

Draft Decision on the regulatory treatment of early costs of capacity expansion at Heathrow airport

CAP3238

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Chapter 1

Introduction and Summary

Introduction

- 1.1 On 29 January 2025, the Government announced its support for the development of a third runway and associated infrastructure at Heathrow Airport. On 25 November 2025, the Government further announced that the proposal from Heathrow Airport Limited (“HAL” would be used as the scheme to progress the project¹. We refer to the development of a third runway and associated infrastructure as “expansion”. Potential promoters of expansion will need to incur costs before the Government decides whether to grant planning consent for expansion. These “early costs” may include:
- the costs of preparing any application for planning consent;
 - costs relating to land acquisition; and
 - costs of enabling works to support the timely delivery of expansion.
- 1.2 Expanding Heathrow Airport has the potential to deliver significant benefits for consumers² by easing capacity constraints, enabling more airlines to serve consumers, or serve more consumers at the airport, and increasing competitive pressure on fares. Increased capacity is also expected to widen the choice of destinations, improve flight frequency, and improve resilience. The Government has also set a clear objective to deliver expansion at pace.
- 1.3 While we also recognise there are challenges with capacity expansion, including that the costs of expansion will drive up airport charges at Heathrow, there are plausible scenarios where the benefits of expansion would significantly outweigh the likely extra costs to passengers arising from higher airport charges.
- 1.4 Bearing all these circumstances in mind, we are developing regulatory policy on the treatment of the early costs of expansion to prevent unnecessary delays to the expansion programme and the potential loss of benefits to consumers. In

¹ HM Treasury, [Government backs Heathrow expansion to kickstart economic growth](#), January 2025. Also: Department for Transport, [Realising the benefits of expansion at Heathrow Airport - GOV.UK](#), October 2025 and Department for Transport, [Heathrow Airport Limited’s third runway proposal will be basis for expansion - GOV.UK](#), November 2025

² In this draft decision, we refer to “consumers”. Our statutory duties (discussed below) are to further the interests of “users”, who are defined as passengers, those with “a right in property” (cargo) carried by air transport services and include future users. We use the term “consumers” to cover the whole range of users.

parallel, we are also undertaking further work to understand better the likely range of costs and benefits associated with expansion.

1.5 Recognising both the uncertainty that continues to exist, and the potential for substantial long-term consumer benefits, this document sets out the CAA’s draft decision and statutory consultation on proposed modifications to the licence granted to HAL by the CAA under the Civil Aviation Act 2012 (“the Licence”)³ to address the regulatory treatment of early costs incurred by potential promoters of expansion. It is limited to the treatment of costs incurred in 2025 and 2026. It follows the consultation published in December 2025 (the “December 2025 Consultation”), in which we sought views on the proposed approach to the regulatory treatment of these costs.⁴

1.6 These proposals include strong consumer protections in the form of:

- cost caps
- independent assurance of costs
- transparency requirements
- reopener mechanisms, and
- an *ex post* efficiency review,

while still enabling credible promoters to progress work essential to maintain momentum on expansion.

1.7 We issued an initial consultation in August 2025 (the “August 2025 Consultation”)⁵ and an update in September 2025 (the “September 2025 Update”)⁶ on the recovery of early costs. In these, we said that we considered recovery of the efficient early planning costs incurred by each of HAL and Heathrow West Limited/Arora Group (“HWL”) would be in the interests of consumers but also set out some concerns around recovery of the costs of property acquisitions and enabling works.⁷ We further updated our policy in the December 2025 Consultation, which is summarised below.

³ CAA, [Licence granted to Heathrow Airport Limited](#), January 2026 version

⁴ CAA, [CAP3201](#) Proposals on the regulatory treatment of early costs of capacity expansion at Heathrow airport, December 2025

⁵ CAA, [CAP3149](#) Heathrow Capacity Expansion – consultation on regulatory policy on early costs, August 2025

⁶ CAA, [CAP3173](#) Update on the regulatory treatment of the early costs of capacity expansion at Heathrow airport | UK Civil Aviation Authority, September 2025

⁷ These include for example the costs of early work on site preparation; work required to agree contracts for purchase and reprovisioning (or otherwise) of commercial property; and professional and consultancy work fees, in particular in respect of valuation.

Relationship with developments in Government policy

- 1.8 After receiving submissions from potential promoters of expansion in July 2025, the Government said on 25 November 2025 that the northwest runway scheme proposed by HAL would be used to inform a review of the Government's planning policy on airports⁸. We understand that this review will lead to the publication of a draft revised Airports National Policy Statement ("ANPS")⁹ for consultation by July 2026. The ANPS sets out requirements for the grant of planning permission for expansion which, if granted, would be in the form of a Development Consent Order ("DCO").
- 1.9 Our policy and draft decision have been prepared taking account of this context. Nonetheless, the CAA's consideration of the appropriate approach to the early costs of expansion has been developed solely in accordance with the CAA's duties under the Civil Aviation Act 2012 ("CAA12") which are discussed further below.

Summary of information provided by HAL and HWL in 2025 on the level of early costs

- 1.10 HAL and HWL made representations to us in June and July 2025 on the likely level and regulatory treatment of early costs.
- 1.11 HAL told us on 31 July 2025 that it was likely to incur early costs of around £320 million (2024 prices) during 2025 and 2026 and asked us to put in place a mechanism for it to be able to recover these early costs. It said that certainty over the recovery of early costs was needed for it to be able to continue with its work on expansion. On 11 November 2025, HAL informed us that its total spending on early costs could reach £6 billion by mid-2029, the date when it expects to obtain a DCO.
- 1.12 HWL estimated that it had incurred £4 to £5 million in early costs during 2025.

Purpose of this draft decision

- 1.13 Having considered responses to the December 2025 Consultation, and wider developments in relation to expansion since, we are now setting out our draft decision in relation to recovery of early costs incurred:
- by HAL in 2025 and 2026; and

⁸ HMG, [Heathrow Airport Limited's third runway proposal will be basis for expansion](#), November 2025

⁹ The ANPS is prepared by the Government under the Planning Act 2008 and sets out the Government's policy in relation to expansion, gives reasons for the policy set out in the statement, and must include an explanation of how the policy takes account of government policy relating to the mitigation of, and adaptation to, climate change.

- by HWL up to the Government's announcement in November 2025 ("the Government's Announcement").

Our duties under CAA12

1.14 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 the need to secure that HAL is able to finance its activities). In furthering the interests of consumers, we must also, where appropriate, promote competition in the provision of airport operation services

1.15 A summary of our duties under CAA12 is set out in Appendix A.

Structure of this chapter

1.16 The rest of this chapter sets out:

- a summary of the December 2025 Consultation
- stakeholders' responses to the December 2025 Consultation;
- key developments since the December 2025 Consultation;
- a summary of evidence we have considered on benefits to consumers;
- the CAA's updated proposals for the recovery of early costs incurred in 2025 and 2026;
- the emerging position on early costs from 2027 onwards;
- the structure of this draft decision; and
- next steps in finalising these decisions.

Summary of the December 2025 Consultation

1.17 On the basis that the evidence available at the time showed there were plausible scenarios in which there would be net benefits to consumers from expansion, the December 2025 Consultation, proposed to allow:

- HAL to recover efficient early costs incurred by it during 2025 and 2026, up to a cap of £320 million (2024 prices) so that it could reasonably access the resources to continue with its work on expansion; and
- HWL to recover approximately £3.5 to £4 million of early costs it had incurred up to the Government's Announcement.

1.18 Having considered HAL's submissions, we proposed to extend the scope of our policy on the recovery of early costs to include certain early property acquisition and enabling works.

- 1.19 We also proposed to update our approach to the recovery of early costs. As part of this, we decided that we would not take forward an incentive mechanism linking recovery of costs incurred in 2025 and 2026 to the success of HAL's application for a DCO.
- 1.20 We sought to address stakeholders' concerns about cost control and efficiency by proposing a number of protections for consumers, as summarised below.
- A cap of £320 million on the early costs incurred in 2025 and 2026 that HAL would be able to recover that was based on the forecast provided by it in July 2025, to limit the risks placed on consumers arising from escalating costs. HAL would need to provide additional evidence in advance if it planned to exceed this cap to explain why it would be in the interests of consumers for it to do so.
 - An *ex post* review of all of HAL's early costs incurred in 2025 and 2026 to identify any demonstrably inefficient and/or wasteful early costs and any costs not incremental to those that HAL is already able to recover as part of the H7 price control decision, so that such costs would not be recovered from consumers. As part of this, we outlined the issues we would look at in making this assessment.
 - A "reopener" provision should there be a change such that further evidence shows that the costs of, and risks from, allowing early costs ahead of the grant of development consent would outweigh the benefits to consumers.
 - An obligation on HAL that it should take account of the uncertainties about the expansion scheme in developing its plans and arrangements for early costs, so in the circumstances of a change of approach, for example because of a revised ANPS, it could change its plans in an efficient and agile way. We would review this as part of the *ex post* efficiency assessment.
 - Appointing a third party to provide independent expert assurance of the efficiency of HAL's early costs.
 - Requirements for transparent reporting and independent assurance of early costs, supported by timely and regular submissions of forecast and outturn costs, with supporting justifications and evidence.
- 1.21 The December 2025 Consultation stated that HWL's work on its plans for expansion up to the Government's Announcement appeared to have created a credible and appropriately mature proposal for expansion. As a result, we proposed allowing HWL to recover its early costs up to that date by means of a mechanism to be set out in the Licence but we did not specify the detail of this mechanism. We also asked for more details on HWL's costs.

Responses to the December 2025 Consultation

- 1.22 We received eleven responses to the December 2025 Consultation, including from HAL, HWL, and a range of airlines and their representatives: Aer Lingus, Airlines for America, Heathrow Airline Operators Committee / London Heathrow Airline Consultative Committee / International Air Transport Association (“AOC/LACC”), British Airways (“BA”), Delta, IAG, Iberia, Virgin Atlantic (“VAA”), and Vueling. Airlines and their representatives expressed opposition to our proposals, whereas both promoters broadly supported the principle of early cost recovery.

Key developments since the December 2025 Consultation

- 1.23 Since publishing the December 2025 Consultation, there have been a number of wider developments that relate to our work on early costs. Where appropriate, we have taken these into account in preparing this draft decision.

HAL

- 1.24 HAL has refined its proposed property acquisition and enabling works programme, indicating that it wishes to increase its expenditure above the estimates it presented to us in July 2025. We have completed an initial review of the information that HAL has provided on these matters and, as summarised in chapter 3 Regulatory arrangements to protect consumers, note that it does not appear to constitute compelling evidence to increase the cap on early costs, which we have retained at £320 million.
- 1.25 HAL has also been developing a more detailed, “bottom up” estimates of all the early costs it anticipates incurring for the remainder of 2026, which we expect it will submit to us shortly. We will consider this more detailed submission and will provide an update on this work in our final decision document.

HWL

- 1.26 In December 2025, HWL wrote to the Secretary of State for Transport requesting a direction under section 35 of the Planning Act 2008 in relation to its plans for a new passenger terminal building and associated works on the western boundary of Heathrow Airport. The request asked the Secretary of State to treat its proposed new “Heathrow West” terminal as a “nationally significant infrastructure project”, so that it would be subject to the same planning regime as HAL’s proposals for expansion, with any consent to be granted by a DCO. On 12 March 2026, the Secretary of State granted this request, stating that:
- the project must follow the full DCO process;
 - the ANPS applies; and

- that any consultation already carried out by HWL can count towards the statutory requirements under the Planning Act 2008 if it meets the relevant standards.

1.27 Bearing the above in mind, we have been engaging with HWL to understand its plans to work towards obtaining a DCO and the timing and level of spending it expects to incur, both in 2026 and also longer term. If we assess HWL's latest proposals as being credible and appropriately mature, we will need to consult on the treatment of any early costs incurred by HWL after the Government's Announcement.

Relationship to the CAA's work on the regulatory model for Heathrow Airport

1.28 We have also advanced our work on the appropriate regulatory model for expansion at Heathrow Airport, with a consultation on a short list of regulatory models due to be published in May 2026. By consulting on the approach to the recovery of early costs in stages (first for early costs expected in 2025 and 2026, and subsequently for early costs incurred from 2027 onwards) we will ensure that our decisions on early costs remain aligned with and support this work on regulatory models.

Relationship to work by the Department for Transport

1.29 The Department for Transport ("DfT") is updating its appraisal of the economic case for expansion. As part of this analysis, the DfT is modelling the benefits of expansion, including impacts to passengers (lower fares, frequency benefits and reduced delay) as well as wider economic and environmental costs and benefits. For this draft decision, we are relying on currently available evidence around the impact of expansion on consumers.

Further analysis by the CAA

1.30 We are undertaking a targeted review of the available evidence relating to whether fares at Heathrow Airport are higher than they otherwise would be because the airport is capacity constrained, leading to "scarcity rents". Scarcity rents involve airlines being able to charge higher fares to passengers because capacity constraints at Heathrow Airport restrict the ability of new competitors to enter the market. Expansion has the potential to reduce these constraints, increase competition and so reduce any excess fares that passengers may presently be incurring or will likely incur in the future. This could be a significant benefit of expansion and potentially offset its expected costs.

1.31 For our final decision, we will consider the updated assessment of impacts by the DfT, the information provided by stakeholders on these matters and own analysis, in a way that is consistent with our statutory duties.

- 1.32 In July 2025 we announced a new expert panel to provide strategic advice on economic regulation and market-shaping policies.¹⁰ We discussed our emerging policy on early costs with the panel in the process of developing this draft decision. The expert panel stressed that the independent assessment of costs would be an important safeguard for consumers and that our policy on early costs should reasonably support the competitive provision of airport infrastructure.

Summary of evidence we are considering on the cost and benefits to consumers of expansion

- 1.33 In chapter 2 Recovery of early costs by HAL we review a wide range of evidence submitted by stakeholders and evidence available in the public domain relating to the potential benefits to consumers of expansion at Heathrow Airport. Much of this evidence relates to the existence or otherwise of scarcity rents at Heathrow Airport and the implications for airline profitability, passenger benefits and the overall economic case for expansion.

- 1.34 Relevant evidence includes information we reviewed in 2019 in the light of the previous proposals for capacity expansion. This included:

- the DfT's 2018 appraisal set out in "Addendum to the Updated Appraisal Report Airport Capacity in the South East"¹¹; and
- the independent Leeds University review¹²,

both of which supported the view that scarcity rents are likely to arise under capacity constraints at Heathrow. More recently, Frontier Economics' 2025 cost benefit analysis, commissioned by HAL, explicitly quantified scarcity rents at Heathrow Airport through an econometric approach, concluding that expansion would reduce these rents, generating substantial passenger benefits through lower ticket prices.

- 1.35 On the other hand, IAG has provided two reports in response to our November 2025 Working Paper on regulatory models ("the November 2025 Working Paper")¹³ challenging the premise that airlines capture material scarcity rents at Heathrow.

- 1.36 On balance, current evidence indicates that there is at least a plausible case that scarcity rents are material and likely to persist into the future while Heathrow

¹⁰ CAA, [Press release](#), Experts appointed by regulator to strengthen economic regulation and support growth, July 2025. The members of the expert panel are: Anne Lambert, Stuart McIntosh, John Thanassoulis, and Stuart Cook

¹¹ Department for Transport, [Airport expansion: updated cost and benefits appraisal](#), October 2017

¹² University of Leeds, [CAP1871A](#) Review of research on Scarcity Rents at Heathrow, August 2019

¹³ Civil Aviation Authority, [CAP3195](#) Working Paper on regulatory models, November 2025

Airport has significant capacity constraints. There is other credible evidence that suggests scarcity rents may be less significant. It is also important for us to take account of the significant costs of expansion and the Steer report¹⁴ published alongside this consultation sets out an assessment of the likely costs of expansion (“the Steer report”).

- 1.37 We will continue to evaluate the various submissions we have received on these matters, alongside updated modelling from the DfT and our own analysis, to help us determine the likely range of costs and benefits of expansion for consumers. We will update our position on these matters for our final decision on early costs in July 2026.
- 1.38 Nonetheless, we consider it appropriate to continue to support expansion through proportionate and targeted allowances for early costs for 2025 and 2026, on the basis of plausible scenarios where there are significant benefits to consumers (in particular benefits deriving from reductions in possible scarcity rents). Otherwise, there is a risk that delays to expansion would mean expected benefits to consumers from the timely delivery of expansion would be lost.

Summary of our draft decision on the recovery of early costs incurred in 2025 and 2026

- 1.39 Having considered the responses stakeholders have provided to the December 2025 Consultation, further information provided by both HAL and HWL and other stakeholders, and other available information, we have updated our proposals for the recovery of early costs incurred in 2025 and 2026 for this draft decision. In summary, we are:
- confirming our intention to allow HAL to recover the efficient early costs of expansion it incurs in 2025 and 2026 up to £320 million (2024 prices), on the basis that the additional information on additional costs provided by HAL to date does not provide a persuasive case to increase the cap beyond the level identified in the December 2025 Consultation;
 - within the cap of £320 million, extending the scope of the costs recoverable by HAL under our policy to include planning costs and both (i) land and property acquisition costs, and (ii) enabling costs. The recovery of all early costs will be subject to the arrangements for the *ex post* efficiency review discussed below, with any cost recovery limited to efficient costs;

¹⁴ Steer, Initial technical and cost efficiency assessment of capex expansion plans for Heathrow Airport final report, January 2026. Available here: www.caa.co.uk/CAP3238A

- confirming that the actual amount of early costs to be recoverable in respect of 2025 and 2026 will be determined by the CAA following an *ex post* efficiency review of the early costs incurred, which will include consideration of whether HAL has taken all reasonable steps to avoid the duplication of costs;
- retaining the additional proposed protections to further the interests of consumers set out in the December 2025 Consultation, including:
 - (i) the appointment of an independent technical expert to provide ongoing monitoring and assurance;
 - (ii) the introduction of a “reopener” provision to be used should there be a change of circumstances;
 - (iii) requirements for the transparent reporting of costs discussed further in chapter 3 Regulatory arrangements to protect consumers of this document; and
 - (iv) capping the returns that HAL will be able to earn on early costs.
- allowing HWL to recover approximately £4 million of early costs it incurred up to the Government’s Announcement, in order to act in a way consistent with our statutory duty to promote competition in the provision of airport operation services.

1.40 More detail on our proposals is provided in the rest of this document.

Early costs incurred from 2027 onwards

1.41 Our approach to allowing recovery of early costs incurred in 2025 and 2026 does not set a precedent for our approach to costs incurred in 2027 and subsequent years. We will consider our approach to the early costs incurred in 2027 and subsequent years later in 2026 and publish a consultation on these matters once:

- the draft revised ANPS has been published;
- the results of the additional analysis we are undertaking on the costs and benefits to consumers of expansion are available; and
- we have taken our decision on the appropriate regulatory model for expansion at Heathrow Airport in the future.

1.42 While this draft decision relates only to early costs incurred in 2025 and 2026, we make a number of references in this document to our possible future policy for the recovery of early costs incurred in 2027 and beyond and up to the point that the Government takes a decision on whether to grant one or more DCOs in relation to expansion. These references include issues we will consider as we develop that policy over the remainder of this year.

Structure of this document

- 1.43 The remainder of this document sets out stakeholders' views and our updated proposals for the recovery of early costs incurred by HAL in 2025 and 2026 and by HWL up to the Government's Announcement. It is structured, as follows:
- chapter 2 Recovery of early costs by HAL sets out the overall approach for early costs incurred by HAL in 2025 and 2026;
 - chapter 3 Regulatory arrangements to protect consumers addresses the level of the proposed cap on early costs and safeguards for consumers;
 - chapter 4 Recovery of other promoters' early costs addresses the recovery of other promoters' early costs, including early costs incurred by HWL prior to the Government's Announcement;
 - chapter 5 Implementing our policy and making changes to the Licence addresses the implementation of our proposals;
 - Appendix A sets out a summary of our statutory duties;
 - Appendix B sets out a glossary of terms used in this draft decision; and
 - Appendix C sets out a notice under section 22(2) CAA12 setting out our proposed modifications to the Licence to implement this draft decision.

Next steps

- 1.44 Responses to this consultation should be sent by 5pm on Monday 18 May 2026 to 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 section 59 and schedule 6 of CAA12 and the Freedom of Information Act 2000 and it may be necessary to disclose information consistent with these requirements.
- 1.45 Following consideration of responses to this consultation, we intend to publish our final decision on whether we will modify the Licence in July 2026. Subject to the representations received, this will include the statutory notice on the modifications to the Licence which would give effect to our final decision. Under the CAA12, our decision can be subject to appeal by certain parties to the Competition and Markets Authority ("CMA").
- 1.46 We will implement the reporting and review processes for HAL's early costs as set out in this document as soon as is practicable.

Chapter 2

Recovery of early costs by HAL

Introduction

- 2.1 This chapter sets out our views on the overall approach to recovery of the early costs incurred by HAL in 2025 and 2026 and includes a summary of the information currently available on the likely benefits of expansion. It covers the following:
- the case for recovery of early costs incurred by HAL in 2025 and 2026, including information currently available on passenger benefits; and
 - other issues raised in relation to our broad approach, including interactions with the CAA's work on regulatory models and the impact of the recovery of early costs on HAL's airport charges and on passenger fares.
- 2.2 We first set out the proposals in our December 2025 Consultation, then summarise stakeholders' views in response to that consultation. We also set out in more detail the evidence we have relied on when considering whether there are likely to be consumer benefits from expansion. This includes evidence received in response to other CAA consultations and publicly available studies. Finally, we summarise our draft decision on these matters.

Allowing the recovery of early costs incurred in 2025 and 2026

The December 2025 Consultation

- 2.3 The December 2025 Consultation proposed that we should make an explicit allowance for HAL to recover the efficient early costs it incurred in 2025 and 2026, up to a cap of £320 million (2024 prices).
- 2.4 We explained that, while there remain uncertainties about the costs and benefits of expansion, there were plausible scenarios where there would be significant net benefits to consumers from expansion. In these circumstances, allowing for the recovery of early costs would further the interests of consumers by avoiding delays to the project, which would postpone and reduce the benefits to consumers of the timely delivery of expansion.
- 2.5 We considered that making an explicit allowance for the recovery of efficient early costs remained appropriate, as set out in our September 2025 update. In particular, we considered that expenditure on early costs would support the timely delivery of expansion and, in turn, capture potentially substantial benefits for consumers. We considered the estimates provided by HAL of the early costs

it would incur in 2025 and 2026 to be proportionate when set against the overall costs of expansion and the range of potential consumer benefits, such as lower fares, increased competition and improved connectivity. We explained that, without an explicit allowance for the recovery of early costs, HAL would have insufficient regulatory certainty to proceed in a timely way, risking delay to the project and the delivery to consumers of the associated benefits. We considered this would be inconsistent with our statutory duty to further the interests of consumers.

- 2.6 We did not consider that the existing regulatory framework provided HAL with an opportunity to earn a commercial return sufficient to enable recovery of early costs at a later stage. Such an approach would in any event be likely to increase allowed returns and prices in future and would, therefore, be unlikely to serve the interests of consumers.
- 2.7 The December 2025 Consultation also proposed to allow alternative promoters with credible and appropriately mature proposals to recover early costs, to facilitate competition. Our updated views on the recovery of early costs incurred by competing promoters are set out in chapter 4 Recovery of other promoters' early costs.
- 2.8 The December 2025 Consultation also discussed arrangements for regulatory oversight to address the risk that HAL could seek to recover inefficient or excessive early costs from consumers. These matters are discussed further in chapter 3 Regulatory arrangements to protect consumers.

Stakeholders' views

- 2.9 HAL supported the recovery of efficiently incurred early costs for 2025 and 2026.
- 2.10 BA strongly opposed the CAA's proposals to allow the recovery of early costs, arguing that development costs should be borne "at risk" by promoters rather than recovered from consumers before a DCO was secured. BA noted that it was supportive of Heathrow expansion where it was in the interests of consumers and is economically viable.
- 2.11 BA stated that the CAA's proposals must ensure rigorous and effective cost controls from the outset and that competition and contestability were leveraged to drive efficiency. It said that the proposals did not achieve these objectives and would harm cost discipline, competition, and materially weaken consumer protection.
- 2.12 It said that that the CAA's approach put speed before cost control and consumer protection, the proposals should be withdrawn, and that the CAA should reconsider its position on early cost recovery based on a thorough and balanced cost/benefit assessment.

- 2.13 BA argued that the CAA's proposals created an imbalance between risk and reward in HAL's favour and transferred pre-consent downside risk to consumers. BA said that the existing regulatory framework at Heathrow could provide HAL with an opportunity to earn the required commercial return in future, both through its regulated income and opportunities to outperform future regulatory settlements, and this could form the basis of investment in capacity expansion. It argued that a policy under which pre-DCO costs remained at risk would align better with the high commercial rewards it anticipated that HAL would achieve from elevated returns associated with expansion.
- 2.14 It also contended that decisions made early in the regulatory process would go beyond a simple financial matter and could prematurely signal that all expansion expenses were recoverable before a solid case for the consumer benefits of expansion was proven.
- 2.15 AOC/LACC maintained its strong opposition to the recovery of early costs prior to a DCO being granted. It argued that the CAA's proposals lacked a substantive independent assessment of the costs and benefits of expansion, particularly given the reliance on HAL's own estimates of consumer benefits and scarcity rents. It said that the justification for the recovery of early costs was predicated on concerns that HAL might not be incentivised to proceed without guarantees on early costs. However, it argued that this had been undermined by public statements from each of HAL and HWL declaring their intent to proceed regardless of the regulatory treatment of these costs.
- 2.16 AOC/LACC also stated that the CAA appeared to have taken HAL's estimates of consumer benefits (based on assumed scarcity rents) at face value, without an independent assessment.
- 2.17 VAA opposed any cost recovery until a DCO was granted. It stated that the approach would enable HAL to recover £320 million or more without carrying any risk or being required to demonstrate the efficiency of its spending. It said that HAL's expansion proposals were nearly identical to the scheme it developed pre-2019 and that the cost estimates HAL had provided largely represented a simple inflation-linked update of its original 2014 cost estimates.
- 2.18 VAA maintained that the CAA's proposed approach would shift material downside risk onto consumers and airlines, contrary to the principle of a "fair bet" (i.e. ensuring firms making high-risk investments can earn returns commensurate with those risks), which it contended was designed to incentivise efficient investment through risk-sharing, rather than to insulate monopoly providers from commercial exposure.
- 2.19 Air Lingus, Iberia and Vueling (all airlines that are part of the IAG group, alongside BA) also strongly opposed the proposals and said that the CAA was relying predominantly on analysis commissioned by HAL, an interested party, to

substantiate claims of consumer benefit. They noted that the CAA had not undertaken, nor published, its own independent and evidence-based assessment of the costs, risks and benefits associated with early expansion costs.

Our views and draft decision

- 2.20 We have carefully considered the points made by airlines and the AOC/IATA on the appropriateness of HAL recovering early expansion costs prior to obtaining a DCO. While we acknowledge that there are plausible alternative approaches to allowing early costs, including those set out by airlines, we regard the broad approach set out in the December 2025 Consultation as most likely to promote the timely development of capacity expansion at Heathrow airport and the earlier realisation of consumer benefits.
- 2.21 Our view remains that a regulatory framework allowing the recovery of efficiently incurred early costs in 2025 and 2026 is essential to support timely delivery of expansion and the earlier realisation of consumer benefits. A central risk of the model proposed by the airline community is that, without regulatory certainty, HAL could be incentivised to slow or pause its work, as the benefits to HAL of timely expansion would be uncertain and it is not clear that it would have an incentive ahead of receiving the Government's decision on its DCO application to accelerate spending and progress the expansion programme to take account of expected benefits to consumers.
- 2.22 Our view is that providing a mechanism for the recovery of efficiently incurred early costs is an appropriate way to discharge our primary duty to consumers. At this stage our view is that the potential benefits to consumers (discussed further below) are proportionate to the expected allowances for early costs in 2025 and 2026.
- 2.23 We also note that allowing the recovery of early costs in 2025 and 2026 is consistent with the general principle that a regulated entity should expect to be able to recover efficiently incurred costs. In this case, these costs are being incurred in response to a clear and formal request from Government in January 2025 to develop plans for expansion.
- 2.24 Stakeholders, notably BA, argued that HAL's potential to outperform regulatory settlements in the future should negate the need for recovery of early costs before a DCO is granted. However, we note that these costs are incurred before any future regulatory regime relating to expansion have been determined and so it is not clear that HAL could reasonably rely on the prospect of higher returns in the future. Therefore, we are also not clear that such an approach would be consistent with the "fair bet" principle.

- 2.25 AOC/LACC pointed to public statements by HAL suggesting that it would proceed regardless of the regulatory treatment of early costs¹⁵. We do not agree that the statement quoted demonstrates this, as HAL has specifically requested clarity on the treatment of early costs. We consider that without early cost recovery there is a significant risk that a promoter would slow or pause work, leading to potential delays to expansion. In contrast, HAL being able to recover early costs facilitates expansion proceeding in a timely manner, so that the benefits for consumers of new capacity becoming available as soon as reasonably practicable would not be lost.
- 2.26 BA and other airlines also argued that pre-DCO spending is development expenditure for the prospect of future returns and that, in any normal commercial context, the risk of this development expenditure being recoverable at a future date is a risk the sponsoring company and its investors bear themselves. This creates effective commercial incentives for the scheme promoter to manage its pre-construction activities efficiently. We consider that comparisons with purely commercial infrastructure projects are limited, as HAL is subject to price regulation so it cannot rely on earning commercial returns in the future.
- 2.27 BA also argued that the approach proposed by the CAA would transfer pre-DCO risk onto consumers. We note that in the circumstances of potentially significant benefits to consumers from timely delivery of expansion that this approach is consistent with furthering the interests of consumers, in particular:
- it can be appropriate for consumers to bear some risk in relation to large, long-term, capital investments because these investments are undertaken to deliver services that consumers ultimately benefit from, in this case, potentially lower fares, better choice and connectivity and improved resilience;
 - as explained above, HAL does not operate in a fully commercial, competitive environment. Because regulation restricts HAL's commercial freedom, it can be appropriate to allow some risk sharing with consumers to compensate for this; and
 - we do not agree with BA that the proposed approach transfers all pre-DCO risk onto consumers, as we have also proposed the use of an independent cost expert to scrutinise costs and an *ex post* review to identify any potential inefficiency or duplication, which means that HAL bears some risk in relation to the early costs it can actually recover.
- 2.28 It may also be appropriate for consumers to bear some risks to ensure financeability of the project and lower overall costs to consumers. If HAL were

¹⁵ HAL, [Press release](#), Heathrow greenlights work on third runway planning application as critical 2026 milestones approach, January 2026

expected to bear all downside risk, it may be necessary to allow a higher cost of capital, which would ultimately increase consumer costs.

- 2.29 Airlines also raised concerns about early costs being borne by those who benefit, in this case, future users of Heathrow, rather than today's passengers. Where there is a potential for conflict between the interests of present and future consumers, CAA12 requires the CAA to carry out its functions in a manner which it considers will further such of those interests as it thinks best.
- 2.30 In the present case, we need to consider the interests of future consumers (in being able to benefit from the timely delivery of expansion) and the interests of present users (or future users in the nearer term) who may be contributing to the costs of expansion prior to it delivering benefits to consumers.
- 2.31 The present approach to the economic regulation of HAL involves recovering the costs of capital expenditure through its RAB, with consumers benefitting from both previous investment as well as contributing to the costs of the ongoing operation of the airport and its plans for future capital expenditure. Adding capital expenditure to the RAB as it is incurred allows for the cost-effective financing of investment and avoids any undue upward pressure on the cost of capital, which benefits consumers in terms of lower overall airport charges. Given this broad system of regulation and the limited materiality of early costs in 2025 and 2026, we see no conflict between interests of present and future users in either the established system of economic regulation for HAL or in making targeted and focused allowances for early costs incurred during 2025 and 2026.
- 2.32 This approach also supports ensuring that reasonable demands for airport operation services are met by supporting long-term efficiency and investment planning and linking current demand (including unmet demand) with future investment needs, and avoids placing the full burden of future investment on future users.
- 2.33 In this light, we consider that our proposed approach, under which:
- early costs incurred in 2025 and 2026 are added to HAL's RAB (with a potential true-up later to remove any costs that the CAA determines were inefficiently incurred); and
 - HAL is able to recover the financing costs associated with these costs,
- strikes an appropriate balance between the interests of present and future consumers.
- 2.34 Airlines also made points in relation to the CAA not adequately assessing information on the likely benefits of capacity expansion for passengers. We set out in the section below our latest assessment of these matters.

Evidence we have considered on benefits to consumers

- 2.35 In this section, we summarise the findings of the reports and analysis available on the likely benefits to consumers from capacity expansion. We start with the appraisal undertaken by the Department for Transport (“DfT”) in 2017 which informed the ANPS published in 2018, followed by a report from the Institute of Transport Studies at Leeds University (“ITS Leeds”) commissioned by the CAA in 2019, at a time when it was developing its policy around capacity expansion and, specifically, its policy on cost recovery. This is followed by a summary of a more recent report commissioned by HAL from Frontier Economics in 2025, and other pieces of evidence received in response to the November 2025 Working Paper on future regulatory models.
- 2.36 We note that this evidence varies significantly both in terms of:
- method (and what it is seeking to quantify); and
 - outputs (such as qualitative or quantitative, scale of benefits estimated).
- 2.37 The analyses by each of the DfT and Frontier Economics seek to estimate the overall costs and benefits of expansion. The other papers focus more narrowly on specific issues, such as the presence or otherwise of scarcity rents.

Updated appraisal report: Airport capacity in the South East published by DfT in 2017 ¹⁶

- 2.38 The DfT is currently updating its appraisal of the economic case for capacity expansion as part of its review of the ANPS. Its most recent assessment of the economic case for expansion was published in 2017. This assessment presented estimates of the impacts that would arise as a consequence of expansion on different groups (passengers, airlines and Government), compared to a two-runway scenario and was an update of analysis published by the Airports Commission in its final report.¹⁷
- 2.39 The DfT’s assessment sought to monetise three categories of benefit to passengers:
- lower fares: resulting from increased capacity reducing scarcity rents and enabling more passengers to travel from Heathrow;
 - frequency benefits: passengers being more likely to be able to travel at their preferred times due to airlines using additional capacity to offer more flights to the same destinations at different times; and

¹⁶ Department for Transport, [Updated appraisal report: airport capacity in the south-east](#), October 2017

¹⁷ Airports Commission, [Final report](#), July 2015

- reduced delays: as a result of increased capacity enabling the airport to recover more quickly from disruption such as from bad weather.

- 2.40 The DfT used its aviation model to estimate the benefits a third runway at Heathrow would provide to passengers associated with lower fares. In simple terms, the starting point for the model was to forecast passenger demand for different areas in the United Kingdom. It then allocated passenger demand to individual airports based on a range of factors that have been observed to best explain passengers' choice of airports historically. When an airport within the model reached capacity, a "shadow cost" was applied to the costs passengers face to use that airport. The level of shadow cost applied at each constrained airport was the minimum required to ensure that the number of passengers choosing to fly from each airport in the model did not exceed its available capacity. As the level of demand for a constrained airport increased, the level of shadow cost applied increased.
- 2.41 The analysis estimated that, under a central demand scenario, expansion could result in cumulative passenger user benefits of £67.5 billion (present value, 2014 prices) over a 60-year period. The vast majority of the monetised benefits were attributed to lower fares (£64.3 billion), which included the benefits to the passengers who would be able to fly from Heathrow Airport as a result of expansion who would otherwise have been "priced out". These benefits reflected benefits which would accrue to airline passengers across all UK airports, not just at Heathrow.
- 2.42 We consider the relevance of these quantified estimates today may be more limited, given that they were based on modelling produced in 2017 and do not reflect a range of recent developments. For example, they do not take account of the latest expansion proposals under consideration for Heathrow Airport, the impact of the latest economic projections on future travel demand in the United Kingdom, or the latest plans for capacity expansion at other airports in the United Kingdom.

ITS Leeds independent peer review on scarcity rents published in 2019¹⁸

- 2.43 In 2019, the CAA commissioned the ITS Leeds to carry out an independent review of the body of evidence on scarcity rents. While ITS Leeds concluded that scarcity rents are likely to arise at Heathrow Airport, it did not provide a specific estimate as to the scale of these scarcity rents. ITS Leeds also concluded that scarcity rents were likely to accrue to airlines operating at the airport (as opposed to Heathrow itself). However, they considered that the specific airlines to which the scarcity rents would accrue would be likely to depend on the

¹⁸ University of Leeds, [CAP1871A](#) Review of research on Scarcity Rents at Heathrow, August 2019

characteristics and market position of the airline in question, with some airlines earning limited, or zero, scarcity rents.

Frontier Economics Heathrow Expansion cost-benefit analysis (“CBA”)

- 2.44 In August 2025, Frontier Economics (“Frontier”), commissioned by HAL, published a CBA on Heathrow expansion.¹⁹ The main purpose of this work was to quantify the potential costs and benefits to the UK of adding a third runway at the airport, compared to a “two runway” airport (a “do nothing” scenario). It also considered an enhanced two runway scenario, in which no new runway would be added but existing assets are renovated and reconfigured to accommodate more passengers. Frontier estimated some of the costs and benefits itself, and extrapolated others from the DfT’s 2017 report outlined above.
- 2.45 The largest estimated benefit identified in the analysis was implied ticket price savings to passengers: passengers would be expected to see lower ticket prices to fly to and from Heathrow in each of a “three runway” or “enhanced two runway” scenario, compared to the “do nothing” scenario. These implied ticket price savings come from the assumption that, in the absence of expansion, there would be increasing levels of scarcity rent at Heathrow Airport because of excess demand and that, by expanding the airport, more of the excess demand could be served resulting in lower prices.
- 2.46 Frontier estimated the impact of expansion on fares at Heathrow Airport in three broad steps. First, it estimated the size of the scarcity rent (which it called the “congestion premium”) at Heathrow Airport in 2024. It then forecast how this rent could evolve over time under the “do nothing” scenario. Finally, it estimated how the extra capacity under the expansion scenarios would reduce the scarcity premium.
- 2.47 Frontier’s estimate of the size of scarcity rent in 2024 was based on its previous 2019 econometric analysis²⁰ but with updated data. This analysis attempted to explain differences in observed fares between Heathrow and other airports by controlling for a variety of factors that could influence ticket prices. It interpreted the difference in fares at Heathrow and other airports that could not be explained by any of the other factors in the model as being attributable to capacity constraints at Heathrow Airport.
- 2.48 Frontier used the estimated congestion premium in 2024 and estimates of the price elasticity of demand (an estimate of how passenger demand changes, in response to a one percent change in price) published by DfT to estimate the number of passengers that would have used the airport if it was not capacity

¹⁹ Frontier Economics, [Heathrow Expansion CBA](#), August 2025

²⁰ Frontier Economics, [Estimating the Congestion Premium at Heathrow](#), May 2019

constrained (“unconstrained demand”). It then drew on estimates of the growth in unconstrained demand at the United Kingdom level published by the DfT in 2017 to estimate the level of unconstrained demand at Heathrow Airport over a 60-year appraisal period²¹. Frontier then compared its estimates of unconstrained demand at Heathrow Airport in future with its forecasts of demand under the “do nothing” and the “enhanced two-runway” and “three-runway” scenarios to estimate the level of excess demand that would need to be incentivised not to fly via Heathrow in each year if the number of passengers wishing to use Heathrow were not to exceed its capacity. Finally, Frontier used the estimated excess demand (expressed as the percentage of demand that needs to be incentivised not to fly via Heathrow) and DfT’s published price elasticity of demand estimates to estimate the fare premium (that is, the percentage increase in ticket prices compared to what fares would be if the airport were unconstrained) required in each year.

- 2.49 Frontier’s analysis assumed that the scarcity rent only applied to “point-to-point” passengers. It argued that this assumption is conservative and reflected its view that airlines using Heathrow Airport are less likely to be able to charge transfer passengers higher fares, due to greater competition from airlines operating from other airports for their custom.
- 2.50 Over the 60-year appraisal period, Frontier estimated these passenger benefits to have a net present value of £79 billion in 2024 prices.
- 2.51 Overall, Frontier’s method broadly follows the Government’s appraisal guidance. However, there are several areas of uncertainty as well as limitations that are left unexplored, which we consider could impact the conclusions of the analysis. For example, the estimated benefits rely heavily on Frontier’s estimate of the congestion premium in 2024, which is subject to significant uncertainty. It also relied on forecasts of unconstrained demand growth produced by DfT in 2017, which were based on significantly more optimistic assumptions about future economic growth than exist today. Further, the analysis did not quantify a range of passenger benefits that may arise because of expansion, including benefits to new passengers able to travel through Heathrow Airport as a result of expansion, frequency benefits, and reduced delays. Frontier also did not consider the extent to which the construction costs associated with expansion might ultimately be borne by consumers through higher airport charges being passed through into fares.

²¹ This is in line with [The Green Book – UK government guidance on appraisal](#), which suggests a 60 year appraisal period should be used for infrastructure projects.

Further information provided by airlines

IAG's response to the CAA's November 2025 Working Paper on regulatory models

2.52 In its response to the November 2025 Working Paper, IAG argued that the CAA should consider airline economics when looking at the economic case for expansion. In particular, it highlighted that the DfT's modelling implicitly assumed that supply (of air transport services) will follow demand (for passenger travel) without taking into account airline profitability or capital allocation considerations, thereby introducing an "optimism bias" to its traffic forecasts. IAG said that airlines make investment decisions and commit costs to a route before it can be served, so that new capacity will only be used if the demand is sufficient to cover all those costs (including increased airport charges) profitably. For routes which are already being served at an airport where capacity is expanded and airport charges increase, aircraft may be reassigned to more profitable routes.

2.53 IAG said that there were gaps in the assessments being undertaken by the DfT and CAA, compared to the Government's guidance on economic appraisals as set out in the Green Book. IAG said the assessment frameworks should be modified to:

- explicitly model real-world airline investment decisions;
- distinguish between optimisation of existing (airline) capacity and deployment of new capacity;
- apply optimism bias assumptions or scenario analysis where airline willingness to invest is uncertain; and
- test outcomes under realistic assumptions about airport charging and airline behaviour.

2.54 In relation to the Frontier Economics report, IAG said:

- the airfare data it used was not suitable for the econometric analysis it had undertaken; and
- the levels of profits implied by Frontier's analysis are not reflected in airlines' accounts or behaviour.

LHR Affordable CAPEX envelope report (phase 1), by Oliver Wyman submitted by IAG in March 2026²²

2.55 This study commissioned by IAG aimed "to determine the affordable capital expenditure envelope that London can afford while protecting Heathrow's long-term economic viability". It began with a review of airline operating margins (7%-14% in 2024) compared with other sectors (which averaged 12.6% in 2024), and

²² Oliver Wyman, [LHR affordable capex envelope: report \(phase 1\)](#), March 2026

the airline margins at the London airports for different route types. It concluded that airline margins are lower than other industries, while airline margins at Heathrow are in line with averages across London airports as a whole. It also presented data, showing that European airline revenue has grown in line with GDP (events such as the covid-19 pandemic aside) and argued that, as airlines already aim to maximise their revenue from passengers, their ability to pass on increases in airport charges to passengers is limited. The report concluded that the future revenue pool for the London airport system is constrained at the current level and growing in line with GDP.

- 2.56 The report then presented modelling estimates of the impact on passenger traffic and airline margins at Heathrow across three scenarios. These scenarios were:
- a scenario assuming two runways through to 2045; and
 - two scenarios assuming three runways out to 2045, one assuming no increase in airport charges and the other assuming what the report said would be an 'affordable' increase of £4.50-5.50 per passenger.
- 2.57 It found that the London market would be the same size in the period to 2045 in both the two and three-runway scenarios, but with three runways, Heathrow Airport would capture a greater market share (with any excess demand for Heathrow in a two runway scenario being served by other London airports). The report concluded that airlines in London and at Heathrow Airport would retain roughly the same profit margins in the two runway and three runway (with no airport charge increase) scenarios.
- 2.58 The report concluded that any increase in airport charges would erode airline profit margins and that the industry's tolerance for lower profits would end at £4.50-5.50 per passenger in additional charges. Higher increases in charges would reduce airlines profits below a threshold resulting in some airlines choosing to stop growing and/or shift capacity out of Heathrow Airport.

Empirical Tests of the Starting Scarcity Rent Hypothesis at Heathrow, submitted by IAG in March 2026²³

- 2.59 IAG submitted this report to the CAA and DfT, in part as a rebuttal of a key conclusion of the Frontier report discussed above. The paper presents a range of evidence that it suggests indicates that no material scarcity rent is captured by airlines at Heathrow.
- 2.60 The report argues that, where scarcity rents exist to the scale estimated by Frontier, they should be visible in BA's and VAA's financial results, with very elevated profit margins and/or them facing much higher costs at Heathrow

²³ IAG, [Testing the starting scarcity rent hypothesis at Heathrow](#), March 2026

Airport. The report concludes that this is not the case and, while unit costs²⁴ at Heathrow Airport are higher than at comparator airports, this is due to higher airport charges and lower cabin densities. The report also compares fares offered at Heathrow and Gatwick airports to the same destinations to see if there are differences. It concludes that *“observed fare premia at Heathrow reflect the higher cost of operating at the airport and the more premium cabin configurations deployed there, consistent with a competitive market in which no supernormal profits are available for capture by airlines.”*

- 2.61 The report goes on to point out that the DfT’s modelling has consistently forecast that scarcity rents will emerge as a consequence of slot constraints at Heathrow Airport. It notes that despite Heathrow having been slot constrained for over 20 years, it has been unable to observe scarcity rents in its analysis. As a result, it argues that DfT’s modelling method is flawed and suggests that the DfT should review its approach.

Summary of our views

- 2.62 There continue to be significant uncertainties around the costs and benefits of expansion for consumers. However, our review of the existing evidence outlined above indicates that there are plausible scenarios in which expansion will deliver substantial net benefits to consumers.
- 2.63 The most significant benefit to consumers from expansion identified in the analysis published by DfT and by Frontier Economics relate to a reduction in fares due to a reduction in scarcity rents at the airport. The logic, which underpins both the DfT analysis and Frontier analysis is that, in the absence of expansion, scarcity rents exist at Heathrow, so that fares for passengers using Heathrow are higher than they otherwise would be because the airport is capacity constrained. If Heathrow Airport were to expand, the level of scarcity rent would fall as the increased capacity would provide more scope for competition between airlines and less “pricing off” of excess demand and so fares would be lower.
- 2.64 In December 2019, we published a consultation on proposals for the regulatory treatment of early costs at Heathrow (the “December 2019 Consultation”)²⁵. In it we set out our views of the evidence relating to the existence of scarcity rents available at the time. This evidence included the ITS Leeds review outlined above, and a number of reports that had been published earlier and considered

²⁴ ‘Unit costs’ normalise total costs by the amount of capacity deployed. The most common unit cost metric is Cost per Available Seat Kilometre (CIASK), which divides total operating costs by the total number of seat kilometres available for sale.

²⁵ CAA, [CAP1871](#), Policy update and consultation on the of early costs of capacity expansion, December 2019.

as part of the ITS Leeds review. We concluded that scarcity rents are likely to exist at Heathrow Airport and, while recognising the inherent difficulty in quantifying the value of scarcity rents, used a range of estimates of total scarcity rent at Heathrow of £0.9 billion - £2.5 billion (in 2018 prices).²⁶

- 2.65 We continue to agree with the conclusion of the ITS Leeds review that scarcity rents are likely to exist at Heathrow Airport. Nonetheless, we recognise the significant uncertainty surrounding the scale of scarcity rents and the extent to which they would be reduced by capacity expansion.
- 2.66 This uncertainty is reflected in the more recent evidence outlined above, with IAG presenting evidence that they suggest shows that no material levels of scarcity rents, while Frontier Economics estimated scarcity rents added £3.5 billion to fares at Heathrow Airport in 2024. We are continuing to review the available evidence and undertaking further analysis of our own relating to the existence of scarcity rents. We expect to draw on the findings of this work as it becomes available to inform both our final decision on early costs incurred in 2025 and 2026, and our policy on early costs incurred from 2027 and beyond.
- 2.67 Drawing on the DfT's analysis (and the findings of the Airports Commission), we expect expansion also to benefit consumers by enabling airlines to offer a broader range of connectivity, benefiting passengers able to fly from Heathrow Airport who would otherwise fly from a less preferred alternative airport in the absence of expansion. We would also expect this to yield additional benefits to passengers who are more likely to be able to travel to their destination at their preferred time (referred to as frequency benefits in DfT's analysis). We also agree that expansion would enable the airport to recover more quickly from disruption, yielding further, if more limited, benefits to consumers.
- 2.68 An area that is not considered explicitly in the December 2019 Consultation or by either the DfT analysis outlined above is the potential impact on consumers from the higher airport charges that will likely be necessary to fund expansion. The Steer report suggests that the costs of delivering expansion may be significantly higher than the £33 billion that HAL has estimated, with Steer estimating a plausible range for the costs of expansion of between £33 billion and £52 billion (all these estimates are in 2024 prices). These costs also exclude the costs of surface access schemes (in particular new rail links) that the Government may require HAL to meet as a condition of the planning process and could add significantly to the costs of expansion. Taking account of this range of costs

²⁶ In the December 2019 consultation the estimates of scarcity rents at Heathrow were the only potential consumer benefit of expansion considered, such that the benefits to consumers from reducing scarcity rents were also presented as estimates of total consumer benefits.

suggests that airport charges could more than double in real terms, from the current levels of about £26 per passenger, in order to fund expansion.

- 2.69 When considering the potential impact of this, the Wyman report puts forward a view that any increase in airport charges would reduce airline profitability and that increases of more than £4.50-5.50 (2024 prices) per passenger would result in airlines shifting capacity to other airports.
- 2.70 We recognise that, all else equal, higher airport charges will have an adverse impact on airline profitability and, the greater the increase in charges, the greater the potential behavioural response. There are a range of potential responses we would expect an airline to consider, including passing through the increase in airport charges to passengers, alongside shifting capacity to other airports and/or growing capacity at Heathrow Airport more slowly. We recognise that these responses could have a negative impact on passengers. We will continue to review the evidence relating to how higher airport charges could affect airline behaviour and the consequence for the impacts of expansion on consumers, both for our final decision on early costs incurred in 2025 and 2026, and our policy on early costs incurred from 2027 and beyond.
- 2.71 We note the concerns raised by BA, the AOC/LACC, and IAG over the robustness of the consumer benefits case and the reliance on HAL's estimates of the benefits of expansion. As explained above we have considered a range of evidence in forming our view and we have not just accepted evidence provided by HAL "at face value", as suggested by some stakeholders.
- 2.72 While there is still analysis ongoing about the consumer benefits of expansion, our view remains that allowing the recovery of early costs incurred in 2025 and 2026 is not an endorsement of the ultimate value of expansion but is a necessary step to avoid delays to expansion which would result in delays to and the loss of some of the benefits to consumers of relieving capacity constraints at Heathrow Airport as soon as is practicable. If we did not allow this expenditure to be recovered, this could materially delay the delivery of new capacity and in such a scenario, the consumer benefits associated with earlier delivery of capacity would be foregone for the period of delay. Benefits expected to arise in 2035 and 2036, and in each subsequent year up to the revised completion date, would be irretrievably lost rather than postponed. This would represent a permanent reduction in benefits to consumers.
- 2.73 We will keep the overall benefits assessment under review. However, at this stage, we consider that the overall approach set out in the December 2025 Consultation remains appropriate to further the interests of consumers in the timely delivery of expansion and to seek to avoid the loss of some of those benefits.

- 2.74 We will set out an updated position on this in July when we publish our final decision. However, should emerging analysis from the DfT or our own analysis indicate that an alternative approach is needed, we would be required to re-consult with stakeholders on how best to revise our policy to reflect these developments.
- 2.75 We will also reconsider the benefits case in the work we expect to undertake on early costs in 2027 and beyond. To the extent that HAL puts forward proposals for significant increases in early costs then the benefits case for capacity expansion is likely to need to be established with greater certainty.

Other issues raised on our broad approach

Interaction with the CAA's review of the regulatory models for expansion

The December 2025 Consultation

- 2.76 The December 2025 Consultation noted that our work on early costs was in the context of our broader review of the regulatory model that will be appropriate for expansion.²⁷

Stakeholders' views

- 2.77 BA commented that the outcome of the CAA's review of regulatory models could fundamentally reshape how expansion is planned, financed, and delivered. BA was of the view that proceeding with a consultation on early cost recovery (based on the current regulatory model) in parallel created a real risk of undermining the procedural fairness and integrity of the CAA's review of the regulatory model that would apply at Heathrow Airport, as that review expressly included consideration of alternative models for regulating expansion.
- 2.78 Aer Lingus' position was that cost recovery should not be addressed until expansion had been approved and the delivery and regulatory model had been settled. Delta considered that the CAA's proposal to allow recovery of early costs would pre-empt the outcome of the regulatory models review.
- 2.79 VAA said that the CAA should substantially strengthen the regulatory framework to provide greater assurance of consumer protection, full transparency and accountability and that this should sit alongside the regulatory model review.

Our views and draft decision

- 2.80 We remain of the view that allowing HAL to recover the efficient early costs it incurs in 2025 and 2026 does not pre-determine the outcome of our review of the regulatory model that should apply at Heathrow Airport in the future. That review

²⁷ Most recently, the CAA published [CAP3195](#), Working Paper on regulatory models in November 2025.

considers the CAA's approach to regulation in the future, while the matters considered in this draft decision relate only to costs incurred in 2025 and 2026, which will have largely been incurred or committed by HAL by the time of our final decision on these matters. As such, they clearly relate to the regulatory treatment of matters in different time periods.

- 2.81 Our work on regulatory models is explicitly considering the scope for, and potential benefits of, alternative regulatory models to promote competition in the provision of airport operation services where appropriate. In addition, we have explicitly considered the potential benefits to consumers from competing promoters both in our regulatory models work and in developing our proposals for the recovery of early costs by HWL up to the Government's Announcement, as set out in chapter 4 Recovery of other promoters' early costs.
- 2.82 Bearing all the above in mind, we do not accept that our work on early costs incurred by HAL in 2025 and 2026 inappropriately pre-judges our wider work on regulatory models, or that the reasoning and information set out by airlines in relation to the matters provides compelling evidence that we should change our approach to making allowances for early costs.

Impact on passenger charges

The December 2025 Consultation

- 2.83 The December 2025 Consultation noted the limited materiality of the costs to which our decisions on early costs related, with the cap on HAL's early costs for 2025 and 2026 being around £320 million, representing around 12% of HAL's expected capital expenditure over these two years.

Stakeholders' views

- 2.84 BA and the AOC/LACC said that the CAA's proposals failed to consider the impact of its proposals for recovery of early costs on HAL's charges for the H8 period. Both pointed to HAL's proposed 47% real term increase in charges for the H8 period from 2027 to 2031 (which excluded the early costs under consultation). The AOC/LACC further noted the CAA's own admission in the November 2025 Working Paper that the combined effect could see HAL's charges significantly exceed those of peer airports.

Our views and draft decision

- 2.85 We acknowledge the importance of the overall level of charges and are mindful on the current pressure on charges for the H8 period. Having said that, we take the view that the level of early costs incurred by HAL in 2025 and 2026 will have a relatively small impact on charges when compared to HAL's overall revenue requirement for the H8 period. For instance, we are proposing a cap of £320 million on HAL's early costs for 2025 and 2026, with efficient costs being added to HAL's RAB, which is in excess of £20 billion and so early costs from this

decision should constitute less than 2% of its RAB. As explained in chapter 3 Regulatory arrangements to protect consumers, this will add £0.073 (2026 prices) to the maximum revenue yield per passenger in 2026.

- 2.86 We are currently consulting on our initial proposals for the H8 price control²⁸. Our approach to the H8 price control will develop over time in the light of that consultation and the evidence that emerges prior to us making our final decision on the H8 price control, but our initial proposals involve levels of airport charges per passenger broadly in line in real terms with charging levels over the H7 period.

Summary of draft decision and next steps

- 2.87 Having considered stakeholders' views and the additional evidence that has emerged on the costs and benefits of expansion, we propose to allow HAL to recover the efficient early costs it incurs in 2025 and 2026. We consider that this approach is in the interests of consumers as it will help secure the expected benefits to them from the timely delivery of expansion, that otherwise would be lost.
- 2.88 Further protections for consumers, in terms of the regulatory arrangements that we are designing to ensure only efficient costs are recovered from consumers are discussed in chapter 3 Regulatory arrangements to protect consumers. Arrangements for implementing policy are discussed in chapter 5 Implementing our policy and making changes to the Licence and the statutory notice consulting on the associated Licence changes is set out in appendix C.
- 2.89 We are continuing our assessment of the costs and benefits to users from expansion, and this will inform our final decision on early costs.

²⁸ CAA, [CAP3232](#), Economic regulation of Heathrow Airport: H8 initial proposals, March 2026

Chapter 3

Regulatory arrangements to protect consumers

Introduction

- 3.1 Chapter 2 Recovery of early costs by HAL explains our draft decision to allow HAL to recover through airport charges the efficient early costs of capacity expansion that it will incur in 2025 and 2026. This chapter explains the additional steps that we will take to promote economy and efficiency by HAL in incurring these costs and how we will protect consumers from:
- the consequences of HAL incurring inefficient early costs;
 - any inappropriate escalation in early costs; and
 - unnecessary duplication of costs incurred previously or between potential promoters.
- 3.2 This chapter sets out:
- our updated views and draft decision on the appropriate arrangements to protect consumers, which we have developed having considered responses to the December 2025 Consultation; and
 - further information we have received from HAL in response to questions we have put to them.
- 3.3 The protections we propose below are designed to ensure that early costs are both tightly controlled and subject to robust scrutiny through cost caps, defined returns, independent oversight, transparent reporting, and opportunities for efficiency reviews of early costs that have been incurred (“*ex post*” efficiency reviews).
- 3.4 One of the key issues we have needed to consider for this draft decision is the increase in early costs forecast by HAL for 2025 and 2026, as set out in its:
- letter of 9 December 2025; and
 - response to the December 2025 Consultation.
- 3.5 HAL has requested that the cap on early costs incurred in 2025 and 2026 should increase from £320 million to approximately £450 million (both in 2024 prices). HAL is also in the process of providing further information about the costs in its initial July 2025 submission, which we will undertake further analysis on to help inform our final decision on these matters.

- 3.6 In addition, we address the issues raised by airlines in relation to the strength of the protections we have put in place in relation to early costs incurred in 2025 and 2026. We have refined and, where appropriate, strengthened the protections we proposed in the December 2025 Consultation. We also highlight where we are minded to further strengthen these protections in the development of our policy on the recovery of early costs incurred from 2027 onwards.
- 3.7 This chapter covers the following issues:
- the application of an incentive based on the success of a DCO application;
 - the scope and level of a cap on the recovery of efficient early costs incurred by HAL in 2025 and 2026;
 - our approach to *ex post* efficiency reviews of the early costs HAL incurs;
 - ongoing cost reporting;
 - the appointment of an independent cost expert;
 - provisions for “reopening” these arrangements; and
 - the allowed return on the early costs incurred by HAL in 2025 and 2026.

Incentive arrangements based on the success of a DCO application

The December 2025 Consultation

- 3.8 Prior to the December 2025 Consultation, we had considered implementing an incentive for costs incurred in 2025 and 2026 based on the outcome of HAL’s application for a DCO to permit expansion. This incentive would have allowed HAL to recover:
- 75% of its efficient early costs incurred in 2025 and 2026, if its application for a DCO were to be unsuccessful or withdrawn for reasons within HAL’s control; or
 - 105% of its efficient early costs in 2025 and 2026, if the DCO application was successful.
- 3.9 After considering stakeholders’ views, we explained in the December 2025 Consultation that we considered that the application of such a cost sharing arrangement might lead to unintended consequences in relation to costs incurred in 2025 and 2026 that would be unlikely to be in the interests of consumers. Therefore, we proposed not to proceed with this incentive for early costs incurred in 2025 and 2026.

Stakeholders' responses

- 3.10 In their responses, airlines agreed that no "reward" mechanism was appropriate, but said that there must be a clawback mechanism in the event of HAL deciding not to proceed with applying for, or failing to secure, a DCO. Airlines said that it would not be acceptable for airlines or consumers to pay all of HAL's costs in either of these scenarios and called on the CAA to reconsider its position. Furthermore, airlines considered that any costs added to the RAB must be "written down" if the scheme were to be abandoned.
- 3.11 HAL supported the CAA's proposal not to include these incentives for expenditure incurred in 2025 and 2026. It noted that it is not, in principle, against a small, balanced, incentive, but that this would need to be calibrated and implemented when there is greater certainty on costs. If not, it could lead to unintended consequences and an inappropriate balance of risk and reward.

Our views and draft decision

- 3.12 We understand the concerns that airlines have in relation to these matters. Nonetheless, we are also conscious of the:
- need to create a balanced set of incentives on HAL; and
 - principle that the CMA has established that any incentive package should be a 'fair bet' for the licensee.
- 3.13 These draft proposals include a number of measures designed to limit HAL's ability to recover its early costs, to cap its returns and to provide an obligation on HAL to take account of the uncertainties associated with capacity expansion in incurring early costs. We intend to enforce all these obligations, including through the *ex post* efficiency reviews of the early costs that HAL incurs. Bearing this in mind, it would appear disproportionate to introduce further incentives on HAL in relation to the success of its DCO application, which will ultimately be decided upon by Government. We are also conscious that the work that HAL has been undertaking in 2025 and 2026 has been in response to a Government policy initiative and ambitious timetable in relation to capacity expansion. In these circumstances, we consider it would not be appropriate to expose HAL to further risks associated with the early costs that it reasonably incurs in 2025 and 2026.
- 3.14 In the light of the above considerations, for 2025 and 2026 costs, we are not intending to introduce incentives in relation to the success or failure of HAL's DCO application or in relation to whether other compelling commercial considerations might emerge that would mean HAL was unable to reasonably proceed with its plans for capacity expansion.

- 3.15 We will reconsider our approach to cost efficiency and delivery incentives in our work on early costs incurred in 2027 and beyond.

Scope of the early costs incurred in 2025 and 2026 to be recovered by HAL

The December 2025 Consultation

- 3.16 The December 2025 Consultation proposed that land, property and enabling costs (including commercial property acquisitions and limited residential schemes) would form part of the early costs incurred by HAL in 2025 and 2026 which it would be allowed to recover. We noted that the Government's Announcement selecting a single scheme for expansion had materially reduced the risk of wasteful duplication previously highlighted in the August 2025 Consultation.

Stakeholders' responses

- 3.17 HAL supported the CAA's inclusion of early enabling and property costs within the scope of the early costs incurred in 2025 and 2026 that it could recover.
- 3.18 Airlines were particularly opposed the inclusion of land acquisition costs, emphasising that HAL expected to incur more than £4 billion in land purchases prior to obtaining a DCO. They believed this would impose substantial speculative risk onto consumers. In addition, airlines opposed the inclusion of these costs on the basis that they would be irreversible, could foreclose alternative delivery models and act as a barrier to competition. Overall, airlines argued that inclusion of these costs would expose consumers to significant further risk.

Our views and draft decision

- 3.19 We remain of the view that allowing recovery of efficient land and property costs incurred in 2025 and 2026 enables HAL to make wider preparations for expansion, including the construction programme, rather than confining activities only to planning issues. Not providing this certainty could lead to delays in the timetable and the associated loss of benefits to consumers described in chapter 2 Recovery of early costs by HAL.
- 3.20 We consider that some of the concerns expressed by airlines about recovery of early costs ahead of a DCO being granted will be addressed by the enhanced oversight we are proposing, which seek to secure that the recoverable early costs have been incurred efficiently and no earlier than necessary.
- 3.21 In addition, we do not consider that the land and property costs HAL has identified for 2025 and 2026 will foreclose alternative delivery models or be a barrier to competition, given they are relatively limited. We expect the magnitude

of land and enabling costs that HAL needs to incur to increase from 2027 onwards. We will consider our approach to these costs further, taking into account the comments made in response to this draft decision.

Cap on early costs incurred in 2025 and 2026

The December 2025 Consultation

- 3.22 The December 2025 Consultation set out our proposal that there should be a cap on the level of early costs incurred by HAL in 2025 and 2026 that would be recoverable. We proposed this to reduce the risk to consumers from unexpected escalation in the level of those costs. We proposed to set the cap at £320 million (in 2024 prices) for 2025 and 2026, based on the forecast of early costs provided by HAL in July 2025.
- 3.23 Given the evolving nature of the work on capacity expansion, and that the Government had only recently confirmed that HAL's scheme would inform its ongoing review of the ANPS at the time we published the December 2025 Consultation, we also proposed that we would continue to assess HAL's early costs forecasts as we progress to our final decision.
- 3.24 We took the view that the proposed arrangements for an *ex post* review and additional oversight, as set out in the December 2025 Consultation, would provide appropriate incentives and arrangements to promote cost efficiency on the part of HAL.
- 3.25 We also said it was important to allow for some flexibility in this cap where appropriate, to ensure that the potential benefits for consumers would not be lost. We stated that HAL would need to provide comprehensive evidence in advance if it planned to exceed this cap to explain why it would be necessary, efficient and in the interests of consumers for it to do so. We would then consider this information carefully before deciding whether it would be appropriate to increase the level of the cap.

Stakeholders' responses

- 3.26 HAL broadly supported our proposals on the cap but has since made a request to increase the cap (set out in further detail in below), arguing that there are project-specific and strategic benefits for allowing additional costs over and above the previous £320 million figure.
- 3.27 Airlines raised concerns regarding the proposed approach to the cap, stating that a flexible cap is not appropriate and will not protect consumers from inefficient costs, as it:
- does not operate as a binding constraint for HAL; and
 - can weaken incentives for cost control.

- 3.28 Airlines said that there should be a fixed cap on any early costs, or if the cap is not fixed, clear and transparent criteria for any increases to the cap should be specified. These criteria included suggestions including for a forward-looking review of any increases, including by an independent assessor.
- 3.29 VAA also considered that the CAA had not provided sufficient assurance that:
- costs proposed by HAL are fully justified;
 - what the total pre-DCO costs are likely to be; or
 - whether they are truly incremental to the £500 million already capitalised in the RAB in relation to pre-2020 expansion related costs.
- 3.30 VAA also stated that the CAA had disregarded the significant further costs likely to be incurred from 2027 and beyond, which are yet to be quantified.

Further information from HAL

- 3.31 HAL has proposed increasing the cap on early costs incurred in 2025 and 2026 from £320 million to £450 million (2024 prices). The additional £130 million arises from the following three items:
- reallocation of “Modernising Heathrow” programme costs incurred in 2026 (an additional £40 million);
 - commercial property engagement costs (an additional £30 million); and
 - acquisition of the Colnbrook Logistics Centre (“CLC”) (an additional £57 million).
- 3.32 We have carried out an initial review of each of these additional items, as summarised below.

Reallocation of 2026 Modernising Heathrow programme costs (an additional £40 million)

- 3.33 In December 2025, HAL wrote to us updating its view of early costs from its July 2025 submission. In this letter, HAL set out an “update” consisting of a reclassification of Modernising Heathrow-related programme management and DCO consent costs (£44 million in 2026 prices or £40 million in 2024 prices). HAL explained that the Modernising Heathrow programme had been established under the governance arrangements for H7 and accounted for in its pre-expansion H7 forecast up to that point. HAL also explained that this did not represent a change in the amount of expenditure planned, but rather a reallocation from its Modernising Heathrow programme (which we had said would be dealt with under our work on capacity expansion) to early costs.
- 3.34 In its response to the December 2025 Consultation, HAL reiterated its request for the inclusion of 2026 Modernising Heathrow costs as part of the early costs of

capacity expansion. We requested further information from HAL in relation to these matters.

3.35 In response to our request for information, HAL made the following points.

- Modernising Heathrow was not part of the capital envelope used for calculating the H7 price control. Nonetheless, it had allocated this sum to its Modernising Heathrow plans during the H7 period as part of the active management of its capital portfolio.
- There was no “double counting” between these costs and other cost allowances and, to the extent that this reduced spending in the H7 period, it would free up funds in the H7 “capex envelope” that could be utilised elsewhere.
- It is now intending to submit a single DCO application covering its work on both Modernising Heathrow (covering the optimisation of capacity at T5 and T2 expansion) and its other work on capacity expansion. Within this consolidated DCO application, work on Modernising Heathrow would form an integral component of its overall expansion plans. It said that the combined scope sits on the “critical path” to securing a DCO in 2029, which is critical to maintaining timely delivery of the third runway.
- A combined DCO application would benefit consumers by generating cost efficiencies, enabling more meaningful engagement with stakeholders, and reducing legal and procedural risk.

Our views

3.36 We do not consider that HAL has yet made a strong case as to why it needs to progress detailed work in relation to the Modernising Heathrow programme to secure a DCO in 2029. Furthermore, a review by the Independent Funds Surveyor²⁹ of the costs HAL incurred in 2025 has highlighted several issues, including incomplete information and the absence of formal governance and cost controls. In order to increase the cap to accommodate these costs, we would require clear evidence of both:

- why progressing this work is essential for securing an integrated DCO; and
- that effective governance and cost control is in place for this programme.

²⁹ The Independent Fund Surveyor provides expert, independent scrutiny and assurance of HAL capital projects throughout their development and delivery, as part of Heathrow’s capital governance framework.

- 3.37 On this basis, and subject to further scrutiny ahead of our final decision, we do not propose at this stage to increase the cap on recoverable early costs incurred in 2025 and 2026 to reflect these costs.

Commercial property engagement costs (an additional £30 million)

- 3.38 Commercial property engagement costs are HAL's forecasts of the costs of engagement with affected businesses that own property it might need to purchase, in advance of it applying for a DCO. These costs include funding professional fees for those businesses. HAL has argued this reflects past practice and typical promoter behaviour. HAL's submission in July 2025 already contained £80 million for 2026 property costs but was focused on residential property.
- 3.39 HAL said that, without this allowance, it would be unable to fulfil statutory voluntary acquisition obligations, risking:
- delays to the grant of a DCO;
 - the construction schedule; and
 - overall programme deliverability.
- 3.40 For HAL, the allowance, therefore, represents essential expenditure to support compliant and timely delivery of expansion and the significant amounts of engagement with affected parties that is needed.
- 3.41 HAL said this additional cost could not have been included in its July 2025 submission, because at the time of the July 2025 submission, Heathrow had not yet mobilised its dedicated expansion programme team, nor did it have sufficient specialist resources in place to undertake a detailed evaluation and forecast of this category of costs.

Our views

- 3.42 We note the arguments that HAL has made in relation to this category of costs but, bearing in mind the very significant sums already included with the £320 million cap for property costs, we are not persuaded that HAL has provided sufficient justification for an additional £30 million of early costs in 2025 and 2026 in relation to engagement with affected businesses and funding their professional fees. Therefore, at this stage, we are not proposing to alter the cap in relation to these matters.

Colnbrook Logistics Centre ("CLC") acquisition (an additional £57 million)

- 3.43 HAL's purchase of the CLC was approved by airlines under the capex governance arrangements for the H7 period on 18 December 2025. HAL argued that acquiring this property now would avoid an approximately £30 million cost increase were the site to be purchased later by compulsory acquisition.

3.44 HAL made the following points.

- On the purchase price, HAL said it has been supported by external Royal Institution of Chartered Surveyors accredited valuers, who had provided a “fair market value” assessment to inform the purchase price agreed with current owners Segro.
- It decided to seek airline agreement to acquire CLC due to the commercial benefits of the purchase. The benefits of acquiring the CLC included operating cost avoidance over 15 years, the duration of the period that Heathrow would have been subject to a tenancy agreement with Segro. Further, as the land currently occupied by the CLC lies directly within the footprint of the third runway and associated infrastructure for expansion, an additional advantage of purchasing it now is that the purchase is at a lower price compared to purchasing from Segro under compulsory acquisition.
- HAL is only purchasing the CLC on the condition that it can secure a temporary planning consent, which demonstrates that this is an expansion related purchase and not business as usual. The benefits of a temporary planning consent include lowering the capital value, avoiding necessary investment, and is intended to keep the facility operational for a maximum of seven years, by which time HAL expects it to be demolished to construct the new runway and railhead.
- Purchasing the CLC removes the potential for a “displaced user” and mitigates the risk to the critical path for expansion, so facilitating and enabling the progression of the expansion programme.
- The total cost of purchasing the CLC now is £56.5 million, which represents an estimated £58.5 million saving over an anticipated cost of £115 million under compulsory acquisition. An additional opex benefit of this purchase is a saving of £64.7 million in rent.

Our views

3.45 HAL has made reasonable arguments in relation to the early purchase of the CLC. However, HAL has already secured airline agreement to purchase the CLC under the H7 capital governance arrangements. Bearing this in mind, we do not propose to increase the early costs cap for this item as it appears that it can reasonably form part of HAL’s H7 capex programme.

Our views and draft decision

3.46 We are proposing to retain the approach of having a flexible cap for early costs incurred by HAL in 2025 and 2026, on the basis that it:

- allows for flexibility where additional expenditure is required to secure benefits to consumers, acknowledging that pre-DCO costs can be inherently uncertain;
- supports a high-quality planning application and potentially reduces long-run costs, by enabling HAL to undertake an appropriate range of studies, consultation and design work in a timely way; and
- reduces the overall risk to timescales of HAL's application for a DCO and the overall project that would arise if HAL were to choose to reduce or delay time-critical investment under a fixed cap.

3.47 To ensure that consumers are only bearing efficient early costs, we are maintaining a high bar for making increases to the cap, with any increase in the cap required to be justified by clear, prior evidence that higher expenditure is necessary, efficient and demonstrably in consumers' interests. This will be supported by any costs being subject to a strong *ex post* review and other assurance and oversight mechanisms to drive cost efficiency, as outlined in the sections below. This includes a forward looking review of any significant cost increases by an independent assessor, consistent with suggestions made by airlines.

3.48 Our assessment of HAL's costs is that HAL's cost submissions were based on a programme that was not mature. HAL has been developing a more detailed bottom-up forecast for costs incurred in 2025 and 2026, and we will be conducting a further assessment of these costs in advance of our final decision to ensure they are justified and appropriate.

3.49 Given the limited information we have received at this stage on the incremental early costs items that HAL has proposed, we are not convinced that any of the additional costs proposed by HAL should be included in the cap of £320 million used for the December 2025 Consultation. We do not rule out further changes to the cap, provided there is sufficient evidence that changes reflect efficient costs and further the interests of consumers.

3.50 It is also important to stress that this position does not prejudice the approach we will take to incentivising and/or controlling any early cost allowances from 2027 onwards. We will continue to work with HAL and other stakeholders to consider the respective merits of a fixed and flexible cap for any cost allowances we make for 2027 and beyond.

Our approach to *ex post* efficiency reviews

The December 2025 Consultation

3.51 In the December 2025 Consultation we proposed:

- an *ex post* review to assess whether early costs incurred by HAL in 2025 and 2026 are efficient; and
- not to allow HAL to recover any costs which we assess as having been incurred inefficiently.

3.52 We said that this review would be completed post 2026 when audited information on HAL's costs is available. We said that we would expect costs that are inefficient would be disallowed from inclusion in the RAB and that these could include, but not be 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;
- were incurred earlier than necessary;
- duplicated (and so would otherwise be recovered twice), such as any duplication of costs funded through the H7 price control, costs duplicated between potential promoters and cost duplicated from activities completed prior to the covid-19 pandemic;
- reduce potential competition where HAL has not taken appropriate steps to avoid these costs;
- could have been procured more efficiently;
- involve property purchase costs, where more efficient alternative approaches could have been adopted; and
- are associated with lobbying and/or not directly associated with preparation of the planning application for expansion.

Stakeholders' responses

3.53 HAL noted that the CAA had specified several tests that would apply as part of the *ex post* review of early costs, and these tests appeared to be in addition to the "demonstrably inefficient and/or wasteful expenditure" ("DIWE") test used for previous reviews of capital expenditure. HAL noted that the CAA had outlined in its H7 initial proposals that it considered that the DIWE framework was designed primarily for capex projects where the construction phase was substantially complete, rather than for project planning and development costs such as early expansion costs. Therefore, HAL requested that the CAA explains why it is reasonable to apply the DIWE criteria in the context of early costs.

3.54 It also argued that the CAA must ensure that an appropriate bar is used to assess the efficiency of early costs. This bar must be proportionate and be set out clearly at the outset to avoid any misinterpretation.

- 3.55 HAL recommended any party that is conducting/supporting the *ex post* review should be an expert in DCO applications to ensure the review is undertaken with the full knowledge of what is required for a large and complex DCO application.
- 3.56 HWL expressed concern about the continued risk of duplicative costs being incurred by multiple promoters (for example, land referencing, land acquisition, and environmental surveys). Its view was that the DfT's focus on a single scheme in no way removed the possibility of duplicative works and costs. HWL noted that the CAA must incorporate mechanisms to disallow costs which are duplicative in nature and which have been incurred as a result of a promoter taking an unreasonable or obstructive position.
- 3.57 Airlines also raised concerns about duplicative costs being incurred by promoters. They reiterated the importance of the need for further safeguards to prevent duplication and inefficiency, including non-recovery of duplicated costs by unsuccessful promoters, in the context of permitting cost recovery by multiple promoters. They also advocated for an *ex ante* cost approval mechanism to be implemented with strengthened tests for all expenditure and cost assessment for future years, alongside an audit of 2025 costs including any duplication with previous expansion work. BA noted that the CAA had allowed HAL to recover £500 million of pre-covid expansion costs.
- 3.58 The airline community expressed strong concerns about the weak incentives associated with *ex post* reviews, and made the following specific points:
- Once costs are incurred and sunk, regulatory leverage is significantly reduced and HAL's substantial information advantage would make it more difficult for the CAA or airlines to prove duplication or inefficiency. Under the proposals, the burden would fall on the CAA to demonstrate that costs are duplicative, rather than on HAL to demonstrate that they are not. This is a very high bar for the regulator. If early cost recovery is allowed at all, the burden of proof should be firmly with HAL, including on a forward looking (or *ex ante*) basis.
 - In the H7 decision, the CAA explicitly recognised the limitations of *ex post* reviews, noting that they set a high bar for disallowance, weaken efficiency incentives, and have proven ineffective in practice. Reverting to an *ex post* framework for early costs is, therefore, inconsistent with the CAA's stated regulatory approach and with the "Better Regulation principles".
 - The assessment of early costs should take place on a forward-looking basis. For costs already incurred, an independent *ex post* assessment of HAL's costs should take place as soon as possible.
 - The complexity and specialist nature of planning, land, property and enabling costs makes it difficult for the CAA to prove inefficiency after costs have already been incurred.

Our views and draft decision

- 3.59 We note the airlines' points on the shortcomings of *ex post* efficiency reviews in general, and the comments and statements we have made in relation to the introduction of forward-looking efficiency incentives for capital expenditure at the time of the H7 price control review.
- 3.60 Our policy in relation to early costs for 2025 and 2026 has been developed in a different context, where:
- the costs in scope are different in nature to HAL's "business as usual" capex; and
 - we are not at a stage where it is practicable to introduce forward looking incentives in relation to those costs.
- 3.61 In particular, most of the early costs we expect HAL to incur in 2025 and 2026 will have already either been incurred or will be committed by the time of our final decision on these matters expected later this year. HAL started incurring these costs in early 2025, in response to a clear and formal request from Government in January 2025 to develop plans for expansion.
- 3.62 Given that these costs will have largely been incurred or committed at the time of our final decision, we consider that an *ex post* review is the most practical and reasonable way to assess efficiency and establish whether any disallowance for inefficiency might be appropriate.
- 3.63 We agree with HAL and airlines that it will be important to ensure that any third parties appointed to support the *ex post* review should be sufficiently expert in large and complex planning applications and land, property and enabling costs. It is also important to emphasise that the use of an *ex post* review for assessing early costs incurred in 2025 and 2026 should not be viewed as setting a precedent for early costs to be incurred from 2027 onwards.
- 3.64 In response to the points made by HAL, we are clear that we are:
- not proposing to apply the DIWE test to early expansion costs in a mechanistic way; and
 - specifically, not applying it in the same way that we have previously applied it to Q6 capital expenditure,³⁰ or H7 capital projects not in scope of forward looking incentives.³¹

³⁰ CAA, [CAP1996](#), Working paper on Q6 capital expenditure and early expansion costs, April 2021 and CEPA, [CAP1563E](#) Review of Heathrow Airport's Q6 Capex Governance, June 2017

³¹ CAA, [CAP3232B](#) H8 Initial Proposals Section 2: building blocks and incentives, March 2026

This is because the circumstances and range of concerns we have about early costs are different from those of a more straightforward assessment of historically incurred business as usual capital expenditure. We set out below the tests that we intend to apply to the *ex post* assessment of early costs.

- 3.65 In addition to the points made about the effectiveness of *ex post* reviews, airline stakeholders and HWL also raised concerns about cost duplication, particularly if competing promoters with credible and appropriately mature proposals are developing proposals at the same time as HAL. We have acknowledged these issues in our previous consultations on early costs. We will assess whether HAL has taken all reasonable steps to avoid duplicative costs in our *ex post* review, including whether it has reasonably cooperated with the arrangements that we will bring forward to help avoid duplicative costs.
- 3.66 Stakeholders should particularly note that we expect HAL to share relevant work which is not commercially confidential with competing promoters who the CAA has assessed as having credible and appropriately mature proposals. We will also apply the same tests to any recovery of early costs incurred by competing promoters.
- 3.67 In order that such arrangements can function in an orderly way, we envisage appointing an independent third party to help assess whether information should be shared and to arbitrate on any disputes between parties in relation to these matters. We discuss these matters further in chapter 4 Recovery of other promoters' early costs.
- 3.68 We are clarifying in this draft decision the tests that we intend to apply in our *ex post* efficiency review of early costs incurred by HAL in 2025 and 2026. We consider that these tests should provide sufficient clarity on our approach. Any disallowances will relate 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;
 - were incurred earlier than appropriate/necessary;
 - are duplicated and so would otherwise be recovered twice, such as (i) any duplication of costs funded through the H7 price control, (ii) costs duplicated between potential promoters and (iii) cost duplicated from activities completed prior to the covid-19 pandemic. In assessing this, we will consider whether HAL has responded promptly and appropriately to requests from other promoters to share relevant analysis or studies which are not commercially confidential and fully cooperate with the independent assessment of these matters;

- unduly reduce potential competition where HAL has not taken appropriate steps to avoid these costs;
- could have been procured more efficiently;
- property purchase costs, where more efficient alternative approaches could have been adopted; and
- associated with lobbying and/or not directly associated with preparation of the planning application for expansion.

Ongoing cost reporting

The December 2025 Consultation

3.69 The December 2025 Consultation proposed that HAL should provide structured, ongoing reporting of early costs against its approved programme and forecast. This would provide both transparency and an early warning mechanism should early costs deviate materially from expectations. We proposed that reporting requirements be set with sufficient granularity to allow the CAA and other stakeholders to track programme progress and cost movements and to support the proposed *ex post* review.

Stakeholders' responses

3.70 HAL accepted the need for transparency and regular reporting and indicated its willingness to work with the CAA and airlines to implement appropriate arrangements.

3.71 Airlines broadly supported robust reporting, although several emphasised the importance of the reporting framework being capable of informing timely intervention rather than simply providing a retrospective record.

Our views and draft decision

3.72 Having considered these responses, our draft decision is to implement the reporting requirements on HAL that we proposed in the December 2025 Consultation. We consider that regular, structured reporting is a necessary foundation for the wider assurance framework and that it should be designed to facilitate both ongoing monitoring and the *ex post* review process. We will work with HAL and airline stakeholders to develop the detailed specification of reporting requirements ahead of our making a final decision, having regard to the need to ensure that reporting is proportionate.

Appointment of an independent cost expert

The December 2025 Consultation

3.73 The December 2025 Consultation proposed that an independent technical expert should be appointed to provide ongoing monitoring and assurance of HAL's early costs during 2026, and to support the proposed *ex post* review of early costs. We said that the expert should be technically capable, sufficiently resourced and operationally independent from HAL. We said that we expected HAL to commission this assurance, in consultation with airlines, and that the CAA will approve the terms of reference and appointments. We also said that there should be a requirement for the party to report accurately to the CAA.

Stakeholders' responses

3.74 Airlines raised significant concerns about the independence of any expert where HAL would have primary responsibility for the appointment. The key points they raised included:

- that a HAL-appointed assessor would not, in practice, have the independence necessary to provide robust and credible challenge to HAL's costs;
- that the independent assessor be appointed by, and be accountable to, the CAA directly, to remove any conflict of interest; and
- as an alternative, the appointment could be made jointly by the airlines and HAL, thereby providing a check on HAL's ability to select a favourable assessor.

3.75 HAL accepted the principle of independent assurance and indicated willingness to work with the CAA and airlines on the appointment.

Our views and draft decision

3.76 We have carefully considered the concerns raised by airlines over the independence of the assessor. We accept that the credibility of the independent assurance provided depends critically on the assessor being genuinely independent of HAL, and that the approach to making the appointment may have a material impact on independence.

3.77 For early costs incurred in 2025 and 2026, we consider that HAL appointing the assurance provider remains the most expedient and timely approach. In particular this should provide scope for a rapid appointment and integration within HAL's business processes and managements structures. Nonetheless, we propose to strengthen the procedural safeguards for independence and will strongly encourage HAL to move quickly in relation to these matters. We expect HAL to develop a shortlist of potential candidates for this role within six weeks of

the publication of this draft decision and for the CAA to approve (in consultation with airlines) the final choice of assessor. We also expect to approve the terms of reference for the independent assessor.

- 3.78 In relation to early costs incurred from 2027 onwards, we will retain the option of directly appointing an independent assessor. This approach would maximise independence, accountability and scrutiny in the regulatory process. This may also be more appropriate given the expected scale of costs throughout this period, and the time available to put an expert in place.

Reopener provisions and withdrawal from expansion

The December 2025 Consultation

- 3.79 The December 2025 Consultation proposed a “reopener” mechanism to allow the CAA to revisit the cap on early costs incurred by HAL in 2025 and 2026 in the event of a material change in circumstances. This was intended to provide flexibility to respond to developments that could not reasonably have been anticipated at the time when we make our final decision on these matters. Examples of when such a reopener might be used would include a significant change in the expansion programme or a fundamental shift in the economic or planning context. We proposed that we should maintain a high bar for any change in order to provide appropriate regulatory certainty to HAL and investors.
- 3.80 We explained that, in this circumstance, we would allow efficient early costs already incurred but reopen the cap to limit the recovery of future efficient costs to only necessary and efficient future costs required to close down the early cost programme in an efficient way. We would make this assessment on a case-by-case basis.
- 3.81 The December 2025 Consultation also proposed that HAL would be able to recover its efficient costs in the circumstances where it had a genuine business reason for withdrawing from expansion and it did so in an appropriate, timely and efficient way. As noted 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.

Stakeholders’ responses

- 3.82 HAL was broadly supportive of the concept of a reopener put forward in the December 2025 Consultation, noting that the CAA had not put forward licence drafting explaining how this reopener provision would be implemented. HAL agreed that the reopener should allow for costs already incurred, up to an agreed decision point.
- 3.83 HAL also agreed with the CAA’s proposed approach in relation to withdrawal from expansion for genuine business reasons and said that it is appropriate to

ensure that Heathrow would not be not penalised for withdrawal in such circumstances. Nonetheless, HAL said that, in order to ensure that there is legal certainty in relation to this, a provision should be included as an amendment to the Licence. HAL included suggested drafting for this provision in its response.

- 3.84 Airline respondents emphasised the importance of the reopener being a genuine and accessible mechanism for consumer protection, and not a theoretical right subject to such a high threshold as to be effectively unusable. Several airlines drew attention to the importance of ensuring that any change in circumstances could be acted upon promptly, given the potential scale of costs at stake.

Our views and draft decision

- 3.85 Consistent with the approach set out in the December 2025 Consultation, our draft decision is that we should include a reopener mechanism in the regulatory arrangements for the recovery of early costs incurred by HAL in 2025 and 2026. This approach should provide an important safeguard for consumers in the event of a material change in circumstances, and consistent with our broader approach to managing regulatory risk in a project of this scale and complexity. The mechanism is not intended to provide a routine approach to revisiting the cap on HAL's early costs, but rather a trigger for a rapid and fundamental review of forward looking allowances for costs if there is a very significant and material change in circumstances.
- 3.86 We have considered carefully HAL's request for inclusion of a licence condition in relation to the possible circumstances of its withdrawal from the expansion programme and the recovery of costs that it had efficiently incurred up to any such decision point and its subsequent efficient demobilisation of costs. On balance we do not consider this suitable for inclusion in the Licence as:
- it would not be effective in delivering the aims stated by HAL as it would not create legal certainty as to the appropriate amount to be recovered, which would need to be dealt with through the price control conditions in the Licence. In the CAA's view, a licence condition as requested by HAL would have no meaningful effect;
 - given the CAA's approach of looking to address the recovery of early costs incurred by HAL in 2025 and 2026 through the RAB, such a condition would appear to have more relevance to the recovery of costs incurred in 2027 and later, the policy for which, as set out in this draft decision, the CAA will consult on later this year; and
 - its introduction would not appear to be necessary or expedient, having regard to the CAA's duties, as we consider that we can effectively address and give effect to the appropriate approach through a clear CAA policy on these matters.

- 3.87 As such, we consider that the proposed condition would effectively be an attempt to codify the CAA's more general policy on the recovery of early costs, which would not appear to be the type of obligation that the Licence is designed to contain. As a result, we consider that these matters are better addressed through policy statements in our draft and final decisions.

The allowed return on early costs incurred by HAL

The December 2025 Consultation

- 3.88 In the September 2025 Update, we said that HAL should expect (although not be guaranteed) to recover efficiently incurred early costs through cost allowances or incentive arrangements, even in the circumstances where capacity expansion and its role as a promoter remain uncertain.
- 3.89 The December 2025 Consultation proposed that early costs incurred in 2025 and 2026 would be added to HAL's RAB, which supports the setting of HAL's price control allowances and facilitates the recovery of capital costs from airport charges. We also said that the return on efficient early costs would start to be recovered from airport charges ahead of the grant of any DCO.
- 3.90 For the remaining years of the H7 price control, this would mean HAL's regulated price control revenue being increased by the equivalent of 1.5 years of allowed return on efficient early costs incurred in 2025 and 0.5 years of allowed return on efficient early costs incurred in 2026. As charging levels have already been set for 2026, this extra revenue would tend to increase the under-recovery against HAL's price control, with HAL then adjusting airport charges in the H8 period to take account of this under-recovery.

Stakeholder responses

- 3.91 HAL supported the recovery of early costs through additions to its RAB, but said that the allowed weighted average cost of capital ("WACC") should account for 'year specific' cost of debt, so to be implemented in a way that is consistent with the approach underlying the H7 price control decision.
- 3.92 Airlines stated that the HAL's return on expansion cost incurred prior to the grant of a DCO should be limited to the cost of debt rather than the WACC, with any equity return contingent on delivery milestones. They said that this approach would support an appropriately disciplined approach to the management of costs and ensure a closer alignment of costs and benefits for consumers.
- 3.93 More broadly, airlines argued that HAL should not earn a "reward" in relation to expenditure on expansion before a DCO is granted, and that the CAA's proposals create an imbalance between risk and reward in HAL's favour. Some of these comments were made in the context of the incentive arrangements based on the success of a DCO.

Our views and draft decision

- 3.94 We remain of the view that efficient early costs should be included in HAL's RAB. The detailed approach to these arrangements is discussed further in chapter 5 Implementing our policy and making changes to the Licence.
- 3.95 In determining the appropriate allowed return for early costs, we need to protect consumers, while considering how to support incentives for efficiency and appropriately consider the need to secure that HAL can reasonably finance its activities. While we have some sympathy for the airlines' view that allowances for returns should be restricted to the H7 allowance for the cost of debt, we also have concerns that this may not be a proportionate approach (particularly in the light of recent increases in the cost of debt finance). We are also conscious of the advantages in providing clear incentives on HAL not to overspend, as capacity expansion is at a relatively early stage and does not yet benefit from the certainty of planning permission. We also note that the risk profile of early costs is different and lower compared to forward looking capital programmes, as a significant proportion of the costs has already been incurred. This lower risk profile suggests a lower WACC and so we are proposing to update the position from the one set out in the December 2025 Consultation and remunerate early costs incurred in 2025 and 2026 using a WACC at the bottom of the range used to inform the H7 price control Final Decision, which gives a pre-tax RPI-real WACC of 3.30%. We discuss further the implementation of these arrangements in chapter 5 Implementing our policy and making changes to the Licence.

Summary of our draft decision and next steps

- 3.96 In order to further the interests of consumers and to encourage economy and efficiency on the part of HAL our draft decision is to bring forward regulatory arrangements to:
- introduce a cap on HAL's recovery early costs in 2025 and 2026, which will have a degree of flexibility to allow for the possibility of additional efficient early costs where there is clear evidence in advance that such spending would further the interests of consumers;
 - make provision for *ex post* efficiency reviews of the costs that HAL incurs to provide incentives for efficiency, support arrangements to avoid the duplication of costs and to protect consumers from the recovery of inappropriate costs through airport charges;
 - ongoing cost reporting arrangements to promote transparency and provide a strong starting point for subsequent *ex post* efficiency reviews;
 - the appointment of an independent cost expert to support the delivery and assessment of the efficient levels of early costs incurred;

- provisions for “reopening” these arrangements if a material change of circumstances arises and confirmation that HAL should be able to recover efficient early costs that it had incurred were it to withdraw from the capacity expansion programme for reasonable commercial reasons; and
- allow HAL to earn a return on early costs incurred in 2025 and 2026, with the intention that these costs will be included in HAL’s opening RAB for the period of the H8 price control. In recognition of the lower risk profile of these costs, using a WACC at the bottom of the range used to inform the H7 price control Final Decision, which gives an RPI-real WACC of 3.30%.

3.97 Our approach to implementing these arrangements is described in more detail in chapter 5 Implementing our policy and making changes to the Licence and, where it is appropriate to modify the Licence to put these arrangements into effect, these matters are also dealt with in Appendix C, which constitutes a formal Notice under section 22(2) CAA12 that the CAA proposes to modify the Licence.

3.98 Although the process of modifying the Licence will take some time to complete, we expect HAL to work ahead of this timetable to support the timely appointment of the independent cost assessor and the setting up of arrangements to help avoid any inappropriate duplication in early costs.

Chapter 4

Recovery of other promoters' early costs

Introduction

- 4.1 This chapter sets out views on the recovery of early expansion costs by promoters other than HAL. Our approach has been updated having considered stakeholders' feedback to the December 2025 Consultation and other developments which have taken place since the publication of that consultation.
- 4.2 We address the following issues relating to the recovery of early expansion costs by other promoters:
- the principle of allowing recovery of HWL's costs up to the Government's Announcement and broader issues relating to the recovery of early costs and the development of competitive provision of infrastructure at Heathrow Airport; and
 - the mechanism for the recovery of HWL's costs up to the Government's Announcement.
- 4.3 In relation to these issues, we summarise the proposals in the December 2025 Consultation and stakeholder views in response to that consultation and then provide our updated views and draft decision.
- 4.4 We also provide an update on more recent developments in relation to the possible development of competitively provided infrastructure at Heathrow.

The December 2025 Consultation

- 4.5 The December 2025 Consultation set out our view that promoters with credible and appropriately mature proposals should be able to recover their early costs on an equivalent basis to HAL, as this should provide benefits to consumers by creating a "level playing field" to promote competition in the planning of capacity expansion.
- 4.6 We explained that, in view of the very significant costs of the scheme overall, the benefits to consumers arising from HWL's competitive rivalry to HAL were likely to have exceeded the costs forecast by HWL in its July 2025 submission. We explained that HWL's rivalry had created pressure on promoters to put forward more efficient plans and allowed for a wider range of options to inform the Government's Announcement on the single scheme it would use as the basis of revising the ANPS. We also explained that we considered HWL's costs up to the Government's Announcement would be unlikely to be duplicative of the costs

incurred by HAL as they related to the development of a different scheme from that put forward by HAL. HWL's costs were also relatively modest.

- 4.7 Bearing the above in mind, we proposed that recovery of HWL's costs should be implemented through a mechanism in the Licence and explained our view that CAA12 provides significant discretion over the scope of licence modifications that we can bring forward to put such arrangements in place.
- 4.8 In order to make a final decision on these matters, we said we would need further information from HWL on:
- the costs it incurred in 2025 up to the date of the Government's 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.
- 4.9 As for costs incurred after the Government's Announcement, we explained that there should be a "reset" and that no allowance should be made for additional costs incurred by HWL after that point, unless these can be shown to provide clear benefits for consumers and until such time as there are credible and appropriately mature plans. We explained that, from that time, we would only consider assessing the potential recovery of costs that are incurred in support of plans that would align with the single scheme announced by the Government as informing the review of the ANPS.

Stakeholders' views

Recovery of HWL's costs up to the Government's Announcement

- 4.10 HWL broadly welcomed the CAA's proposals and said that that other promoters should have reasonable certainty regarding the recoverability of costs.
- 4.11 HAL said that HWL's proposal for expansion is not credible, not mature, and would deliver a worse experience at a higher cost to passengers. It reiterated its view that it would be outside the CAA's powers under CAA12 to put in place a licence modification to require the recovery of an alternative promoter's costs. It considered that the purpose of CAA12 was to control the risks of airport charges exceeding efficiently incurred costs and/or the potential abuse of substantial market power. On that basis only HAL's costs should be addressed by the Licence: primary legislation would be needed to allow the CAA to use price control conditions to require HAL to recover an unlicensed entity's costs.
- 4.12 Airlines generally did not support allowing the recovery of HWL's costs but did not make substantial representations on this. BA considered that the CAA's view

that the benefit to consumers from HWL's competing proposal would be in excess of the £3.5 to £4 million costs forecast to be incurred by HWL was not substantiated by evidence.

Recovery of early costs and competition

- 4.13 HWL stated that an appropriate degree of rivalry between promoters, or by other competitive arrangements, could also benefit consumers in the future (that is, once a single scheme was selected by Government as part of the Government's Announcement). In support of this, HWL asked the CAA to:
- clarify how it would assess whether HWL's plans are "credible and appropriately mature" as a precondition for recovery; and
 - how the CAA will assess "clear benefits to consumers" from HWL's competing scheme.
- 4.14 It also asked that any test be applied consistently to both HAL and all other promoters, without assuming that HAL's scheme is inherently beneficial to consumers.
- 4.15 It also argued that the Government's decision to select a single scheme to inform its review of the ANPS would not reduce the risk of duplicated costs. This is because, to apply for a DCO, HWL would need to conduct its own land referencing, environmental surveys and land acquisition activities. These activities would necessarily duplicate those undertaken by HAL's unless:
- HAL agreed to coordinate with rival promoters on such matters, which HWL doubted that HAL would do, based on its previous experience; or
 - the CAA were to mandate that the activities be coordinated and the information shared.
- 4.16 HWL also argued that there needed to be a coordinated and efficient process for progressing planning work which would:
- deliver the CAA's objectives set out in its guiding principles;
 - deliver significant benefits for consumers as part of expansion; and
 - establish a level playing field enabling rival promoters' proposals to be properly considered.
- 4.17 BA, IAG, AOC/LACC, Delta and Aer Lingus argued that, by underwriting HAL's early costs, the CAA risked entrenching HAL as the "default" developer of expansion and undermining contestability.
- 4.18 IAG said that the introduction of competition through multiple promoters would provide the potential to significantly reduce expansion costs and this potential must be extended to the early costs stage.

- 4.19 AOC/LACC emphasised the importance of CAA designing its early costs policy so that consumer-funded work is documented, structured and transparent so it:
- can be transferred to alternative bidders, subject to appropriate confidentiality; and
 - does not create an information advantage that forecloses competition.

Our views

Principle of allowing recovery of HWL's costs up to the Government's Announcement

- 4.20 In the August 2025 Consultation, we set out the view that other promoters with credible and appropriately mature proposals should be able to recover their early costs. We said that having a degree of rivalry between promoters would have advantages to consumers in that it should promote efficiency and the thorough evaluation of a wide range of expansion options. This would be particularly important given the size and complexity of the capacity expansion programme.
- 4.21 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.
- 4.22 We then confirmed in our December 2025 Consultation that we regarded HWL's proposals as credible and appropriately mature.
- 4.23 We remain of the view that it is appropriate to progress our work consistent with our September 2025 Update and December 2025 Consultation. We recognise that circumstances changed with the Government's Announcement on the scheme that would inform its revisions to the ANPS. Nonetheless, there are advantages in terms of regulatory certainty and consistency in progressing our proposals, including in terms of the confidence that investors and potential new entrants have in the overall regulatory regime and in keeping financing costs and costs to consumers lower than they would otherwise be. This is particularly important in the context of our parallel work on regulatory models, where we are continuing to consider how competition can best support the wider development of capacity expansion.
- 4.24 We consider that this approach does not create an automatic precedent for our treatment of costs incurred by other promoters, which is discussed further below. That said, we consider that confining the recovery of third party costs only to the costs incurred by HWL, as the only other promoter of a credible and appropriately mature proposal during 2025, proportionately manages the risk that consumers would otherwise be at risk of bearing the costs of promoters that had

not provided a benefit to consumers through providing an appropriate level of rivalry to HAL.

- 4.25 We also considered similar questions in the context of the capacity expansion process prior to 2020. At that time, we developed a detailed policy for the recovery of the early costs that HAL incurred between 2017 and 2020. Heathrow West's³² proposals were, at that time, less mature than those of HAL. It was only in early 2020, just before the capacity expansion programme was paused, that we decided there was sufficient evidence to consider that the Heathrow West plans were reasonably mature and credible.
- 4.26 Once expansion had been paused and the focus returned to a "two runway" airport, we decided that there was not a compelling case in the interests of consumers for us to take action to support the recovery from consumers of the early costs that the Arora Group had incurred at that time. While we did not consider that it would be reasonable for us to decide that consumers should be exposed to Heathrow West's costs at that time and in those specific circumstances, we were clear that, our decision did not set, and should not be seen as setting, a precedent for future decisions.
- 4.27 The proposals submitted by HWL as part of the current expansion programme were made in a different context. In 2025 the Government explicitly requested proposals for capacity expansion, and HWL was one of several parties that submitted such proposals in response to the Government's request. We are focusing our approach to cost recovery on those proposals that came forward in a timely way and were credible and appropriately mature, to act in way that encourages competition and furthers the interests of consumers.
- 4.28 Our consultants Steer have undertaken an assessment of HWL's proposal and found that it was sufficiently complete and robust to carry out a high-level technical and cost efficiency assessment.³³ On the basis of this assessment, we explained in the December 2025 Consultation that we considered the planning work by HWL up to the Government's Announcement was credible and appropriately mature.
- 4.29 We note that in its response to the December 2025 Consultation, HAL stated that HWL's proposal for expansion was not credible, not mature, and would deliver a worse experience at a higher cost to passengers. We note that HAL provided no evidence in its response that properly substantiates this claim.

³² We use the term "Heathrow West" when referring to the expansion plans of the Arora Group before the capacity expansion programme was paused in early 2020.

³³ Steer, Initial technical and cost efficiency assessment of capex expansion plans for Heathrow Airport final report, January 2026. Available here: www.caa.co.uk/CAP3238A

- 4.30 We also remain of the view that the rivalry between HWL and HAL during 2025 allowed the Government to consider a greater range of options for capacity expansion and provided a more complete set of information that supported the Government's Announcement on the scheme that would inform its review of the ANPS. As noted above, given the size and complexity of the capacity expansion programme, it is important to consumers that key decisions are informed by appropriate information on a range of options. In this context, while it is not practicable to quantify with any certainty the benefits of the HWL scheme, a process that involves the consideration of a range of outcomes is significantly more likely to lead to outcomes that are in the interests of consumers.
- 4.31 Bearing all of the above in mind, we are setting out a draft decision to allow HWL to recover costs incurred up to the Government's Announcement. We are undertaking further analysis and review of evidence from HWL on the level of costs it incurred before the Government's Announcement. In April 2025, HWL notified us that it had incurred £4.270 million (2025 RPI-real prices) up to the Government's Announcement. Our provisional view is that HWL should be able to recover up to £4.3 million of costs, subject to the outcome of this additional review, which we will set out in our final decision. That additional review will ensure that the level of costs recovered by HWL is appropriate to the work undertaken by it.

Mechanism for recovery of HWL's costs up to the Government's Announcement

- 4.32 In the December 2025 Consultation, we said that it would be appropriate to use the Licence to recover the efficient early costs HWL incurred up to the date of the Government's Announcement. We also proposed to make modifications to the price control terms in the Licence to allow the recovery of these efficient early planning costs and for these revenues to be transferred to HWL.
- 4.33 We remain of the view that CAA12 is flexible enough to accommodate a wide range of commercial structures at Heathrow³⁴ and have also previously considered whether arrangements should be put in place through the Licence to provide for the recovery of a third party's costs (the "Heathrow West" scheme) after the expansion programme had been paused in 2020. This work led to the CAA's decision in March 2023³⁵). While we said that, in the specific

³⁴ For example, in the [Technical Information Note](#) published in August 2018, we said that "*in principle, section 21 of the Act permits the CAA, where it considers it necessary or expedient, to make provision in HAL's licence for the accommodation of an alternative operator which had been successful in obtaining a DCO to develop part of Heathrow airport, by requiring it to enter into contractual agreements or other arrangements for the delivery of capacity expansion.*"

³⁵ CAA, [CAP2524H](#), H7 Final Decision: Decision document on recovery of Heathrow West costs, March 2023, especially at paragraphs 33 and 35.

circumstances at that time, Heathrow West's costs would not be recoverable, we expressly noted the CAA's view that section 21(1)(b) CAA12 is broad enough to support the development of a mechanism for the recovery of the costs of other projects in the future, should it be in the interests of consumers.

4.34 HAL's argument that such a licence modification would be outside the CAA's powers is based on the purpose of the licensing and price control regime set out in CAA12 being aimed at controlling the risk of airport charges exceeding efficiently incurred costs and/or the potential abuse of substantial market power. While HAL did not assert this directly, this argument appears to require section 19 CAA12 (that a licence *must* contain such price control conditions to deal with risk that HAL may engage in abusive conduct³⁶) to be interpreted so as to exclude the possibility of price control conditions that *may* address any other matter.

4.35 We do not accept this interpretation. Section 19(2) CAA12 states what price control conditions must be included in the Licence, but does not limit the scope of price control conditions only to addressing the risk set out in section 18(1)(a) (that is, the risk that HAL may engage in conduct that would amount to an abuse of its substantial market power). We consider that this is clear:

- not only from the language of section 19(2) itself, because it states what a licence "must" contain, but is silent on what it "may" contain; but also
- because section 19(2) is expressly subject to "the provision in this Chapter about the conditions that may be included in the licence" (see section 19(3)).

4.36 Further, as section 21(1)(b) CAA12 provides a broad discretion to the CAA to implement licence conditions that contain

"provision requiring the holder of the licence to enter into a contract or other arrangement for a purpose specified in a condition and on terms specified in, or determined in accordance with, a condition"

we consider that it is clear that CAA12 is flexible enough to accommodate the design of an arrangement consistent with that envisaged in the December 2025 Consultation.

4.37 Bearing all of the above in mind, we are retaining the approach set out in the December 2025 Consultation of bringing forward a modification to the Licence that will facilitate the recovery by HAL of HWL's efficient early costs and the transfer of these funds to HWL.

³⁶ By virtue of ss19(2) and 18(1)(a).

4.38 The licence modification we are proposing in relation to these matters is set out in Appendix C and also explained in chapter 5 Implementing our policy and making changes to the Licence. In summary, we are proposing to introduce:

- an obligation on HAL to pay HWL's costs up to a cap which we are provisionally setting at £4.3 million (2025 RPI-real prices). The final amount would be as directed by the CAA, up to this cap and adjusted for inflation to the year in which the payment is made; and
- a corresponding term in the price control formula allowing HAL to recover the corresponding amount through airport charges.

Future competition in delivering expansion

New proposals for costs incurred after the Government's Announcement

4.39 The December 2025 Consultation noted that the Government's Announcement, and its focus on HAL's proposal for a 3.5km runway to the northwest of the current airport, was an important programme milestone. In the light of this, we said there should be no allowances for additional costs incurred by other promoters after that date:

- unless such costs could be shown to provide clear benefits for consumers; and
- until such time as there are credible and appropriately mature plans in the context of the Government's focus on 3.5km northwest runway.

4.40 In December 2025, HWL wrote to the Secretary of State for Transport ("SoS") requesting a direction under section 35 of the Planning Act 2008 in relation to the planning process for a new passenger terminal building and associated works on the western boundary of Heathrow Airport. On 12 March 2026, the SoS granted this request, stating that:

- the project must follow the full process for the grant of a DCO;
- the ANPS applies; and
- any pre-direction consultation already carried out by HWL can count towards the statutory requirements if it meets the relevant standards.

4.41 Following the SoS's direction, we have started engaging with HWL to understand:

- its plan to work towards the grant of a DCO; and
- the timings and level of spending it expects to incur, both in 2026 and beyond.

- 4.42 In its response to the December 2025 Consultation, in relation to costs which may be incurred after the Government's Announcement, HWL asked the CAA to clarify:
- how it would assess whether HWL's plans are "credible and appropriately mature" as a precondition for recovery; and
 - how it would assess "clear benefits to consumers" from HWL's competing scheme.
- 4.43 We explained in the previous section that HWL's original proposals were assessed as being credible and appropriately mature based on our judgements of analysis conducted by our consultants, Steer. This had involved the evaluation of each submission against a maturity assessment framework which considered the information requirements set out in the Secretary of State's letter to potential promoters in June 2025. The framework that we used in conjunction with Steer assessed completeness (quantity) and robustness (quality) of the plans across key technical categories, to form a view on whether the plans are appropriately mature. This assessment revealed that only two proposals, namely those from HAL and HWL, demonstrated sufficient technical maturity and supporting evidence to warrant detailed review of feasibility, operability, timely delivery, and cost efficiency.
- 4.44 For any future proposals, we propose to implement an approach broadly consistent with that described above in assessing any competing proposals to establish whether they are credible and appropriately mature. This would include assessing any future proposals for consistency with the scheme specification set out in the Government's Announcement and any further details that emerge from the Government's review of the ANPS.
- 4.45 As explained in chapter 2 Recovery of early costs by HAL, DfT is currently updating its appraisal of the economic case for capacity expansion as part of its review of the ANPS. Any competing proposals from HWL or other promoters would need to be consistent with the scheme specification provided by Government and explain how their proposals deliver consumer benefits in line with the benefits set out by DfT as part of the economic case for capacity expansion. Promoters should set out:
- the benefits clearly in their proposals;
 - how these benefits have been estimated; and
 - to the extent that their proposals only deliver elements of the overall scheme, explain how they will ensure that the overall benefits from expansion will be delivered.

- 4.46 To the extent it is appropriate, we will consult separately on our approach to the recovery of early costs in relation to these matters.

Airline concerns about distorting competition

- 4.47 Airlines have raised concerns that our proposals for recovering early expansion costs could distort competition between potential promoters. They argue that allowing HAL to recover early design and development work risks entrenching HAL as the default promoter of expansion. In their view, this could give HAL a material information advantage over any rival developer, weaken the contestability of future expansion, and conflict with our statutory duty to promote competition.
- 4.48 We have considered the impact of allowing HAL and other promoters with credible and appropriately mature proposals to recover early costs incurred in 2025 and 2026 on competition between promoters. The approach we have been consulting on since 2025 has supported both HAL and other credible developers in recovering early costs. At the same time, we are targeting recovery on efficient costs of proposals that are sufficiently mature and support the timely delivery of capacity expansion. In the round we consider that this approach both appropriately promotes competition and protects consumers.
- 4.49 Our ongoing work on the future regulatory models for capacity expansion is also looking at options to take better advantage of competitive forces in developing the future regulatory framework for Heathrow. Taken together, we remain of the view that these initiatives are appropriate in terms of appropriately promoting competition and protecting consumers.

Duplication of costs

- 4.50 In the light of:
- the representations from HWL on the risks and issues around the duplication of costs; and
 - the direction issued by the SoS on the 12 March 2026 pursuant to section 35 of the Planning Act 2008

we have considered further issues around the duplication of costs between rival promoters. While the December 2025 Consultation said that some of the issues around cost duplication would be less acute given the Government's Announcement, we also said it would continue to be important to protect consumers from the unnecessary duplication of costs incurred previously or between potential promoters.

- 4.51 The direction issued by the SoS on 12 March 2026 has reinforced the importance of these matters to consumers and, as we have explained in chapter 3 Regulatory arrangements to protect consumers, we will consider

whether HAL and other credible promoters have taken reasonable steps to avoid and mitigate any duplication of cost as part of our *ex post* efficiency review and, if necessary and appropriate, disallow costs that are associated with any inappropriate duplication of costs. This will include assessing whether HAL has responded promptly and appropriately to requests from other promoters to share relevant analysis or studies which are not commercially confidential.

- 4.52 In order to facilitate an orderly and efficient process for consideration of these matters, we intend to develop mechanisms to enable the transfer of relevant work between promoters, to avoid duplication and protect consumers' interests. This could involve appointing an independent party to consider requests from credible promoters for information to be shared and decide on the appropriateness of sharing this information on a case-by-case basis. We would expect all credible developers to cooperate with such an approach and that allowances for efficient cost recovery would be conditional on such cooperation. We will initiate discussions with both HAL and HWL on how best to put such arrangements in place in a timely way following the publication of this Draft Decision.
- 4.53 This approach should ensure that we both protect consumers from the recovery of inappropriate and/or inefficient costs while also appropriately promoting competition where credible alternative promoters emerge.

Summary of draft decision and next steps

- 4.54 Having considered stakeholders' views, we propose to retain the broad approach we set out in the December 2025 Consultation to allow HWL to recover the efficient early costs it incurred before the Government's Announcement. We consider that this approach is in the interests of consumers, as HWL has provided a degree of rivalry to HAL ahead of the Government's Announcement and allowed the Government to consider a wider range of options in relation to capacity expansion.
- 4.55 We are undertaking further analysis and review of evidence from HWL around the level of costs incurred before the Government's Announcement, and our provisional view is that HWL should be able to recover up to £4.3 million of costs and adjusted for inflation to the year in which the payment is made, subject to the outcome of this additional review.
- 4.56 Consistent with the approach set out in the December 2025 Consultation we remain of the view that it is appropriate to modify the Licence to facilitate the recovery of HWL's costs. We discuss the detail of these arrangements further in chapter 5 Implementing our policy and making changes to the Licence and set out the proposed licence modification in Appendix C.

- 4.57 We will work further with both HAL and HWL on arrangements to avoid any unnecessary duplication of costs. We will also discuss further with HWL its latest proposals for expansion, following the direction that the SoS made in relation to these matters in March 2026.

Chapter 5

Implementing our policy and making changes to the Licence

Introduction

- 5.1 We have set out in previous chapters our proposals that the efficient costs of expansion incurred by HAL in 2025 and 2026, and by HWL up to the Government's Announcement, should be recoverable through airport charges, and the additional regulatory protections it will be appropriate to introduce to further the interests of consumers.
- 5.2 This chapter provides further details on our approach to implementing our policy, including the changes it will be appropriate to make to the Licence to give effect to key elements of the policy. It covers:
- the arrangements for adding efficient early costs incurred by HAL in 2025 and 2026 to its RAB, and the approach to any adjustments that are necessary in the light of any changes to the recovery cap or as a result of the *ex post* efficiency reviews;
 - recovery of the return on efficient early costs incurred by HAL in 2025 and 2026;
 - the changes to the Licence to support the additional regulatory protections set out in chapter 3 Regulatory arrangements to protect consumers; and.
 - recovery of early costs incurred by HWL.
- 5.3 For each of these issues we provide a summary of the position in the December 2025 Consultation, the responses of stakeholders in relation to these matters and our updated views and draft decisions.
- 5.4 Appendix C sets out the modifications we propose to make to the Licence and constitutes a formal notice of proposed licence modifications under section 22(2) CAA12.

Including efficient early costs incurred by HAL in 2025 and 2026 in its RAB

The December 2025 Consultation

- 5.5 The December 2025 Consultation proposed that HAL's efficient early costs incurred in 2025 and 2026 should be added to HAL's RAB, subject to a cap of £320 million (2024 Consumer Prices Index-real prices).

- 5.6 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.
- 5.7 We proposed to conduct a "true up" once the outturn early costs are available for 2025 and 2026 and after conducting an *ex post* efficiency 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 should not have been included in the RAB;
 - secure that the total early costs incurred by HAL in 2025 and 2026 included in the RAB are no higher than the cap set out in our final decision and any subsequent decisions by the CAA on the level of efficient costs incurred by HAL in 2025 and 2026;
 - adjust the RAB to take account of differences between the allowed return in H7 associated with the efficient early costs identified in our review and the allowed return in the H7 price control associated with the forecast of costs in our final decision; and
 - adjust the RAB, as appropriate, for any other differences in early costs resulting from differences between outturn and forecast inflation.
- 5.8 The *ex post* review and true up would be conducted as soon as is practical and no sooner than 2027.

Stakeholders' responses

- 5.9 HAL said that depreciation of additions to the RAB for early costs would need to commence during the H8 period. Therefore, the H8 settlement should include additional depreciation to reflect the addition of early costs. It:
- proposed that the life assumed for depreciation be consistent with that used for other new capital additions to the RAB in the H8 period;
 - said it would work with the CAA to define this; and
 - asked for this to be clarified in the CAA's decision.
- 5.10 HAL agreed with the proposed wording for the definition of early costs and expansion, but noted the point that "*planning for enabling works to support the timely delivery of expansion in the event that development consent is granted to the Licensee for expansion*" is applicable to the end of 2026. Beyond 2026, the definition of early costs should be expanded to include actual works, including major relocations (such the Waterside complex and the immigration removal centre). HAL said it would provide further information on these costs in its business plan submission.

- 5.11 HAL commented that the CAA’s earlier April 2018 document (“the April 2018 Guidance”)³⁷ had provided helpful guidance on the cost categories directly associated with seeking planning permission. It proposed that the previous guidance on cost categories should be used in the first instance and form the basis of the CAA’s approach (noting that that was not an exhaustive list). HAL said that this approach would provide greater certainty for all parties given the previous work to establish the guidance.
- 5.12 HAL also suggested that all early costs should be added to the RAB, irrespective of whether the accounting classification was capital or operating expenditure.
- 5.13 Airlines wanted stronger safeguards when early costs are added to the RAB. In particular, proposals to permit early cost recovery, and to add these costs to the RAB, would require particularly careful scrutiny. Any early cost recovery must be supported by strong safeguards to prevent unnecessary or premature spending and to ensure that costs are efficient, justified, and clearly linked to consumer benefit. In addition, there must be clarity on the consequences if underlying assumptions change or if costs exceed forecasts.
- 5.14 Aer Lingus was of the view that the proposal did not align with the CAA’s own analysis of HAL’s already-large RAB and high capital intensity, and the resulting affordability concerns for consumers as set out in its “lessons learnt” document on setting future price controls³⁸ and its working paper on regulatory models³⁹. Having identified the growth of the RAB as a key consumer risk, the CAA had not adequately justified why it was now proposing to add further speculative, pre-consent costs to the RAB.

Our views and draft decision

- 5.15 We note HAL’s comments on the depreciation of early costs. We intend to work with HAL on this to ensure that depreciation policy is appropriately applied to early costs and that any other appropriate adjustments (including through the true up we propose to take account of any *ex post* review) are made to ensure that the RAB reflects only the efficient level of early costs.
- 5.16 In relation to HAL’s comments definitions of early costs we acknowledge the point made by HAL about enabling works from 2027 onwards and intend to consult on the treatment of costs incurred from 2027 onwards later this year. HAL also referred to the Guidance we issued in April 2018 which provided a (non-exhaustive) list of the cost categories directly associated with seeking planning permission, which would be included in the definition of “Category B”

³⁷ CAA, [CAP1651](#), Guidance on preparation of the annual budget and statement for those costs associated with obtaining planning permission for a new northwest runway, April 2018

³⁸ CAA, [CAP3000](#), Setting future price controls – lessons learnt from the review of approach, August 2024

³⁹ CAA, [CAP3195](#) Working Paper on regulatory models, November 2025

costs.⁴⁰ We are no longer using the language of “Category A, B or C” costs. However, we agree with HAL that, as the expansion programme develops and costs grow in scale and scope, it could be useful to revisit and, if necessary, update the guidance previously provided on what should be included as part of costs associated with seeking planning permission. For costs incurred the recoverable early costs incurred in 2025 and 2026, we will continue to use the definition set out in the licence drafting we consulted on in the December Consultation, which was based on the cost submission made by HAL in July 2025.

- 5.17 In respect of airlines’ concerns on recovery of early costs through the RAB, we consider that the arrangements set out in chapter 3 Regulatory arrangements to protect consumers, together with the process for the true up set out in the December 2025 Consultation and summarised above, should provide appropriate protection to the interests of consumers in ensuring that only efficient early costs are recovered.
- 5.18 We also note that the materiality of early costs to be allowed in 2025 and 2026 is limited compared to the overall size of HAL’s RAB and will not, by itself, raise significant new and material concerns over the overall level of HAL’s airport charges.
- 5.19 Bearing in mind all of the above, our draft decision is to retain the approach to the cap on efficient costs, the *ex post* review and the approach to the true-up summarised above and set out in the December 2025 Consultation.

The return on efficient early costs incurred by HAL in 2025 and 2026

The December 2025 Consultation

- 5.20 The December 2025 Consultation proposed to allow the recovery of the allowed return on the forecast early costs for 2025 and 2026 using the allowed weighted average cost of capital used to set the price control for H7. We suggested that this could be achieved by adjusting HAL’s price control revenue in 2027 and 2028.
- 5.21 To allow for the recovery of the return on efficiently incurred early costs, we proposed that a new “Return on Provisional Early Expansion Costs term (+ RPEEC_t/Q_t)” should be inserted into the formula for calculating the maximum

⁴⁰ In [CAP1513](#), The recovery of costs associated with obtaining planning permission for a new northwest runway at Heathrow Airport: Policy Statement, February 2017, we defined Category B costs as “capacity expansion costs that are, in general, incurred by HAL after the Government policy decision on the location of new capacity (that is, 25 October 2016) and associated with seeking planning permission.

revenue yield per passenger recoverable by HAL for 2027 and 2028. We also specified the detail of how this new term “+ RPEEC_t/Q_t” would be calculated.

Stakeholders’ responses

5.22 HAL noted a discrepancy in the application of inflation adjustment and said that the allowances applied should reflect its proposed cap of £449 million. For example, it said that the proposed new term “RPEEC” should uplift the 2025 allowance to 2027 prices as the CAA’s proposal of uplifting to 2025 prices would not take full account of the time value of money.

Our views and draft decision

5.23 We note and agree with HAL’s comment on indexation. To address this, we would adjust the indexation uplift to the year when the early costs are allowed to be recovered, to account for the time value of money.

5.24 Nonetheless, as we have explained in chapter 3 Regulatory arrangements to protect consumers we are retaining the base level of the cap at the £320 million set out in the December 2025 Consultation.

5.25 As noted above, in the December 2025 Consultation, we proposed the inclusion of a “Return on Provisional Early Expansion Costs term (+ RPEEC_t/Q_t)” in the overall formula for calculating the maximum revenue yield per passenger recoverable by HAL for 2027 and 2028.

5.26 Since then, we have published the initial proposals for the H8 price control⁴¹. As part of those initial proposals, we have set out an approach to the implementation of a holding price cap for 2027, which would involve specifying the level of this holding cap ahead of summer 2026. In order to avoid further complicating this process, we have decided to adjust HAL’s allowed price control revenue in 2026 to allow for the return on efficient early costs incurred in 2025 and 2026.

5.27 The maximum revenue yield for 2026 is £26.092 (current year prices)⁴². To implement our proposed approach, our draft decision is to introduce a “Return on Provisional Early Expansion Costs term (+ RPEEC₂₀₂₆/Q₂₀₂₆)” that would add £0.073 (current year prices) to the maximum revenue yield per passenger⁴³.

5.28 Because HAL has already set airport charges for 2026, the additional revenue would be recovered through the price control revenue correction factor applied to

⁴¹ CAA, [CAP3232C](#), H8 Initial proposals Section 3: financial issues and calculating the price cap, March 2026, Table 11.2

⁴² HAL, [Heathrow Airport Limited Airport Charges for 2026 Consultation Document](#), August 2025, paragraph 2.13.3

⁴³ Detailed calculations in Appendix C.

revenues from 2028 airport charges, when the outturn yield for 2026 will be compared with the maximum revenue yield for 2026 (which will include the impact of the new term discussed above).

- 5.29 Under our proposals to undertake a true up, if any early costs were to be found inefficient, they would be removed from the RAB. Any such adjustment would also correct for any returns that have been allowed on this spending.
- 5.30 We have explained in chapter 3 Regulatory arrangements to protect consumers the revised approach we have decided to adopt for the purposes of calculating the appropriate return on the early costs that HAL incurs in 2025 and 2026.
- 5.31 Appendix C contains further detail on the proposed licence modifications in relation to the new price control term that will allow HAL to recover an appropriate return on the efficient early costs it incurs in 2025 and 2026.

Further regulatory protections to further the interests of consumers

The December 2025 Consultation

- 5.32 The December 2025 Consultation explained how we intended to reflect in the Licence the other regulatory arrangements that we had designed to further protect consumers which are discussed in chapter 3 Regulatory arrangements to protect consumers. These included:
- the overall approach that we expect HAL to take to developing its plans for expansion;
 - the appointment of independent experts to monitor HAL's strategy for the acquisition of land and other 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.

Stakeholders' responses

- 5.33 HAL supported transparency and reporting in relation to early costs. However, it considered that this would need to be balanced with the needs and requirements of the programme developing a DCO application. It said that the baseline for reporting should be against its December submission plus the costs of purchasing the CLC, as this would better reflect expected expenditure.
- 5.34 It said that it intended to work with the CAA on these requirements and agree the format, structure and precise timings of the reporting. This included working with the CAA to define the required statement from its auditors and ensuring that its auditors could provide the statement the CAA is seeking.

- 5.35 HAL noted that the Licence requires it to make its Regulatory Accounts available “*as soon as reasonably practicable, and in any event not later than six months after the end of the Regulatory Year to which they relate*”. It said that the proposed wording in the Licence for early costs should mirror the Regulatory Accounting requirements.
- 5.36 It also said that it would work with the CAA and airlines to appoint an independent property expert to assist in overseeing costs and supporting efficient outcomes. HAL noted the expert(s) would need to have strong experience in large, complex and dynamic planning application processes to ensure they can provide value to the programme and consumers. It said it would expect to be able to recover the cost of appointing an independent expert(s) as part of the early cost allowance, as this is on top of the H7 cost allowance. It will include this cost as part of business plan submission.
- 5.37 BA considered that the CAA's proposal to not include the true-up mechanism and approach to *ex post* review in the proposed licence modifications was an inappropriate omission.

Our views and draft decision

- 5.38 We note the comments by HAL on the arrangements for reporting and assurance. These are, in general focused on the detail of the arrangements that we proposed in the December 2025 Consultation rather than the broad form of the obligations set out in the draft licence condition. We will continue to discuss the detail of the arrangements with HAL and other stakeholders.
- 5.39 In relation to the comments by BA on the omission of details of the *ex post* review and arrangements for the true up from the Licence, we note that these are initiatives that will be driven by the CAA and so it would not generally be appropriate to include in the Licence, which seeks to prohibit inappropriate conduct and provide obligations on HAL to act in a way consistent with the interests of consumers. The Licence is not designed to regulate or unduly constrain the scope of the CAA's activities in furthering the interests of consumers. We have also provided guidance in chapter 3 Regulatory arrangements to protect consumers on the approach we intend to take both to the *ex post* review and the true up.
- 5.40 Bearing all of the above in mind, our draft decision is to proceed with the broad approach to the licence modifications to further protect consumers as discussed above and set out in the December 2025 Consultation. Appendix C contains our proposed drafting for Condition G of the Licence and further detail on these matters.

HAL's recovery of the costs of other promoters

- 5.41 In the December 2025 Consultation we did not explain the detail of how we intended to implement the proposals for recovery of costs incurred by HWL up to the Government's Announcement through the Licence, nor did we set out any proposed licence drafting in relation to these matters. As such, we did not receive any stakeholder feedback on these issues, although as we have explained in chapter 4 Recovery of other promoters' early costs we did receive representations on the broad approach, which are dealt in the same chapter.
- 5.42 This section explains how we propose to implement the recovery of efficient early expansion costs incurred by HWL through modifications to HAL's Licence. The proposed approach is intended to give practical effect to the policy position set out in chapter 4 Recovery of other promoters' early costs, namely that it is in the interest of passengers for efficient early planning costs incurred up to the Government's Announcement to be recovered through regulated charges, notwithstanding that those costs were incurred by a third party.
- 5.43 In summary, we propose to introduce licence conditions which:
- places an obligation on HAL to make payments to HWL in respect of HWL's efficient early costs, up to a specified cap and subject to CAA determination; and
 - allow HAL to recover amounts paid to HWL through airport charges, so that HAL is kept financially neutral.
- 5.44 The drafting of the proposed licence modification is set out in Appendix C. This section explains the intended operation of that drafting.
- 5.45 We propose to set an overall monetary cap on the amount of HWL costs that may be recovered through this mechanism. Provisionally, this cap is £4.3 million (to be updated following inflation adjustments). The final recoverable amount would be determined by the CAA and may be less than the cap if we assess only part of the claimed costs as efficient.
- 5.46 The maximum revenue yield for 2026 is £26.092 (current year prices)⁴⁴. To implement our proposed approach, our draft decision is to introduce a "Heathrow West Limited Provisional Early Expansion Costs term (+ HWLPEEC₂₀₂₆/Q₂₀₂₆)" that would add £0.053 (2026 prices) to the maximum revenue yield per passenger⁴⁵.

⁴⁴ HAL, [Heathrow Airport Limited Airport Charges for 2026 Consultation Document](#), August 2025, paragraph 2.13.3

⁴⁵ Detailed calculations in Appendix C.

- 5.47 The proposed licence modification would also place a new obligation on HAL to make payments to HWL in respect of the early costs determined by the CAA to be eligible for recovery. The obligation would be framed so that:
- HAL is required to pay HWL the amount directed by the CAA, up to the specified cap and adjusted for inflation depending on the time when the payment is made;
 - the timing of payments is linked to CAA directions; and
 - HAL's obligation is strictly limited to the amount and scope determined by the CAA and will be no more than the specified cap, ensuring regulatory certainty and protecting consumers from over recovery.
- 5.48 This approach ensures that the assessment of costs, the determination of efficiency and the quantum of any payment remain under the direct oversight of the CAA.
- 5.49 To ensure that HAL is not financially disadvantaged by acting as the payment vehicle, we propose a corresponding modification to the price control arrangements in the Licence. Specifically, the price control formula would be amended to allow HAL to recover, through regulated airport charges, amounts paid to HWL in accordance with the CAA's directions. This would operate as a defined pass-through item, linked directly to the payment obligation described above.
- 5.50 The design of the pass-through is intended to ensure that:
- recovery is limited to amounts actually paid by HAL to HWL under the relevant licence condition;
 - recovery is subject to the same cap as the payment obligation; and
 - there is no scope for double recovery or recovery of amounts not approved by the CAA.
- 5.51 Under the proposed licence drafting, the CAA would issue directions setting out:
- which HWL costs are assessed as efficiently incurred;
 - the total amount approved for recovery (subject to the cap); and
 - the timing and profile of payments from HAL to HWL.
- 5.52 We welcome feedback on these proposals and the licence drafting included in relation to them in Appendix C.

Summary of our draft decision and next steps

- 5.53 We propose to implement arrangements to allow the recovery of efficient early expansion costs incurred by HAL in 2025 and 2026 through the regulatory

framework. Specifically, we propose to add efficient early costs, subject to a cap, to HAL's RAB, with a subsequent *ex post* efficiency review and a true-up mechanism to ensure that only costs assessed as efficient are ultimately recovered.

- 5.54 Any necessary adjustments to the RAB would address inefficiencies identified, differences between forecast and outturn costs, changes to inflation assumptions, and differences between the allowed and actual return.
- 5.55 We also propose to allow the recovery of a return on efficient early costs using the weighted average cost of capital described in chapter 3 Regulatory arrangements to protect consumers, implemented through an adjustment to HAL's allowed price control revenue in 2026 and recovered through the revenue correction mechanism, and subject to the true-up process.
- 5.56 In addition, we propose to introduce targeted modifications to the Licence to strengthen regulatory protections in the interests of consumers
- 5.57 We also propose to implement the recovery of efficient early costs incurred by HWL up to the Government's Announcement through modifications to the Licence that would:
- place an obligation on HAL to pay HWL amounts determined by the CAA to represent efficient early costs, subject to a specified cap and appropriate inflation adjustments; and
 - would allow HAL to recover those payments on a pass-through basis through airport charges.

APPENDIX A

Our duties

- A1 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.
- A2 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.
- A3 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”.
- A4 The CAA must also carry out its functions, where appropriate, in a manner that will promote competition in the provision of AOS.
- A5 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.
- A6 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.
- A7 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.

- A8 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.

APPENDIX B

Glossary

B1 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 Heathrow Airline Consultative Committee, a collective of airlines operating at Heathrow airport
AOS	Airport operation services, as defined in section 68 CAA12
BA	British Airways
CAA, “we”, “us”, “our”	The Civil Aviation Authority
CAA12	The Civil Aviation Act 2012
Capex	Capital expenditure
CBA	Cost-benefit analysis
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
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
ITS Leeds	The Institute of Transport Studies at Leeds University
IATA	International Air Transport Association
The Licence	The licence granted to HAL under CAA12
RAB	Regulatory Asset Base
RPI	The Retail Prices Index, a measure of price inflation calculated by the Office for National Statistics
SoS	the Secretary of State for Transport