG provided responses on 26 September 2025 and 28 November 2025.<sup>17</sup> In this, IAG did not support our approach and considered our approach did not provide for efficiency, neutrality or consumer protection and shifted commercial risks from the promoters to consumers by allowing expenditure without consequences. Other concerns raised in these letters included that:
- we had not recognised that Heathrow expansion is a private sector project;
  - HAL is a privately owned regulated monopoly and must bear the risks associated with its own investment decisions. Airline investments are made entirely at commercial risk with no mechanism for early cost recovery;
  - consumers were paying twice for the sunk expansion costs and associated returns;
  - there were no guardrails to limit early costs and no mechanism for refunding users if expansion does not proceed to plan;

---

<sup>17</sup> 'Update on the regulatory treatment of the early costs of capacity expansion at Heathrow airport', Letter from IAG to the CAA, 26 September 2025. 'Opposition to Request for Early Expansion Cost Recovery', Letter from IAG to the CAA, 28 November 2025.

- the “fair bet” approach encourages overspending and 105% bonus was illogical;
- reimbursing HAL with no cap undermined the level playing field;
- funding speculative costs was contrary to CAA duty to consumers;
- airline and IAG costs were not remunerated in engaging with promoters;
- in regulated sectors such as energy, water and rail, early and bidding costs were at risk and only recoverable if projects were successful, and the Airports Commission did not provide for consumer reimbursement, so the approach diverges from well-established regulatory practice and would create regulatory inconsistency; and
- if CAA does allow early costs, there must be a level playing field and it should come with strict limitations, risk-fenced development allowances, strict gating, cost caps and clawback provisions.

## Our views

- 2.22 Respondents generally did not comment on the guiding principles in the August 2025 Consultation as summarised in paragraph 2.4 above and we continue to be of the view that the guiding principles we have set out derive from our statutory duties and remain appropriate. Nonetheless, respondents have strongly diverging views on the policy options summarised in paragraph 2.5.
- 2.23 While the outcome of the overall “benefits assessment” for expansion is subject to uncertainty, we remain of the view that we should retain the broad approach set out in the September 2025 Update given:
- expenditure on early costs supports timely delivery and, in turn, the early capture of what are potentially large benefits of expansion for consumers;
  - compared to the overall costs of expansion and range of potential benefits for consumers, the estimates of early costs for 2025 and 2026 are relatively modest; and
  - that it would not be rational for HAL to continue with work on capacity expansion without regulatory arrangements that support the recovery of costs.
- 2.24 Contrary to the suggestions that have been made by some stakeholders, the existing regulatory framework for HAL does not provide it with an opportunity to earn a commercial return that would allow it to recover early costs at a later stage. We do acknowledge that we are reviewing the wider regulatory framework

to support capacity expansion<sup>18</sup>, but at this relatively early stage it would be premature to conclude that HAL would have the opportunity to recover these costs from a higher level of return later in the capacity expansion programme. We also note that any such approach would likely increase allowed returns and prices in the future and, so, it would be unlikely that such arrangements would be in the interests of consumers.

- 2.25 Bearing the above in mind, if we were not to make an explicit allowance for early costs then it would not be in HAL's interests to deploy the resources necessary to proceed with capacity expansion in a timely way. This could delay the project and possible benefits to consumers and, in our view, would not be consistent with our statutory duty to further the interests of consumers. On this basis, we propose to retain the approach set out in the September 2025 Update, broadly consistent with option 1b, and make explicit allowances for HAL to recover the efficient early costs of capacity expansion.
- 2.26 In order to facilitate competition where appropriate, we also propose to retain the approach to dealing with the costs of alternative promoters that developed credible and appropriately mature proposals in response to the Government's target of July 2025, broadly consistent with option 3. We remain of the view that having a degree of rivalry between promoters has the potential to create significant advantages for consumers. Appropriately mature and credible alternative plans can create a degree of competitive pressure on HAL and promote efficiency and the thorough evaluation of an appropriately wide range of expansion options. We also note the use of competitive arrangements in other regulated sectors, including the energy, telecoms and water sectors, that have been designed to promote investment and efficiency. These matters are discussed further in our working paper on regulatory models referred to above.
- 2.27 In relation to HSPG's comments, in the September 2025 Update we said that we do not consider it would be in the interests of consumers for costs incurred by local authorities that might be associated with expansion to be recovered from consumers through airport charges. HAL has said that there is an established practice for certain costs incurred by local authorities in relation to engaging with a DCO applicant to be reimbursed by the applicant. These costs may be considered recoverable as part of early costs where it represents additional work over and above the local authority's business-as-usual work arrangements and provided the costs are consistent with the wider policy of recovering efficient planning costs. Beyond this, we do not consider it would be in the interests of

---

<sup>18</sup> CAA, Working paper on regulatory models, CAP 3195, November 2025. See: <https://www.caa.co.uk/media/jyxkj3sx/working-paper-on-regulatory-models-v20.pdf>



consumers for costs incurred by local authorities to be recovered from consumers through airport charges.

- 2.28 In relation to A4A's comment that the recovery of any early costs would be inconsistent with the US-UK Air Services Agreement and comments in relation to the ICAO Manual on Charges, we are mindful that our duties under CAA12 permit us to consider only those international obligations that have been notified to the CAA by the Secretary of State for the purposes of chapter 1 of CAA12. At present, no such obligations have been notified to the CAA and, as such, the CAA is not permitted to take these matters into account in its work on the economic regulation of capacity expansion. That said, we do not consider that our approach is inconsistent with these materials.
- 2.29 Our approach to implementing options 1b (making allowances for HAL's early costs) and option 3 (making allowances for the costs of other promoters with appropriately mature and credible plans) are discussed further below. This includes the important matters raised by airlines and other stakeholders with respect to providing incentives to ensure that costs are incurred efficiently and that the interests of consumers are appropriately protected.

## Duration of the regulatory arrangements for HAL

---

### The August 2025 Consultation

- 2.30 The August 2025 Consultation discussed possible options for recovery of early costs in 2025 and 2026. We noted that costs incurred in 2026 would warrant further consideration given the potential for unnecessary cost duplication and the possible advantages of greater co-ordination of the work of competing promoters.

### Stakeholders' responses

- 2.31 HAL said the regulatory treatment of early costs should cover 2025 and the full year of 2026, to provide all stakeholders with clarity and certainty and allow HAL to keep momentum by planning ahead, securing efficient contracts, and mobilising teams to maintain the pace required to support it in applying for a DCO in late 2026/early 2027.
- 2.32 Airlines did not support our approach to cost recovery in either 2025 or 2026.

### The September 2025 Update

- 2.33 The September 2025 Update said we were minded to allow the recovery of the efficient early planning costs that HAL incurs in 2025 and the first half of 2026. This sought to provide a reasonable degree of certainty to HAL for its planning work in 2025 and early 2026 such that HAL could reasonably secure the resources necessary to advance its plans for capacity expansion in a timely way. We also noted that this approach would allow us to consider issues such as

coordination between potential promoters and how to avoid wasteful and duplicative expenditure being recovered from consumers.

### **Further submissions following September 2025 Update**

- 2.34 In HAL's 17 October 2025 letter, it said it required certainty on all efficiently incurred costs for activities that are part of a DCO planning application for 2025 and 2026. It said without such certainty for the second half of 2026, its ability to mobilise the workforce required to support DCO preparation was constrained and it would not be able to work as effectively, consistently and efficiently as required to submit its DCO application on time.
- 2.35 The IAG response on 26 September 2025 did not support our approach to cost recovery in either 2025 or 2026.

### **Our views**

- 2.36 While we are mindful that there is uncertainty about the overall costs and benefits of capacity expansion, we note that the Government's November 2025 Announcement has provided clarity on the selection of a single scheme to inform its ongoing review of the ANPS. The Government has also retained its current timetable for capacity expansion.
- 2.37 In addition to these considerations, we note the arguments that HAL has made in respect of the importance of having a reasonable degree of certainty about future cost recovery so it can procure and deploy resources in an efficient and effective way. If we were to retain the approach set out in the September 2025 Update, we consider that this would provide HAL with certainty for little more than six months, which would be a relatively short period for a programme of work as large and complex as capacity expansion.
- 2.38 Bearing the above in mind, we propose to extend the scope of the regulatory arrangements for the recovery of HAL's early costs from 2025 and the first half of 2026 to all of 2025 and 2026. This approach should also be consistent with HAL working in a timely way to meet the Government's targets for the delivery of capacity expansion and the potential benefits to consumers that this could bring.
- 2.39 Nonetheless, we do remain aware of the uncertainties around capacity expansion and the need to continue to protect consumers in a range of evolving circumstances. In the section below on 'Regulatory arrangements to protect consumers' we explain the additional protections for consumers that we intend to put in place to deal with these challenges. These include enhanced monitoring and oversight of HAL's spending, a cap on the recovery of costs, an obligation on HAL to take account of the uncertain background in planning its spending on early costs, and a reopener provision to allow us to revisit the regulatory arrangements if there is a significant change in circumstances.

## Approach to HAL's land and property costs

---

### The August 2025 Consultation

- 2.40 The August 2025 Consultation set out our concerns about the potential for significant and unnecessary duplication of planning and/or early construction costs including land purchases and site preparation. We said we would consider whether it would be in the interests of consumers to take a different approach to the recovery of costs from the start of 2026 to put arrangements in place to ensure that the applications from HAL and other potential promoters were complementary and did not involve duplicate and unnecessary costs.
- 2.41 Our initial view was that consumers' interests would be likely to be best served by an agreed and coordinated approach to making DCO application(s), for example to avoid duplicate and unnecessary early costs for land purchase and site preparation to meet the construction timetable.

### Stakeholders' responses

- 2.42 HAL said the regulatory treatment of early costs should cover all early costs, including enabling, land and property costs, to maintain momentum for its DCO application.
- 2.43 British Airways did not support our approach to cost recovery and said that we should not undermine the integrity of our review of regulatory models for expansion or the stability of the regulatory framework by providing premature assurances on cost recovery, not least because a significant portion of HAL's requested early costs (£84 million) concerns land acquisition.
- 2.44 CISHA said that it was supportive of any efforts to ensure that property purchase schemes are available given the damaging consequences of the uncertainty and blight for local residents.
- 2.45 HSPG said it was particularly interested in the suggestion that an agreed and coordinated approach to making DCO application(s) could be facilitated to avoid duplication and unnecessary early costs for land purchase and site preparation. It requested clarification from the CAA about how such an agreed approach could be achieved particularly given that the Government would need to play a significant role in achieving it.

### The September 2025 Update

- 2.46 The September 2025 Update said we were not reaching a decision at that stage on early enabling costs, including land and property purchases, because of the particular problems associated with the possible duplication of costs. We noted the potential for enabling costs (such as for land acquisitions) to act as a barrier to competition and the need for further work with potential promoters to

understand these issues and whether there are potential solutions (for instance in relation to coordination and the sharing of information) to mitigate our concerns.

## Further submissions following September 2025 Update

- 2.47 HAL's 17 October 2025 letter said that it was essential for the timely delivery of expansion that we should allow the recovery of efficient land, property and enabling costs incurred in 2025 and 2026, in addition to planning costs. It also said that splitting early costs into two categories, planning and land/property/enabling costs, would add unnecessary complexity at a time where HAL needs to progress with speed given the compressed timescale.
- 2.48 HAL set out further detail on the land, property and enabling work that should be incurred in 2025 and 2026 including:
- work required to agree contracts for purchase and reprovisioning (or otherwise) of commercial property;
  - launch of a residential property bond scheme, Home Relocation Service and associated works; and
  - professional and consultancy work fees, in particular in respect of valuation.
- 2.49 In late October 2025, we requested received further information from HAL on its approach to land and property costs to understand the extent of possible duplication of costs in 2025 and 2026, which HAL provided in early November 2025.<sup>19</sup>
- 2.50 HAL said it was necessary for it to incur property costs in 2025 and 2026 as early engagement in respect of land and property acquisition would support the granting of necessary compulsory purchase powers as part of the DCO. HAL also said:
- acquisition of land for terminal development is on the critical path as it relates to new aprons and taxiways to be open by 2035; and
  - to meet the Government's timetable for construction and runway opening, significant amounts of land would need to be acquired prior to a DCO being granted in 2029, which could cost in excess of £4 billion.
- 2.51 HAL said that there would be no material risks of duplicative costs as the DCO grants compulsory purchase powers for land, so in the event that HAL was

---

<sup>19</sup> HAL, Response to CAA on Property, provided on 4 November 2025

required to sell land which it had acquired to an alternative developer there would only be a “friction” cost (stamp duty).

- 2.52 The IAG response on 26 September 2025 did not support our approach to cost recovery for early costs, including any allowances for enabling and land acquisition costs.

## Our views

- 2.53 The Government’s November 2025 Announcement has provided clarity on the selection of a single scheme to inform its review of the ANPS. With the focus on a single scheme, there is less uncertainty about land acquisition and enabling work and this has reduced the potential risk of the duplication of costs to be recovered from consumers.
- 2.54 We consider that allowing early costs for both (i) enabling work and (ii) land and property acquisition, should allow HAL to make wider preparations for capacity expansion, including the construction programme, rather than confining its activities to planning issues. Not providing this certainty now could mean that HAL would slow down its work on the wider process to prepare for capacity expansion, leading to delays to both the timetable and the delivery of potential benefits to consumers.
- 2.55 Nonetheless, as raised by airlines and other stakeholders, we need to put in place arrangements to protect consumers by preventing unnecessary escalation and inefficiency in land acquisition and enabling costs. We also note the specialist nature of these costs and so the difficulty in conducting the *ex post* review of costs. We set out in the section below enhanced arrangements to provide independent oversight of these costs on an ongoing basis, as well as governance arrangements with a cap on overall early costs. These matters are discussed further in the section below.
- 2.56 We also note the points that HAL has made about the potential to resell any land if plans for capacity expansion were to be abandoned. HAL said that the scope of any land acquired in 2025 and 2026 would be likely to be relatively limited, which would mean that the proceeds from any future sales (that would be used to reduce future airport charges) would be relatively modest.
- 2.57 While planning costs make up a significant proportion of the early costs to be in 2025 and 2026, we note that in 2027 and beyond land acquisition, property and enabling costs are forecast by HAL to increase very significantly. We consider below how best to regulate these costs during 2026 and we are likely to need much greater certainty about the overall benefits case for capacity expansion before it would be appropriate to make any significantly greater allowances for land and enabling costs.

## Regulatory arrangements to protect consumers

---

### The August 2025 Consultation

- 2.58 The August 2025 Consultation explained that, in the light of our statutory duties, it is important that early expansion costs are efficiently incurred and lead to a high quality DCO application if they are to be recovered from airport users. It also explained the various incentive arrangements that had been put in place to deal with early costs when capacity expansion was last considered, in the period between 2016 and 2020.
- 2.59 We welcomed views on which approaches to incentivise and limit early costs to efficient levels (including those used previously) would be most suitable to the current circumstances.

### Stakeholders' responses

- 2.60 HAL said that a bespoke approach that builds on the H7 framework would be appropriate for the recovery of early costs in 2025 and 2026. It said *ex ante* capex efficiency incentives and existing capex governance arrangements with airlines should not apply to these costs, but that the CAA could consider an *ex post* efficiency review, consistent with the previous framework for dealing with the early costs of capacity expansion. It also said that other incentives and cap mechanisms would not be proportionate for early costs incurred during 2025 and 2026. HAL said that more complex mechanisms could be considered for early costs incurred from 2027 onwards when cost estimates and timescales would be more mature and discussions with the Government would be more advanced.
- 2.61 HWL noted that the August 2025 Consultation had set out several features of the previous cost recovery policy used to incentivise efficient early expenditure and urged the CAA to design a regulatory framework to enable it to properly control expansion costs for the benefit of airlines, consumers and ultimately the wider UK economy. It said that the discrepancy between HAL and HWL cost estimates suggests that HAL is operating on the basis that it can proceed quickly incurring considerable expenditure regardless of stakeholder (in particular, airline) buy-in, and that HAL's costs raised valid questions about HAL's ability to plan efficiently under the current regulatory framework.
- 2.62 British Airways said that for the promoter selected by the Government, there should be strong safeguards and limitations in place. It said that HAL has a track record of spending inefficiently and its estimates for early costs are over twenty times greater than those of HWL, a company it said was used to working in a competitive environment.
- 2.63 IAG supported similar safeguards to those suggested by British Airways and further stated that recovery should be limited to costs directly related to the DCO

process and, so, should exclude costs associated with lobbying, membership fees/sponsorship, and internal resources (on the grounds that IAG's airlines have also had to dedicate resources to engage with promoters but are having to absorb these costs).

- 2.64 A4A said that expansion planning would require a tailored regulatory framework with stronger cost control, efficiency tests and consumer safeguards. Based on a review of the pre-2020 policy, A4A suggested the following design features would support the efficient delivery of the project:
- a cap on cost recovery to protect consumers in the event of escalating planning costs. A4A said that, previously, the CAA stated it would consider a request to adjust the cap, providing HAL could demonstrate that an adjustment was in the interest of consumers and had been discussed with airlines, and considered this key to avoid escalating costs;
  - the exclusion of lobbying costs to ensure that only genuine development or planning costs should be recoverable;
  - backwards-looking efficiency reviews to guarantee that only justified costs are added to the RAB and recovered from passengers; and
  - independent scrutiny of costs to ensure transparency and provide confidence that spending is efficient.
- 2.65 AOC/LACC said that we should also take account of developments and comments received through the H8 Constructive Engagement process as well as the CAA's review of the regulation of Heathrow airport. It also said the principle of the airline community having a key role in the assessment and governance of capital costs should continue to be applied to any costs that ultimately may be passed onto airlines and consumers. AOC/LACC said the following principles should also be considered:
- an overall cap on the recovery of costs would set clear expectations and provide greater certainty for all parties and would encourage rigorous cost control from promoters. This should be combined with a full assessment of whether costs are efficiently incurred; and
  - there should be independent assurance and enhanced reporting requirements for early costs.
- 2.66 AOC/LACC said cost recovery should be conditional on a successful outcome of a DCO application to provide an incentive on HAL to only incur efficient costs and to avoid consumers pre-funding capacity expansion.
- 2.67 CISHA suggested that incentivising a successful DCO application would strengthen the promoters' incentives to do community engagement well.



- 2.68 On cost efficiency more generally, AOC/LACC also expressed concern at the initial cost estimates submitted by HAL, highlighting what it saw as a lack of detail, disparity with HWL's costs, inconsistencies with information previously provided, potential cost duplication, and the inclusion of early enabling costs, amongst other concerns.
- 2.69 HSPG said that it doubted the credibility of the huge divergence in the assessed scale of early costs put forward by HAL and HWL and that further work is needed to interrogate these cost estimates which could represent both over- and under-estimates. It said that the treatment of costs borne by local authorities must either be consistent between promoters or any differences should be clearly explained and reconciled to the costs which are incurred in practice.

## The September 2025 Update

- 2.70 In the September 2025 Update, we set out the following approach to the treatment of early planning costs incurred by HAL in 2025 and the first half of 2026:
- early planning costs that are assessed to be efficiently incurred would be recoverable through HAL's RAB and airport charges, under a new mechanism;
  - we would include requirements for (i) independent audit of costs; and (ii) *ex post* efficiency assessment of costs on a timely basis, including consideration of whether any costs have been unnecessarily or avoidably duplicated across promoters;
  - we would apply incentives for the recovery of efficient costs and a successful DCO application. We said the incentive rate in the event of an application for a DCO either being unsuccessful or withdrawn without good reason could be set, for example, to 75% of efficient costs, to provide strong incentives for efficiency (noting the difficulties we have previously identified with the effectiveness of *ex post* reviews). Nonetheless, it would only be appropriate to apply these penalties in circumstances within the reasonable control of HAL, and not because of a change in Government policy or approach. We also said we would consider whether an incentive rate for a successful DCO application is required, so that the incentive package would be consistent with the principle of a "fair bet" and noted we had previously applied a rate of 105% prior to the covid-19 pandemic; and
  - we would require timely and regular submissions of forecast and outturn costs, with supporting justifications.



## Further submissions following September 2025 Update

- 2.71 HAL said the incentive arrangements were poorly targeted for efficiency and would undermine investability. HAL also said that investors need certainty of cost recovery of expenditure up to critical decision points, must be given certainty over cost recovery in the event of cessation and the proposed incentives do not represent a “fair bet”.
- 2.72 HAL suggested that there may be some merit in a small, balanced incentive for a successful DCO, but it should not be triggered by cessation. It said a high incentive rate creates an incentive to take a risk averse approach to DCO preparation, increasing costs and taking additional time. HAL said it was considering potential alternative approaches to incentivise efficient delivery of the DCO and would engage with the CAA.
- 2.73 IAG did not support our approach and said that it would encourage inefficient spending and there are no guardrails to limit the level of early costs. It said the “fair bet” was premature and a guaranteed recovery of 75% of early costs was concerning. It also said the bonus incentive of 105% was illogical and there was no evidence that HAL would not proceed without this incentive.

## Our views

- 2.74 It remains important to protect consumers from:
- inefficient costs;
  - any inappropriate escalation in costs; and
  - unnecessary duplication of costs incurred previously or between potential promoters.
- 2.75 We also do not consider that HAL should recover any costs associated with lobbying or that are not directly related to preparation of the planning application for capacity expansion. We consider that HAL should be allowed to recover efficient and incremental internal resource costs associated with the application for development consent. Not allowing these costs could delay planning work and create incentives on HAL to outsource this work, leading to higher costs and delays to the potential benefits to consumers.
- 2.76 The proposals discussed above for widening of the scope for cost recovery to include all of 2026 and enabling and land acquisition costs increases the importance of creating regulatory arrangements that provide meaningful assurance on the efficiency of costs to be recovered from consumers.
- 2.77 In the August 2025 Consultation we noted that, on 31 July 2025, HAL had submitted a request that identified £71 million of early costs in 2025 and £249 million in 2026: £320 million (in 2024 prices) in total over 2025 and 2026. The

approach set out in the September 2025 Update involved making allowances for costs in 2025 and the first half of 2026 and focused only on planning costs (so excluding land acquisition and enabling costs). We estimate that the approach set out in the September 2025 Update would have provided HAL with comfort on around £130 million in costs<sup>20</sup> and the proposals set out in this document increase this by £190 million to £320 million. We set out more detail on the early cost estimates in appendix B.

- 2.78 Bearing this significant increase in mind, together with the importance of consumers only bearing efficient costs, we propose to modify and strengthen the arrangements for incentivising efficiency set out in the September 2025 Update.
- 2.79 A number of stakeholders commented on the differences between HAL's and HWL's cost estimates for 2025 and whether this indicates potential inefficiency. We will be conducting further work to assess HAL's early costs forecasts as we progress to a final decision on the recovery of early costs. We consider that the higher costs of HAL could reflect planning and enabling activities to allow it to proceed with the timely delivery of capacity expansion and meet the Government's timetable. Nonetheless, the higher cost estimate submitted by HAL reinforces the importance of strengthening the arrangements for incentivising efficiency to further the interests of consumers.
- 2.80 To protect consumers, we propose the following arrangements:
- We will carry out a backwards looking ("*ex post*") review to assess whether the early costs are both efficient and incremental to those allowed as part of HAL's H7 price control. Costs incurred that pass these tests would be eligible for recovery from consumers. This process would identify any costs that are (i) not incremental to those allowed as part of the price control, or (ii) are demonstrably inefficient and/or wasteful and so should be disallowed. In chapter 3, we provide further details on the types of issues to be considered at the *ex post* review. Costs would be excluded where they have been inappropriately allocated to expansion activities, have been incurred earlier than necessary, are duplicated, harm competition, have not been procured efficiently, do not reflect the most efficient approach, and/or are associated with lobbying or activities not directly associated with the planning application. We recognise there is a relatively high bar for identifying demonstrably inefficient and/or wasteful costs, so we propose additional mechanisms below to further protect consumers.

---

<sup>20</sup> CAA calculation based on allowing for HAL's costs in the categories "Programme Management", "Development Consent Order" and "Premobilisation Phase", and assuming 2026 costs are split evenly over the year.

- To provide ongoing monitoring and assurance on the efficiency of its early costs, HAL will be required to procure (in consultation with airlines) one or more independent technical experts to provide oversight and regular updates on HAL's early costs, including specialist assurance on property and land acquisition strategy and costs. The CAA should have a role in approving the terms of reference and appointments, to ensure independence. We will ensure there is a requirement for the party to report accurately to the CAA.
- A cap on the costs for 2025 and 2026 recoverable by HAL, to reduce the risk to consumers from unexpected escalation in costs. We consider this cap should be set at £320 million (in 2024 prices) for 2025 and 2026, based on HAL's July 2025 forecast.<sup>21</sup> We have recently received a submission from HAL that its costs may exceed this level, however, we require further information to take this into account in our decision on the cap.<sup>22</sup> It is important to emphasise that this is a cap and not a target for spending. Given the evolving nature of the work on capacity expansion and that the Government has only just confirmed that HAL's scheme will inform its ongoing review of the ANPS, subject to consultation, we will continue to assess HAL's early cost forecasts as we progress to our final decision. It will be the arrangements for ex post review and additional oversight summarised above and below that provide for the incentives and arrangements for cost efficiency. It is also important to allow for flexibility in this cap where required to secure the potential benefits for consumers, although HAL will need to provide comprehensive evidence in advance if it plans to exceed this cap to explain why it would be necessary, efficient and in the interests of consumers.

---

<sup>21</sup> HAL's submission on costs for capacity expansion, 31 July 2025 (see <https://www.caa.co.uk/media/a05lta2u/caa-h7-857-heathrow-application-to-increase-h7-capex-cap.pdf>); and HAL's response to the CAA's consultation on regulatory policy on early costs (see <https://www.caa.co.uk/media/wilp145r/caa-h8-040-heathrow-response-consultation-cap3149-early-expansion-costs-final.pdf> ).

<sup>22</sup> Letter from Mike King (HAL) to Stewart Carter (CAA) on 9 December 2025. This set out an increase in early costs to around £350 million (excluding Modernising Heathrow early costs). We set out further detail in appendix B.

- An obligation on HAL to take account of the uncertainties surrounding the scheme in developing its plans and arrangements for early costs, so in the circumstances of a change of approach by Government, for example, as a result of a revised ANPS, it can change its plans in an efficient and agile way. There remain significant uncertainties during 2026 and it will be appropriate for HAL to take these uncertainties into account, for example by not incurring costs earlier than is reasonably necessary to deliver to the proposed timetable. The independent technical experts will be tasked with reporting on HAL's compliance with this obligation and we will consider this reporting as part of the *ex post* review.
- A "reopener" provision should there be a change of circumstances, such as further evidence showing that the costs and risks from allowing early costs ahead of granting the DCO would outweigh the benefits to consumers. In these circumstances, we would issue a decision limiting the recovery of efficient costs to those already incurred and those necessary to close down its early cost programme in an efficient way.
- Requirements for transparent reporting and independent assurance of costs, supported by timely and regular submissions of forecast and outturn costs, with supporting justifications and evidence. In chapter 3 we provide details on the information we expect HAL to provide.

2.81 In the September 2025 Update, we proposed an illustrative incentive for the recovery of efficient costs based on the success of a DCO application. This suggested that HAL should recover 75% of its efficient early costs in the event that the application for a DCO is either unsuccessful or is withdrawn for reasons within HAL's control, and recover 105% of its efficient early costs in the event that the DCO application is successful. The intention was to introduce an incentive on HAL to be successful in obtaining a DCO and provide some downside protection for consumers in the circumstances of an unsuccessful application.

2.82 We have considered further the information provided by stakeholders and are concerned that applying this incentive could have unintended consequences. In particular, if the incentive were formulated in a way that applied the penalty rate to circumstances beyond HAL's control then this may create an incentive on HAL to withdraw from capacity expansion. In contrast, if the incentive was applied and HAL was protected from circumstances beyond its control, this might create incentives on HAL to delay (to have more time to fine tune its application) and/or spend more than would be appropriate on its DCO application process, in order to maximise both its chances of obtaining the bonus from the incentive and to maximise the size of the bonus. Neither of these outcomes would be in the interests of consumers.

- 2.83 Bearing all these considerations in mind, we have decided not to proceed with this incentive for 2025 and 2026. Nonetheless, we will continue to work with HAL and other stakeholders to develop incentive mechanisms for use in relation to early costs incurred in the period from 2027. These could be more targeted, for example to be based on the clarity provided by the Government's review of the ANPS and the CAA's regulatory model review.

## Mechanism for recovery of HAL's early costs

---

### The August 2025 Consultation

- 2.84 The August 2025 Consultation discussed possible mechanisms to enable the recovery of early costs. For any modifications to the Licence, we noted that we would need to follow the statutory process for consulting on licence modifications and under CAA12 certain parties (including HAL and the major airlines at Heathrow) can appeal these matters to the CMA.
- 2.85 We also said we could treat HAL's costs as recoverable from its regulatory asset base ("RAB"), to allow costs to be efficiently financed and reduce the impact on charges within a price control period.

### Stakeholders' responses

- 2.86 HAL said that the H7 price control allowance for capital expenditure in 2025 and 2026 should be adjusted for expected early costs using the existing mechanism in its licence. It said it was seeking clarity that efficiently incurred costs will be added to the Regulatory Asset Base ("RAB"). It also said that airline agreement should not be required for early costs in 2025 and 2026 and, if the CAA considers airline agreement to be necessary for specific elements, a fast-track escalation process should be introduced. It also said a full licence modification and appeal procedure could take three to ten months which is irreconcilable with the pace required to meet its goal of obtaining a DCO in 2029.
- 2.87 British Airways said that speculative development costs should not be added to HAL's charges or RAB. It also said that any further licence modifications for H7, including possible appeals, would lead to further uncertainty going into the final year of the regulatory period.
- 2.88 A4A said that the H7 price control framework was not designed for multi-billion-pound expansion costs and that, even under a 'business as usual' approach, the current regulatory framework has resulted in Heathrow having some of the highest charges in the world.
- 2.89 IAG said that the recovery should be done under a new regulatory regime and not under H7 or H8. Both IAG and the AOC/LACC said that if costs were to be recovered via the RAB, recovery should be restricted to the cost of debt, not the

full weighted average cost of capital, to avoid rewarding speculative investment. It also said airline input and oversight should be embedded in the cost approval and cost recovery framework.

- 2.90 AOC/LACC said the H7 price control arrangements were established in the context of a two-runway airport and as such should not be used for capacity expansion without further review.

### **The September 2025 Update**

- 2.91 The September 2025 Update said that to encourage efficiency and support the timely delivery of capacity expansion, early planning costs that are assessed to be efficiently incurred will be recoverable through HAL's RAB and airport charges, under a new mechanism.
- 2.92 To implement these policies, a licence modification would be the appropriate approach to enable the recovery of the early costs. We said that the existing uncertainty mechanism in the Licence was not designed to be used for expansion costs as the H7 price control was explicitly focused on a two-runway airport and we had said that issues relating to expansion would be addressed separately.

### **Further submissions following September 2025 Update**

- 2.93 HAL said in its 17 October 2025 letter that the licence modification procedure was not the right approach as it would take a substantial amount of time, introduce a long period of uncertainty alongside the consequent risk of appeals, and risks further delays to investment and the timetable. It said that its proposal for the CAA to approve a change to HAL's H7 capital cap using the existing method would provide a speedier and less resource-intensive process, enabling HAL to include these costs in its pricing consultation from 2026, to be effective from 2027.
- 2.94 IAG said in its 26 September 2025 response that allowing early cost recovery risks double-charging (of sunk expansion costs of over £0.5 billion prior to the covid-19 pandemic) and eroding trust in the regulatory process.

### **Our views**

- 2.95 In the September 2025 Update, we proposed to make a licence modification to implement the policy on early costs. HAL did not consider that a licence modification was necessary and we should make the change through the H7 mechanism for capex, which could be uplifted to allow recovery of efficient early costs.
- 2.96 Having considered these issues further, we remain of the view that it will be appropriate to allow the recovery of HAL's early costs through a new mechanism

to be inserted into the price control condition in the Licence. Alongside this, we propose to insert new conditions in the Licence to implement the new arrangements for protecting the interests of consumers as discussed in the section above.

- 2.97 We also propose to allow efficient early costs to be recovered through HAL's RAB and so, in due course, through airport charges. Using the RAB for the recovery of these costs will allow for these costs to be recovered over time and financed efficiently. This approach has the following benefits:
- the approach reflects the long-term nature of the investment and benefits to consumers;
  - this avoids undue increase in charges in the short term and provides a reasonable balance between the costs borne by present consumers and future consumers; and
  - the recovery of these costs would be spread out over a larger consumer base, both over time and, particularly should capacity expansion proceed, so lowering the impact on the charge for each passenger.
- 2.98 In adopting this approach, we propose to apply HAL's H7 WACC, as this appropriately represents an estimate of the efficient financing costs during this period.
- 2.99 We do not consider that the approach proposed by HAL to use the H7 mechanism for capex would be preferable and in the interests of consumers for the following reasons.



- The uncertainty mechanism in the H7 price control was designed to work alongside the capex governance arrangements which were introduced at that time to protect the interests of consumers in relation to the efficiency of capex costs. HAL has argued that the full capex governance arrangements would not apply to the early costs it is seeking to recover. This would place a significant risk to consumers over the governance of early costs that would need to be mitigated through new mechanisms that are targeted to these early costs, which appear to be more readily and appropriately introduced through changes to the Licence. Proposing, a licence modification would allow us to establish a firm basis, not only for the recovery of early costs over time, but also for arrangements to monitor, assure and report on these costs so that consumers can have confidence that they are not being exposed to costs that are higher than necessary. By publishing these proposals now, we consider that we can meet a timetable that would allow the CAA to take a decision to modify the Licence in the Spring of 2026, and to a timetable that is more robust than if we attempted to use the existing H7 uncertainty mechanism for the reasons set out below.
- While we noted in the August 2025 Consultation that the governance processes set out in the H7 price control could provide a process for allowing HAL to recover extra costs, that mechanism had been developed in the context of a price control that was expressly designed to deal with a “two runway” airport and that, if expansion re-emerged, we would create a new mechanism to deal with these issues. As set out above we continue to take the view that the uncertainty mechanism is less appropriate for dealing with early costs since it was not designed to address the issues raised by expansion.
- HAL has not provided the CAA with an application that fulfils the criteria for the use of the uncertainty mechanism, for example evidence of consultation with airlines and a report setting out airlines’ views. The time needed for HAL to address these matters and for the CAA to follow the procedures specified in the Licence, and with the inherently uncertain timetable for any appeal by means of judicial review means that the process would likely be significantly slower and more difficult than HAL has suggested.



- Modifying the Licence provides a procedurally robust and best practice mechanism for the development of the regulatory framework which allows for any dispute over the arrangements to be addressed in a timely and clear manner through the appeal rights that stakeholders would have to the CMA. We consider that the appeal mechanism is an important part of the regulatory framework that gives confidence and assurance to stakeholders over the robustness of the CAA's decisions and the ability to challenge them in a manner that would see any issues resolved in accordance with a set timetable.
- Should stakeholders appeal any licence modification decision on early costs made by the CAA, it is likely that any appeal to the CMA would (i) resolve uncertainty in relation to the CAA's approach during 2026, and (ii) point the way to "issues of principle" as to how early costs should be dealt with during the H8 period. As such, we consider that a licence modification, even if challenged, would provide greater certainty in this area during the course of 2026 than a decision to use the H7 uncertainty mechanism which would be challengeable by judicial review on an uncertain timetable.

2.100 As a result, we propose to deal with the regulatory treatment of HAL's early costs through modifications to the Licence. A summary of our proposals is set out in chapter 3, with the text of a draft licence modification being set out in appendix C.

## Approach to the recovery of other promoters' early costs

### The August 2025 Consultation

- 2.101 The August 2025 Consultation said that we were exploring whether it would be practicable to create a mechanism that would allow proposals brought forward by third parties who are not licensed under CAA12 but whose plans for expansion have been assessed by us as credible and appropriately mature to recover their efficiently incurred early costs. One such approach would be to bring forward a modification to the Licence for HAL to create a fund to recover its efficiently incurred early costs together with those of any promoter with a credible and appropriately mature proposal, through the charges HAL levies on airlines. This would require HAL to administer and make appropriate payments to the other promoters.
- 2.102 We noted that the appropriate position for the medium term (that is, after 2025) would require further consideration, as the balance between the benefits of competition and costs would change, once costs start increasing significantly ahead of HAL making a DCO application. We said we would consider whether it would be in the interests of consumers to take a different approach to the recovery of costs from the start of 2026, including whether it would be possible to put arrangements in place to ensure that the applications for development

consent prepared by HAL and any other parties were complementary and did not involve duplicative and unnecessary costs.

## Stakeholders' responses

- 2.103 HAL strongly opposed our suggestion that we could modify the Licence to require HAL to recover costs from airlines and consumers on behalf of any alternative promoter of expansion. HAL said that this proposal would fall outside the scope of the CAA's powers under CAA12, lacked demonstrated consumer benefits, had no proper UK regulatory precedent, and introduced significant legal and timetable risks.
- 2.104 HWL welcomed and strongly supported the CAA's recognition of the potential benefits of competition in delivering expansion at Heathrow Airport. It noted that the ability of alternative promoters to recover early costs would be fundamental to establishing a level playing field for competition. It also said that HAL's relatively high costs illustrated the risks inherent in considering only the existing monopoly provider's approach to capacity expansion.
- 2.105 It also said that alternative promoters do not have the "luxury" of knowing that their costs will be recoverable under the established practice of allowing a licensee to recover its efficiently incurred costs. It said the CAA should design a regulatory framework that genuinely protected competition and did not inadvertently undermine the possibility for a competitive dynamic in the capacity expansion process. It said the ability to recover efficiently incurred early costs is fundamental to ensuring that alternative promoters can participate on a level playing field and are incentivised to put forward efficiently costed expansion options. HWL said that it had no objections to being subject to independent scrutiny of costs and/or enhanced reporting requirements should the CAA consider this appropriate for alternative promoters. It also welcomed the CAA's intention to consult further on the treatment of medium-term costs to ensure that any approach addressed the potential for significant and unnecessary duplication of planning costs. It said it has campaigned for measures to be put in place to avoid duplication of costs during the DCO process, in particular, through the sharing of survey data, and said it sought the assistance of CAA and DfT in this regard.
- 2.106 British Airways said that, to allow reimbursement of the costs of more than one promoter would represent duplicative and wasteful expenditure. It said that, should a promoter not be selected by the Government by the end of October 2025, the CAA should ensure that any pre-DCO Costs incurred by any promoter are agreed with the airline community in advance of being incurred. It also said that these costs should not be reimbursable through the H7 regulatory framework but instead treated in line with CAA's approach to capacity expansion.

- 2.107 A4A said that competition should help drive efficiency, innovation and, ultimately, better outcomes for consumers, and so it was important that the CAA ensured that all proposals assessed as credible and appropriately mature are given fair and balanced consideration. The fact that HWL has asked to be able to recover costs that are much lower than those sought by HAL should be given significant weight by the CAA when making its decision. Further, A4A considered that any fund to recover costs from any promoter with a credible and appropriately mature proposal must include strong conditions on efficiency, transparency and proportionality, so that airlines are not forced to pay duplicate or unjustified costs. It considered the CAA or an independent entity should oversee these arrangements.
- 2.108 AOC/LACC said that, should the CAA allow recovery from multiple promoters, then the CAA must consider further protections to minimise consumers unduly paying for multiple – and failed – submissions. Such considerations must consider a well-defined, high bar to be considered a “promoter”. To avoid duplication of costs from multiple promoters, it said the CAA should consider (i) the non-recovery of duplicated costs by unsuccessful promoters, (ii) a mechanism that would allow common work (such as environmental studies) to be undertaken and paid for once, and (iii) minimising the time during which duplication of costs may be incurred.
- 2.109 CISHA supported our proposal that the Licence could be modified to allow the creation of a fund from which HAL’s early costs and those of appropriate alternative promoters can be recovered. It said that it seems sensible for HAL to administer this fund but suggested that some form of independent oversight should be included.
- 2.110 HSPG welcomed further clarification on our suggestion that an agreed and coordinated approach to making DCO application(s) could be facilitated to avoid duplication and unnecessary early costs for land purchase and site preparation.

## **The September 2025 Update**

- 2.111 In the September 2025 Update we said that we remained of the view that other promoters with credible and appropriately mature proposals should be able to recover efficient early planning costs that are incurred during 2025 and the first half of 2026 (consistent with our approach for HAL). We noted that this was broadly consistent with Option 3 from the August 2025 Consultation. We also said that we would complete and publish our assessment of other promoter plans, and whether they are credible and appropriately mature, in 2026.

## **Further submissions following September 2025 Update**

- 2.112 In its submission dated 17 October 2025 HAL reiterated its position that it considered that it would not be legally permissible to use the Licence to recover

the costs for any alternative promoter(s). It repeated previous concerns that this proposal fell outside the scope of the powers granted to the CAA by CAA12, lacked demonstrated consumer benefit, had no proper UK regulatory precedent, and introduced significant legal and timetable risks.

## Our views

- 2.113 We remain of the view that other promoters with credible and appropriately mature proposals should be able to recover their early costs on an equivalent basis to HAL as part of a 'level playing field' approach. We consider this approach is in the interests of consumers by facilitating competition for expansion and providing incentives for each promoter to make sure early costs are efficient and support a successful application for development consent. Such an approach would also be consistent with the timely delivery of expansion and benefits to consumers.
- 2.114 We have considered further the issues that airlines have raised around protecting consumers from incurring costs from multiple, failed submissions. HWL's costs up to November 2025 are unlikely to be duplicative as they relate to development of a different scheme and are relatively modest. We are also only allowing early costs for other promoters with credible and appropriately mature proposals, so recovery of costs is only for plans that provide benefits to consumers from competition, and we will only make allowances for efficient costs.
- 2.115 We have considered further the issues that HAL and airlines have raised about the statutory basis for our approach, and consider that HAL's arguments are unfounded as CAA12 provides the CAA with significant discretion in regard to the scope of licence modifications that we can bring forward in relation to the Licence and the arrangements that those licence conditions can put in place. Therefore, our intention remains to seek to recover the efficient early costs incurred by third party promoters of proposals for expansion assessed by us as credible and appropriately mature by a mechanism set out in the Licence.
- 2.116 We consider that current information shows HWL developed credible and appropriately mature proposals between the Government's January 2025 and November 2025 Announcements, as:
- HWL's scheme was one of two schemes still under active consideration by the Government following its announcement on 22 October 2025 and was used as a comparator for the selection of HAL's scheme in November 2025; and

- the CAA's technical advisor, Steer, has concluded that the HWL scheme demonstrated sufficient technical maturity and supporting evidence to warrant a high-level technical and cost efficiency review, and used this scheme as a comparator for HAL's scheme, for example on cost ranges.<sup>23</sup>

- 2.117 Bearing in mind the Government's decision to shortlist only the HAL and HWL schemes in October 2025, we are of the view that the schemes brought forward by other promoters were not both credible and appropriately mature proposals.
- 2.118 We consider, in view of the very significant costs of the scheme overall, that the benefits to consumers from the competitive rivalry provided by HWL, which has created pressure on promoters to put forward more efficient plans and has allowed for a greater scope of optioneering to inform the Government's decision on the single scheme, will have expected benefits to consumers in excess of the £3.5 to 4 million costs that HWL estimated in July 2025.<sup>24</sup> We also remain of the view that having an appropriate degree of rivalry between promoters, or by other competitive arrangements, could also benefit consumers in the future.
- 2.119 Our proposal is that it is appropriate to allow recovery of HWL's early costs up to the date of the 25 November 2025 Announcement and that this should be implemented through a mechanism provided for in the Licence. In order to make a final decision on these matters, we are requesting further information from HWL on:
- the costs it incurred in 2025 up to the date of the November 2025 Announcement;
  - a description of the costs, together with supporting information to demonstrate they were incurred directly as a result of planning for capacity expansion, rather than, for example, lobbying costs; and
  - the efficiency of, and consumer benefits arising from, these costs.
- 2.120 Following the November 2025 Announcement, when HAL's scheme was announced as informing the review of the ANPS, which is subject to consultation, we consider there should be a "reset" and that no allowance should be made for additional costs incurred by HWL after this point, unless these can be shown to provide clear benefits for consumers and until such time as there are credible and appropriately mature plans.
- 2.121 From the date of the November 2025 Announcement, we would only consider assessing the potential recovery of costs that are incurred in support of plans

---

<sup>23</sup> Steer, Initial technical and cost efficiency assessment of capex expansion plans for Heathrow Airport, December 2025. We will be publishing this report on our website in due course.

<sup>24</sup> Further detail is provided in appendix B.

that align with the single scheme announced by the Government as informing the review of the ANPS.

## Chapter 3

## Proposals and next steps

---

### Introduction

---

- 3.1 This chapter summarises our Proposals on the recovery of early costs, drawing on stakeholders' responses and our views, as discussed in chapter 2. It encompasses:
- our overall approach to the recovery of the early costs of expansion;
  - the broader scope of the early cost recovery arrangements for HAL, consistent with furthering the interests of consumers and the timely delivery of capacity expansion at Heathrow airport;
  - incentives for HAL to incur costs efficiently and provide value for money;
  - regulatory reporting arrangements for HAL;
  - the licence modifications appropriate to support the above approach, the broader scope of cost recovery, the incentives for efficiency and reporting arrangements;
  - our approach to the recovery of other promoters' early costs; and
  - next steps, including our final decision next year and the process for developing the policy on recovery of early costs from 2027.

### Overall approach to the recovery of early costs

---

- 3.2 In chapter 2 we set out our broad approach to the recovery of early costs, as summarised below:
- we should make an explicit allowance for HAL to recover the efficient early costs of capacity expansion. While there are uncertainties about the costs and benefits of expansion, there are plausible scenarios where there would be significant net benefits to consumers. In these circumstances, allowing for early costs recovery furthers the interests of consumers by avoiding delays to the project, which would postpone and reduce the benefits to consumers;

- alternative approaches, such as not allowing the recovery of efficient early costs, or variations on this approach, would not be in the interests of consumers as they could lead to delays to potential benefits for consumers from abandoning capacity expansion, slowing down the planning process and/or reducing the quality of planning work; and
- other promoters with credible and appropriately mature proposals should be able to recover early costs to further the interests of consumers by facilitating competition, where appropriate, to deliver better outcomes for consumers.

3.3 Therefore, our proposals allow for the recovery of efficient early costs of HAL under a new framework and the recovery of efficient costs for alternative promoters with credible and appropriately mature proposals.

### Approach to the recovery of HAL's early costs

---

3.4 We address our proposals for the scope of HAL's recovery of early costs in chapter 2. In summary:

- we propose to respond to the greater certainty created by the Government's announcement that HAL's scheme will inform its ongoing review of the ANPS, which is subject to consultation, by increasing the scope of our allowances for early costs;
- it is appropriate to provide certainty to HAL on the recovery of early costs for all of 2025 and 2026 (rather than for 18 months from the start of 2025), particularly given when we are likely to make a final decision on these matters;
- it is also appropriate to extend our proposals for cost recovery from planning costs to include land and property acquisition costs, and enabling costs; and
- increasing the scope of cost recovery in this way will allow HAL to plan its spending on early costs more efficiently and effectively over 2026 and also allow for early work on land acquisition, which should promote timely delivery, meet the Government's timetable and so further the interests of consumers.

3.5 For HAL's efficient early costs incurred in 2025 and 2026 for planning, land and property, and enabling costs, we propose that they should be added to HAL's RAB, receive the associated return (using the allowed cost of capital used to set the price control for H7), and be recovered through airport charges in 2027 and beyond. Where we make adjustments to the efficient early costs as part of the ex



*post* review (discussed further below), we would make corresponding adjustments to the RAB to reflect any disallowed costs and return.

3.6 This approach furthers the interests of consumers by allowing only costs which have been efficiently incurred and avoids any undue short-term impact on charges by spreading recovery over the longer-term, and particularly if capacity expansion is delivered, potentially allowing costs to be spread over a greater number of passengers.

3.7 Our approach to incentivising cost efficiency is summarised in the section below.

### **Regulatory arrangements to protect consumers**

3.8 Bearing in mind our proposals to extend the scope of recovery of early costs we have strengthened our approach to efficiency incentives, as discussed further in chapter 2. Our proposals are summarised below.

- An *ex post* review to assess whether the costs to be recovered are demonstrably inefficient and/or wasteful. This review will be completed after the end of 2026 when audited accounts of HAL's costs are available. We expect costs that are inefficient and should be disallowed from inclusion in the RAB could include (but are not limited to):
  - costs that are not incremental to the cost allowances made in setting the H7 price control and/or that have been inappropriately allocated to expansion activities;
  - costs incurred earlier than necessary;
  - costs that are duplicated and so would be recovered twice (for example any duplication with the H7 price control, between potential promoters and with activities completed prior to covid-19);
  - costs that reduce potential competition where HAL has not taken appropriate steps to avoid these costs;
  - costs that could have been procured more efficiently;
  - property purchase costs where more efficient alternative approaches could have been adopted; and
  - costs associated with lobbying and/or not directly associated with preparation of the planning application.

- Appointment of independent technical experts to provide ongoing monitoring and assurance on HAL's approach and efficiency of early costs during 2026, which will inform ongoing monitoring and the *ex post* review. This should include specialist advice on property and land strategy and costs. We expect HAL to commission this assurance, and consult with airlines, and the CAA will need to approve the terms of reference and the identity of the parties procured for any appointments. We will ensure there is a requirement for them to report accurately to the CAA.
- A cap on recoverable costs for 2025 and 2026 set at £320 million (in 2024 CPI prices). We will continue to assess HAL's early cost forecasts as we progress to our final decision. We will allow for flexibility in this cap where required to secure the potential benefits for consumers, provided that HAL demonstrates, through providing comprehensive evidence in advance of any decision by us on this matter, that its efficient early costs would be likely to exceed this cap and explain why any additional costs are necessary, efficient and in the interests of consumers. We would only increase this cap after consultation with stakeholders and by issuing a decision that would be published on our website.
- An obligation that HAL should take account of the uncertainties about the scheme in developing its plans and arrangements for early costs, so in the circumstances of a change of approach by Government, for example as a result of a revised ANPS, it can change its plans in an efficient and agile way. In the event of such a change, we would review whether HAL took this efficient and agile approach as part of the *ex post* assessment of costs.
- A "reopener" provision should there be a change in circumstances such that allowing recovery of 2025 and 2026 early costs is no longer in the interests of consumers. This includes further evidence that the costs and risks from allowing early costs ahead of a decision on the DCO would outweigh the benefits to consumers. In this circumstance, we would allow efficient costs already incurred but reopen the cap to limit the recovery of future efficient costs to only necessary and efficient future costs to close down the early cost programme in an efficient way. We would make this assessment on a case-by-case basis.
- Requirements for transparent reporting and independent assurance of costs, supported by timely and regular submissions of forecast and outturn costs, with supporting justifications and evidence. We provide further details on these requirements below.

## Reporting requirements for HAL's early costs

- 3.9 Our proposals are that HAL will be required to provide the following for 2025 and 2026 costs:
- at quarterly intervals, and within one month of each quarter end, in a format agreed with the CAA, HAL will provide the CAA and airlines with an update on the actual early costs incurred to date, comparisons with the forecast costs in HAL's July 2025 submission<sup>25</sup> and any updates to the forecast early costs for 2026, with commentary;
  - on an annual basis, and within three months of the year-end, we will require reporting on early costs in HAL's Regulatory Accounts and a statement from HAL's auditors to confirm that the early costs claimed by HAL for the prior year are accurately reported in line with the definition to be included in the Licence and have been excluded from other costs reported by HAL in the Regulatory Accounts to ensure that there is no double-counting. The reporting and statement should be in a form agreed with the CAA;
  - such information as the CAA or parties providing independent technical assurance may reasonably require for the purposes of monitoring HAL's performance and progress in preparing for planning consent, where this is necessary or expedient in the interests of consumers.
- 3.10 HAL shall also provide a detailed business plan for forecast early costs from the start of 2027 to the date on which it expects the Secretary of State to make the decision on whether or not to grant a DCO, for the purpose of informing the CAA's policy on early costs from 2027. This plan should include detailed forecasts of costs and associated commentary on why these costs are efficient, necessary and in the interests of consumers. The plan should also provide details on how these costs would be financed and assurance that they are financeable. The plan should be provided during 2026 by a date to be agreed with the CAA following this consultation.

## Licence modifications for HAL's early costs

- 3.11 Our proposal is to modify the Licence to include:

---

<sup>25</sup> HAL's submission on costs for capacity expansion, 31 July 2025 (see <https://www.caa.co.uk/media/a05lta2u/caa-h7-857-heathrow-application-to-increase-h7-capex-cap.pdf>).

- an additional term in HAL's current price control formula to allow it to begin to recover efficient early costs for 2025 and 2026. We propose to modify the Licence to allow it to earn a return on provisional allowances in 2025 and 2026, with the remainder of the recovery to be recovered in future airport charges through inclusion in the RAB (with a true-up adjustment once outturn efficient costs, subject to the cap, are determined);
- appointment of independent assurance of early costs to provide assurance during 2026;
- an obligation on HAL to act efficiently if there is a change in circumstances; and
- details of additional reporting requirements.

3.12 We do not propose to include licence modifications for the *ex post* review and the true up, as this would be conducted as part of a future price review and licence modification and subject to appeal to the CMA at that time.

3.13 Drafts of the modifications we propose to make to the Licence to implement these proposals are set out for consultation in appendix C.

### Approach to the recovery of other promoters' early costs

3.14 Our view is that other promoters with credible and appropriately mature proposals should be able to recover early costs on an equivalent basis to HAL as part of a 'level playing field' approach. This furthers the interests of consumers by promoting competition in the planning process to identify more effective and efficient solutions for capacity expansion.

3.15 We consider that, based on current information, the planning work by HWL between the Government's January 2025 and November 2025 Announcement was credible and appropriately mature. This is based on:

- the Government announcement in October 2025, which said that the HWL scheme was under active consideration to inform the review of the ANPS; and
- the findings from our consultants that the HWL proposal was sufficiently complete and robust to carry out a high-level technical and cost efficiency assessment.<sup>26</sup>

---

<sup>26</sup> Steer, Initial technical and cost efficiency assessment of capex expansion plans for Heathrow Airport, December 2025. We will be publishing this report on the CAA website in due course.

- 3.16 Therefore, our proposals, based on current information, are to allow the recovery of efficient early planning costs incurred by HWL between the January 2025 and November 2025 Announcements.
- 3.17 However, in order to make a decision on these matters, we request the following information from HWL on:
- the level of costs it incurred relating directly to the preparation of submissions on capacity expansion in 2025 up to the 25 November 2025 announcement, split by month and type of cost, with associated commentary;
  - a description of the costs, with evidence to demonstrate these costs were incurred directly as a result of planning for capacity expansion, were incurred between these dates, are efficient and do not relate, for example, to lobbying activities or activities not directly related to the preparation of submissions; and
  - the efficiency and consumer benefits from these costs, including external independent assurance of the efficiency and reasonableness of these costs for recovery from consumers.
- 3.18 We will consider this further information in making a draft decision to the recovery of these efficient costs in 2026.
- 3.19 Our view is that it would be appropriate to use the Licence to recover these efficient planning costs. Therefore, we propose is to make modifications to the price control terms in the Licence to allow efficient early planning costs to be recovered and transferred to HWL.
- 3.20 As set out in chapter 2 ('Approach to recovery of other promoters' early costs'), our view is that other scheme promoters have not met the required thresholds for credible and appropriately mature proposals and therefore cost recovery would not be in the interests of consumers.
- 3.21 Following the 25 November 2025 announcement, we consider there should be a reset and that no allowance should be made for additional costs incurred by HWL after this point, unless they can be shown to provide clear benefits for consumers and until such time as they are credible and appropriately mature plans. From the date of the 25 November 2025 Announcement, we would only consider assessing the potential recovery of costs that are incurred in support of plans that align with the single scheme announced by the Government as informing the review of the ANPS.

## Next steps

---

- 3.22 We are consulting on these proposals until 12 noon on 26 January 2026. We will consider responses and intend to publish our draft decision and statutory consultation on modifications to the Licence as soon as practicable in 2026. Subject to the representations we receive, this will be followed by the final decision and statutory notice on the modifications to the Licence to give effect to our proposals. Under the CAA12, our decision can be subject to appeal by certain parties to the CMA.
- 3.23 We will implement the reporting and review processes for HAL's early costs as set out in this document including details of additional reporting requirements as soon as is practicable.
- 3.24 During 2026, we will also develop our policy on early costs for 2027 onwards and consult on this with stakeholders with the intention of making decisions on these matters before the start of 2027.

## APPENDIX A

# Glossary

---

The terms used in this consultation have the meanings set out below.

ANPS	Airports National Policy Statement, which will set out the policy underlying any decision to grant permission for expansion in the form of a development consent order (“DCO”) under the Planning Act 2008
A4A	Airlines for America, an American trade association and lobbying group which represents major North American airlines
AOC/LACC	Airline Operators Committee and London Airline Consultative Committee, a collective of airlines operating at Heathrow airport
AOS	Airport operation services, as defined in section 68 CAA12
CAA, “we”, “us”, “our”	The Civil Aviation Authority
CAA12	The Civil Aviation Act 2012
Capex	Capital expenditure
Consumers	We use this term to cover the “users” of airport operation services as defined in section 69 CAA12 as passengers and those with “a right in property” (cargo) carried by air transport services and includes future users
CPI	The Consumer Prices Index, a measure of price inflation calculated by the Office for National Statistics
CISHA	The Council for the Independent Scrutiny of Heathrow Airport, which provides independent oversight of the way Heathrow engages with stakeholders
CMA	Competition and Markets Authority
DCO	Development Consent Order granted under the Planning Act 2008
DfT	Department for Transport
Early costs	These are the costs for delivering expansion that are to be incurred by potential promoters before the Government takes

	a decision on whether to grant a DCO to allow expansion to proceed, including planning, land and property purchase and enabling costs (for example design of key diversions on the site)
Expansion	Capacity expansion at Heathrow airport including building a third runway
H7	Heathrow Price Control 2022-2026
H8	Heathrow Price Control 2027-2031
HAL	Heathrow Airport Limited, the operator of Heathrow airport
HWL	Arora Group/Heathrow West Limited, one of the promoters of capacity expansion at Heathrow airport which submitted a proposal to Government in July 2025
IAG	International Airlines Group, the parent company of British Airways, Iberia, Vueling, Aer Lingus, LEVEL, IAG Loyalty and IAG Cargo
The Licence	The licence granted to HAL under CAA12
NPV	Net Present Value, is a financial metric that calculates the expected net costs and benefits (positive for benefits, negative for costs) over a project's life in today's money
RAB	Regulatory Asset Base
Uncertainty mechanism	The process in HAL's licence (from Condition C1.12) for HAL to apply for (and the CAA to agree to) an increase in the H7 capex envelope



## APPENDIX B

# Early costs submissions from HAL and Arora

## HAL submissions

B1 We received information from HAL on 17 July 2025 on the £20 million of costs that it expects to incur up to September 2025. HAL provided a breakdown of the expenditure with commentary to explain the different categories of spend, which we have summarised in Table C1.

**Table C1: Breakdown of HAL's costs up to September 2025**

Types of costs	Expenditure up to Jul-25 (£m)	Expenditure up to Sept-25 (£m)	Total (£m)	% of total
Consents <sup>1</sup>	4.1	8.3	<b>12.3</b>	63%
Programme	1.9	0.0	<b>1.9</b>	10%
Business case / finance	1.4	0.0	<b>1.4</b>	7%
Airspace	0.6	0.5	<b>1.1</b>	5%
Land and property	0.0	1.0	<b>1.0</b>	5%
Programme coordination	0.5	0.0	<b>0.5</b>	2%
ANPS four tests	0.4	0.0	<b>0.4</b>	2%
Policy	0.4	0.0	<b>0.4</b>	2%
Aviation	0.2	0.0	<b>0.2</b>	1%
Surface access	0.2	0.0	<b>0.2</b>	1%
Property	0.1	0.0	<b>0.1</b>	1%
<b>Total</b>	<b>9.8</b>	<b>9.7</b>	<b>19.5</b>	<b>100%</b>

Source: CAA analysis of Heathrow submission on Early Costs for Expanding Heathrow, 17 July 2025

Notes: <sup>1</sup> Includes cost associated with consents for various activities including environmental and planning support, land referencing and acquisition strategy, town planning, Masterplanning, design & engineering, delivery planning.

B2 On 31 July 2025 we received further information from HAL requesting an increase of £320 million (2024 prices) to the H7 capital cap in Condition C of the Licence, for expansion related costs. This included the £20 million of costs up to September 2025.

- B3 HAL said that its H7 capital plan was forecast to cover the full H7 allowance of £4.7 billion in the Licence and so the uplift in the cap is required for HAL to be able to make the necessary investments in gaining planning permission during H7.
- B4 HAL has provided a breakdown of the £320 million cost, which we show in Table C2.

**Table C2: Breakdown of HAL's cost estimates for 2025 and 2026**

Types of costs	Expenditure in 2025 (£m, 2024 prices)	Expenditure in 2026 (£m, 2024 prices)	Total in H7 (£m, 2024 prices)
Programme Management	8	36	44
Development Consent Order	44	92	136
Premobilisation phase	10	0	10
Property	4	80	84
Deliver the capacity	5	41	46
<b>Total</b>	<b>71</b>	<b>249</b>	<b>320</b>

Source: CAA analysis of Heathrow application to increase the H7 capex allowance, 31 July 2025

- B5 In its response to our August 2025 Consultation, HAL confirmed its request for recovery of up to £320 million (in 2024 prices) of early costs to the end of 2026.
- B6 Subsequent to our September 2025 Update, HAL's submission of 17 October 2025 included further information on the early costs it had previously submitted including further breakdowns of costs and further information on why it considered it necessary for property costs of £84 million to be incurred as early as 2025 and 2026. For example, HAL said that:
- as part of that DCO planning process, scheme developers must maximise and demonstrate the attempt of voluntary purchase, before compulsory purchase is then required, to the Planning Inspectorate;
  - under ANPS requirements, it needs to demonstrate proper compensation of affected landowners, including launching the necessary property bond schemes and blight acquisition programmes;
  - the work required to enable the necessary land purchases is very substantial and long lead times for completion of the required purchases mean that HAL must continue to work quickly in order to meet Government timescales for DCO;
- B7 In a letter to CAA on 9 December 2025, HAL set out four updates to early costs:

- full mobilisation has been delayed, moving some costs from 2025 to 2026;
- programme management and DCO consent costs associated with Modernising Heathrow (£44 million) have now been allocated to capacity expansion. As these were in the pre-expansion H7 forecast, this does not affect overall expenditure or HAL's request for an increase in the H7 capex cap;
- HAL's 31 July 2025 submission did not include costs for commercial property purchase and negotiation. HAL has proposed an additional cost in 2026 for this activity to support the Government timetable; and
- request for flexibility in expenditure on domestic property costs, which would be in the interests of consumers and the affected community.

B8 This means the updated view on early costs for capacity expansion is now closer to £400 million (compared with £320 million in the July 2025 submission), or closer to £350 million excluding the reallocated early costs from Modernising Heathrow that do not form part of HAL's request for recovery of early costs through an increase in the H7.

### Arora Group submission

B9 We received information from the HWL on 30 July 2025 on its early costs. Arora said that it had spent around £2.5 million from the Government announcement on expansion at the end of January 2025 to submission of its proposal to Government on 31 July 2025. It estimated that it expected to incur costs of around £1 to £1.5 million to 31 December 2025.

## APPENDIX C

# Implementing our proposals

---

## Introduction

---

- C1 This appendix sets out how we intend to implement the proposals set out in chapter 3 of this consultation. It covers our approaches to:
- implementing the “true up” of actual costs against efficiently incurred costs by way of an *ex post* review;
  - implementing the cap on the level of early costs that HAL incurs in 2025 and 2026 and how this may be adjusted from the £320 million set out in HAL’s submission to the CAA in July 2025;
  - new conditions to insert provisions in the price control to allow HAL to recover a return on a provisional allowance of £320 million of early costs for 2025 and 2026. We have used the 2025 and 2026 profile provided by HAL in its letter to the CAA on 9 December 2025; and
  - new licence conditions to require HAL to act efficiently, plan its approach to expansion effectively and put in place monitoring and reporting arrangements.
- C2 As described in chapter 3, we also propose to make modifications to the price control terms in the Licence to allow HWL’s efficient early planning costs in 2025 up to the 25 November 2025 Announcement to be recovered and transferred to HWL. We propose this would be through an additional price control term in the Licence Condition C1 to provide a one-off allowance. This appendix does not set out this proposed modification to HAL’s Licence. We will consider responses to this consultation on our proposals, including the additional information requested from HWL and, if satisfactory evidence is provided by HWL to justify it, we will include a draft of a simple Licence modification to implement the recovery of HWL’s efficient planning costs in our draft decision in 2026.

## Implementing the recovery of early costs, cap, “true up” mechanism and “reopener” mechanism

---

- C3 This section sets out the proposed process to remunerate the efficient early costs incurred by HAL in 2025 and 2026 and the details of the “true up”, cap and reopener mechanisms as set out in chapter 3.

- C4 HAL's efficient early costs, or the allowed cap on early costs, whichever is lower, would be added to its RAB during 2025 and 2026. This would then form part of the starting RAB for the H8 price control period.
- C5 We will set out a cap on recoverable costs for 2025 and 2026 in our decision on these matters. Our proposal is that this should be set at £320 million (2024 prices), and HAL would need to provide comprehensive evidence in advance if it were to consider that its efficient early costs would be likely to exceed this cap and explain why any additional costs are necessary, efficient and in the interests of consumers. We would issue a decision to increase this cap, with appropriate consultation, if needed to further the interests of consumers.
- C6 We have proposed to allow the recovery of the allowed return (using the allowed weighted average cost of capital used to set the price control for H7) associated with forecast early costs in the RAB during the H7 period through the revenue requirement with a two-year lag, in 2027 and 2028. This is equivalent to 1.5 years of allowed return on 2025 efficient early costs and 0.5 years of allowed return on 2026 efficient early costs.
- C7 The "true up" that we propose would occur after outturn early costs are available for 2025 and 2026 and we have conducted the *ex post* review of these early costs. The "true up" would seek to:
- remove from HAL's RAB any early costs identified as part of the *ex post* review that are demonstrably inefficient or wasteful and any costs not incremental to those that HAL is able to recover as part of the H7 price control settlement;
  - make sure the additions to HAL's RAB reflects only our assessment of the efficient outturn early costs incurred in 2025 and 2026 and that the total early costs in 2025 and 2026 are no higher than the cap set out in our final decision and any subsequent decisions by the CAA;
  - adjust the RAB to take account of differences between the allowed return in H7 associated with outturn efficient early costs and allowed return in H7 associated with the forecast early costs in our final decision;
  - adjust the RAB, as appropriate, for any other differences in early costs resulting from differences between outturn and forecast inflation.
- C8 The *ex post* review and "true up" would be conducted as soon as is practical and no sooner than 2027. We will look to integrate our decisions on these matters into the H8 price control decisions to the extent possible, or into the subsequent price control, as appropriate. Our decisions on these matters would be subject to appeal by certain parties to the CMA at the time of the licence modification that enables recovery of these costs.

- C9 We have proposed a reopener provision should there be a substantial change in circumstances such that allowing recovery of 2025 and 2026 early costs is no longer in the interests of consumers. This includes substantial further evidence that the costs and risks from allowing early costs ahead of a decision on the DCO would outweigh the benefits to consumers. In this circumstance, we would allow efficient costs already incurred, but reopen the cap to limit the recovery of future efficient costs to only necessary and efficient future costs to close down the early cost programme. We would consult on the appropriate reduction to the cap and then make a decision on these matters, which could be subject to appeal by certain parties to the CMA at the time of the licence modification that implemented recovery of these costs.

## Proposed modifications to the Licence

---

- C10 This section sets out the modifications to the Licence that we propose to implement the policy set out in chapter 3 of this consultation. These modifications would work alongside the policy approach to our assessment of the efficiency of the early costs incurred by HAL and approach to adding those costs to the RAB set out above.
- C11 The modifications we propose to make are to modify Condition C1 (Price control) and to insert a new condition into the Licence to protect the interests of consumers through the way that HAL approaches incurring early costs and requirements in relation to planning, monitoring and reporting. The draft proposed modifications are marked in red.

## Proposed modifications to Condition C1

- C12 The modifications that we propose to make Condition C1 (Price control) are as follows:
- to introduce the new terms for the Provisional Early Expansion Costs (“PEEC”) and Return on Provisional Early Expansion Costs (“RPEEC”), into the price control condition of the Licence to allow HAL to recover the allowed return in respect of forecast early costs incurred in 2025 and 2026;
  - to insert a new provision in Condition C1 after condition C1.23 to provide a means of calculating the amount to be recovered through the new term, “RPEEC”; and
  - to insert new definitions of “early costs” and “expansion” in Condition C1.25 to support these changes.
- C13 We propose that the new term “+ RPEEC<sub>t</sub> / Q<sub>t</sub>” would be inserted into the formula for calculating the maximum allowed yield per passenger recoverable by HAL set out in Condition C1.5, before the term “AK<sub>t</sub>”.

- C14 We propose to insert a new provision before the existing Condition C1.22 to set out how the new term “RPEEC” in Condition C1.5 shall be calculated, as follows:

For Provisional Early Expansion Cost in Regulatory Year	Calculation of RPEEC <sub>t</sub> for Regulatory Year:	
	2027	2028
2025	$0.5 \times \text{PEEC}_{2025} \times (P_{2025} / P_{2024})$	$\text{PEEC}_{2025} \times (P_{2026} / P_{2024})$
2026	Zero	$0.5 \times \text{PEEC}_{2026} \times (P_{2026} / P_{2024})$
	Sum rows x RWACC	Sum rows x RWACC

Where PEEC<sub>t</sub> is the Provisional Early Expansion Cost in Regulatory Year t in RPI 2024 prices and shall take the following values:

- PEEC<sub>2025</sub> = £33 million
- PEEC<sub>2026</sub> = £281 million<sup>27</sup>

and Q<sub>t</sub>, P<sub>t</sub> and RWACC are as presently defined in Licence Condition C1.

- C15 To support this, we propose to define “early costs” and “expansion” in Condition C1.25 as follows:

**“early costs”** means the costs incurred by HAL in relation to developing expansion, which were not otherwise taken into account in the calculation of the H7 price control and shall include the costs associated with:

- (i) gathering information for and preparing an application for development consent under the Planning Act 2008 and associated materials;
- (ii) the acquisition of land and other real property to support the timely delivery of expansion in the event that development consent is granted to the Licensee for expansion; and
- (iii) planning for enabling works to support the timely delivery of expansion in the event that development consent is granted to the Licensee for expansion”

“Early costs” shall be excluded from the total capex incurred by the Licensee in the H7 price control, defined by IC<sub>t</sub> in Licence Condition C1.11(a).

<sup>27</sup> The early cost in 2025 in 2024 RPI prices, is calculated as the early costs from HAL submission on 9 December 2025 in 2024 CPI prices (£33 million in 2025 and £287 million in 2026), converted to 2024 RPI prices using inflation forecasts from Office for Budget Responsibility, Economic and Fiscal Outlook, November 2025. This gives inflation factors of 0.992 and 0.980 for 2025 and 2026 respectively.

**“expansion” means the Licensee’s plans for the expansion of the Airport by means of the construction of a new runway and associated infrastructure”**

## **Supporting obligations to protect the interests of consumers**

- C16 Alongside the changes set out above, we propose to set out supporting obligations to protect the interests of consumers in a new licence condition covering:
- the overall approach that we expect HAL to take to developing its plans for expansion;
  - the appointment of independent experts to monitor the Licensee’s strategy for the acquisition of land and other real property in support of expansion;
  - the preparation and submission of a business plan for its approach to expansion during the course of 2026; and
  - ongoing reporting requirements.
- C17 For this, we propose to modify the Licence to insert a new condition as follows:

### **Condition [G] Expansion**

- G1. The Licensee shall develop its plans for expansion in an economical and efficient manner that takes account relevant uncertainties over the scope and requirements for the scheme for expansion to be developed, including (but not limited to) the need to take appropriate account of any revisions, or likely proposed revisions, to the national policy statement relating to airports designated under section 5 of the Planning Act 2008 (as amended from time to time).
- G2. The Licensee shall appoint, in consultation with the CAA and airlines, one or more independent technical experts to provide the CAA with specialist advice. The scope of the work of the technical experts shall include the Licensee’s strategy for, and approach to, the acquisition of land and other real property and such other matters as the CAA may specify from time to time. The terms of reference for, and identity of, any technical experts shall be approved by the CAA prior to their appointment. The terms of such appointment shall include provision requiring any technical expert to provide the CAA with factual findings within the scope of its terms of reference on a fair and reasonable basis. Any technical experts appointed shall be paid for by the Licensee.
- G3. The Licensee shall, by a date to be agreed in writing with the CAA, prepare a comprehensive business plan setting out the detail of its plans for the delivery of expansion for the period from 2027 to the date when it expects to obtain development consent for expansion in accordance with the Planning Act 2008.



- G4. The business plan that the Licensee prepares under condition G.3 must include, as a minimum:
- (a) detailed commentary of the areas in which it expects to incur early costs;
  - (b) detailed forecasts of the level of early costs that it expects to incur in each area, together with the total early costs it expects to incur;
  - (c) clear and comprehensive commentary and justification on why it would be necessary and in the interests of consumers for the Licensee to incur costs in the areas set out under paragraph (i);
  - (d) clear and comprehensive commentary and justification on why it would be efficient for the Licensee to incur the level of costs set out under paragraph (ii);
  - (e) details of how the Licensee is seeking to finance its expenditure on early costs and assurance over the Licensee's ability to finance those early costs; and
  - (f) how the Licensee intends to take account of the uncertainties over the precise nature of the scheme for expansion to be developed in accordance with the Licensee's obligation under Condition G.1.
- G.5. The business plan that the Licensee prepares under condition G.3 must include such detail as may be set out in any relevant guidance issued from time to time by the CAA after consultation with the Licensee and any other relevant parties on that guidance or any revision of it (whether or not such consultation commenced prior to this condition coming into effect).
- G.6 The Licensee shall provide to the CAA and airlines that are members of the AOC<sup>28</sup>, in format and to a level of detail approved by the CAA, the reports required by paragraphs (a) to (c) below:
- (a) a quarterly report, setting out
    - (i) the early costs incurred by the Licensee in the relevant quarter;
    - (ii) the total early costs incurred by the Licensee to the end of the relevant quarter;
    - (iii) a comparison of the costs reported under paragraphs (i) and (ii) to the forecasts of early costs provided to the CAA in July 2025 and any subsequent updates to those costs; and
    - (iv) commentary explaining the level of costs incurred, and any variances from, the forecasts provided to the CAA for the purposes of paragraph (iii);
  - (b) a report by the Licensee's auditors to accompany the regulatory accounts<sup>29</sup> prepared for the purposes of Condition E1.1 confirming that the level of early costs that the Licensee has incurred in the previous Regulatory Year meet

<sup>28</sup> Each of "airlines" and "AOC" is defined in Condition A3.

<sup>29</sup> We note that this change may require an amendment to the regulatory accounting guidelines.

the definition of early costs set out in Condition C1.25 and have been excluded from any other costs of the Licensee set out in the regulatory accounts; and

- (c) any other information held by HAL or the any independent technical experts appointed for the purposes of Condition G.2 that the CAA may reasonably require for the purpose of monitoring and assessing the Licensee's performance and progress in preparing to obtain development consent for expansion pursuant to the Planning Act 2008.

G.7 In this condition:

- (a) "early costs" and "expansion" shall bear the meanings set out in Condition C1.25;
- (b) "quarterly report" means a report relating to the three month periods ending at the end of March, June, September and December respectively and submitted to the CAA before the end of the month immediately following the end of the quarter to which it relates.

## APPENDIX D

## Our duties

---

- D1 The CAA is an independent economic regulator. Our duties in relation to the economic regulation of airport operation services (“AOS”), including capacity expansion, are set out in the CAA12.
- D2 CAA12 gives the CAA a general (“primary”) duty, to carry out its functions under CAA12 in a manner which it considers will further the interests of users of air transport services regarding the range, availability, continuity, cost and quality of AOS.
- D3 CAA12 defines users of air transport services as present and future passengers and those with a right in property carried by the service (i.e. cargo owners). We often refer to these users by using the shorthand of “consumers”.
- D4 The CAA must also carry out its functions, where appropriate, in a manner that will promote competition in the provision of AOS.
- D5 In discharging this primary duty, the CAA must also have regard to a range of other matters specified in the CAA12. These include:
- the need to secure that each licensee is able to finance its licensed activities;
  - the need to secure that all reasonable demands for AOS are met;
  - the need to promote economy and efficiency on the part of licensees in the provision of AOS;
  - the need to secure that the licensee is able to take reasonable measures to reduce, control and/or mitigate adverse environmental effects;
  - any guidance issued by the Secretary of State or international obligation on the UK notified by the Secretary of State; and
  - the principles of transparency, accountability, proportionality and consistency and that regulatory activities should be targeted only at cases where action is needed.
- D6 In relation to the capacity expansion at Heathrow, these duties relate to the CAA’s functions concerning the activities of HAL as the operator at Heathrow.
- D7 CAA12 also sets out the circumstances in which we can regulate airport operators through an economic licence. In particular, airport operators must be subject to economic regulation where they fulfil the Market Power Test as set out

in CAA12. Airport operators that do not fulfil the Test are not subject to economic regulation. As a result of the market power determinations we completed in 2014 both HAL and GAL are subject to economic regulation.

- D8 We are only required to update these determinations if we are requested to do so and there has been a material change in circumstances since the most recent determination. We may also undertake a market power determination whenever we consider it appropriate to do so.