

Economic Regulation of Heathrow Airport Limited: setting a holding price cap for 2027

Consultation and notice under section 22(2) of the Civil Aviation Act 2012

CAP3279

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Summary

Introduction

1. This document consults stakeholders on the need for, and level of, interim (“holding”) price control arrangements for Heathrow Airport Limited (“HAL”) that we propose should come into effect from 1 January 2027. These interim arrangements are intended to replace the current arrangement for H7, which will come to an end in December 2026.
2. This consultation also constitutes notice under section 22(2) of the Civil Aviation Act 2012 (“CAA12”) of the CAA’s proposals to modify HAL’s licence (the “Licence”¹) in respect of to these matters. This consultation covers:
 - the background to this issue, including the interaction with HAL’s timetable for consulting on airport charges under the Airport Charges Regulations 2011 (“ACR2011”) and the CAA’s wider “H8” price control timetable;
 - our proposals for a holding price cap for HAL for 2027;
 - a mechanism to “true up or down” the Consumer Prices Index (including owner occupiers’ housing costs, (“CPIH”)) inflation and other quantities for 2027; and
 - next steps and the process for implementation, including the notice setting out the proposed licence modification for consultation.
3. The consultation period runs for four weeks until **5pm on 28 July 2026**. After the consultation closes, we will consider all responses from stakeholders and, subject to the outcome of that work, we intend to make a decision on the holding price cap arrangements for 2027 as soon as reasonably practicable after the close of this consultation.

Background

4. The H7 price control comes to an end in December 2026. In the method statement² for the H8 price control review, we noted that, as the final decision on the H8 price control is scheduled for April 2027, there would be advantages for consumers in setting a holding price cap for 2027 (with revenues to be trued up or down on a net present value neutral basis). Without such measures, there

¹ The current version of the Licence is set out at: <https://www.caa.co.uk/media/j1w20vi/20260101-heathrow-airport-limited-licence.pdf>

² CAA, [CAP3083](#) Method statement and business plan guidance, March 2025, paragraph 2.12

would be no price cap to protect consumers from the potential for HAL to increase airport charges. We said that we would expect the 2027 holding price cap to be based on our initial proposals.

5. In March 2026, we published our “Initial Proposals” for the H8 price control³, in which we set out a range for the maximum yield per passenger for HAL of between £25.79 and £27.44 (2024 CPIH-real) for 2027. We said that we
 - envisaged using this range as the basis for establishing a holding price cap for 2027, with an add-on to allow for the recovery of certain early costs associated with capacity expansion at Heathrow; and
 - would consult on the licence modification to implement the one-year holding price cap in our Draft Decision on the early costs of capacity expansion.
6. In April 2026, we published a Draft Decision⁴ on the recovery of the early costs of capacity expansion. We proposed that HAL’s allowed price control revenue in 2026 would be adjusted to allow for the return on efficient early costs incurred in 2025 and 2026. We explained that this would remove the need for an add-on to the holding price cap for 2027 to allow for these costs.
7. In this consultation, we set out our updated policy position on the 2027 holding price cap and set out specific proposals for the level of that price cap to protect the interests of consumers. This will help inform HAL’s consultation on its 2027 charges over the summer and so airlines’ in their business planning, which should further the interests of consumers.
8. While the Draft Decision noted above deals with issues around the return on early costs incurred in 2025 and 2026 there are further issues to be dealt with in relation to the wider recovery of early costs. These will be dealt with separately to the arrangements for the holding price cap for 2027.
9. We propose that the 2027 holding price cap should be £28.398 (2027 prices), consisting of:
 - the profiled charge would be £28.951 (2027 prices), derived from the mid-point between £25.79 and £27.44 (2024 CPIH-real prices)³ and adjusted for inflation;
 - a minor addition of £0.063 in respect of service quality bonuses earned in 2025;

³ CAA, [CAP3232](#) Initial Proposals for H8 Section 3: financial issues and calculating the price cap, March 2026, paragraph 11.22-11.24

⁴ CAA, [CAP3238](#) Draft Decision on the regulatory treatment of early costs of capacity expansion at Heathrow airport, April 2026, paragraph 5.26

- a reduction of £0.616 through the correction factor mechanism to reflect the differences between forecasts used by HAL to set charges in 2025 and outturns for 2025; and
 - a mechanism to true up CPIH inflation for 2027.
10. We propose that the holding price cap will be implemented through a change to the price control condition in the Licence⁵. A notice under section 22(2) CAA12 setting out our proposals to modify the Licence to implement the proposals for a holding price cap for 2027 is as set out at Appendix B.
11. In the following chapters and appendices of this document we set out:
- further details of the reasons for and effects of a holding price cap for 2027;
 - our proposals for the 2027 holding price cap; and
 - next steps on our proposed approach to implementing the holding price cap and details of how to respond to this consultation.

Next steps

12. This consultation runs for a period of four weeks until **5pm on 28 July 2026**. We cannot guarantee to consider any responses received after this date. After the consultation closes, we will consider all responses from stakeholders and, subject to that work, we intend to confirm the holding price cap arrangements for 2027 as soon as reasonably practicable after the close of this consultation.

⁵ The current version of HAL's licence is available at: <https://www.caa.co.uk/media/j1wl20vi/20260101-heathrow-airport-limited-licence.pdf>

Chapter 1

Stakeholders' views and CAA assessment

Introduction

- 1.1 The Initial Proposals set a broad approach to establishing a holding price cap for 2027. This approach included:
- indicating that there would be advantages in setting a holding price cap for 2027 based on our Initial Proposals, with revenues subsequently to be “trued up or down” on a net present value neutral basis over the five year price control period in final decision for the H8 price control;
 - that the holding price cap would consist of a profiled charge element derived from the Initial Proposals, with the possibility of an add-on to allow for the recovery of the early costs of expansion; and
 - setting out an indicative level for the profiled charge for 2027 at a level between the “low” and “high” charge scenarios in the Initial Proposals (that is, between £25.79 and £27.44 (2024 CPIH-real)).
- 1.2 This chapter summarises the views of respondents on these matters and provides our assessment of these views.

Stakeholder views

Our Initial Proposals on the level of airport charges

- 1.3 In the Initial Proposals, in addition to setting out the broad approach to the holding price cap we explored three possible profiles for airport charges over H8⁶:
- unprofiled: the value of the charge in each year would reflect the underlying cost/revenue building blocks in that year;
 - flat profile: we would determine the level of charges which, if constant in real terms, would produce the same net present value over the price control period as the unprofiled charges; and

⁶ CAA, [CAP3232](#) Initial Proposals Section 3: financial issues and calculating the price cap, March 2026, paragraph 11.16-11.22

- “step-flat”: the level of charge would also produce the same net present value over the price control period as the unprofiled charges, and setting the charge for 2027 at a level halfway between the 2026 charge and the level of the flat charge. Charges for 2028 to 2031 would be calculated to produce a flat profile for those years.

1.4 We considered that the “step-flat” profile appeared to produce a reasonable trajectory of charges between the level at the end of the H7 period and the level that they would need to be in order to recover efficiently incurred costs over the H8 period. This assumption produced the range of charges for the holding price cap noted in paragraph 1.1 above.

Stakeholders' responses

1.5 HAL and British Airways (“BA”) each raised a number of points on the holding price cap in their responses to the Initial Proposals.

HAL

1.6 HAL⁷ expressed a preference for a flat (in real terms) H8 charge profile over the step-flat approach proposed in Initial Proposals (an equal increase from 2026 to 2027, and from 2027 to 2028, followed by flat charges). It was concerned that the 2027 holding price cap would be based on the range stated in the Initial Proposals before any representations on them were taken into account and it could be set below the building block level for 2027. HAL said this would put strain on its financial position and would potentially be contrary to the interests of consumers. It considered that a more appropriate approach would be to use the flat (in real terms) H8 charge profile.

1.7 It also said that several areas of the Initial Proposals, once corrected, would lead to a materially higher charge. If charges for 2028 to 2031 turned out to be higher, adopting the flat H8 charge profile when setting the 2027 holding price cap would, in practice, lead to a step-flat approach anyway as subsequent years would have higher charges.

1.8 In addition, HAL said that the 2027 holding price cap should include the following elements of the early costs of capacity expansion:

- the return on early costs incurred in 2025 and 2026;
- the depreciation of early costs incurred in 2025 and 2026 as they will start to be depreciated in 2027; and
- the return on the potentially substantial early costs to be incurred in 2027 for possible property purchase activities.

⁷ HAL, [Response](#) to the Initial Proposals, pages 242-243.

- 1.9 HAL said that it is not in consumers' interests to set the charge below the cost of operating Heathrow airport, as it would not be financeable and it creates the need for unnecessary subsequent price increase.

British Airways

1.10 BA⁸ said:

- the CAA's proposed 2027 holding price cap is overstated and should instead be £25.13 (2024 CPIH-real);
- there is the possibility of further charge increases from the proposed recovery of early expansion costs from users;
- the CAA should address risks from its design of the holding price cap, including the treatment of inflation-related windfalls, which it suggested happened with the holding price cap in 2023. BA said the 2023 holding price cap was set on the basis of inflation assumptions materially above the outturn levels, which allowed HAL to retain upside without any requirement to return that benefit;
- it did not support the CAA's proposed front-loading of increases in charges, as a smoother profile would better enable BA's business planning and reflect BA's investment constraints; and
- the flat real cap does not in itself deliver stability given inflation, in-period adjustments and the likely effect of early expansion costs.

Our assessment

- 1.11 We disagree with HAL and BA's comments about the range between £25.79 and £27.44 (2024 CPIH-real) for 2027 in the Initial Proposals. The proposed range is based on the best available information to us from our financial modelling and is consistent with financeability tests set out in our Initial Proposals. This proposed range remains the most appropriate level of charges as we will not be in a position to update our estimates of the appropriate level of airport charges until we publish final proposals, due in November 2026. That would be too late to inform decisions on the 2027 holding price cap.
- 1.12 Bearing this in mind, the Initial Proposals reflect the most appropriate price range for protecting the interests of consumers in 2027, as it represents a balanced and proportionate position to protecting the interests of consumers, including having regard to the efficiency assessment and financeability assessment undertaken for the Initial Proposals.

⁸ BA, [Response](#) to the Initial Proposals, pages 164-165.

- 1.13 We note HAL's and BA's comments on the proposed H8 price profile and its potential impact on the 2027 holding price cap. As we explained in the Initial Proposals, the step-flat profile is consistent with the financeability tests set out in those proposals and, therefore, we do not accept that the step-flat profile would put an undue strain on HAL's finances. We will consider and respond to stakeholders' views on the profile of charges over H8 more fully in our final proposals for the H8 price control.
- 1.14 We note stakeholders' comments on the potential effects of expansion early costs on the holding price cap. Our Draft Decision on early costs for 2025 and 2026 has proposed adjusting HAL's price control revenue in 2026 for certain elements of early costs incurred in 2025 and 2026. As we have yet to finalise decisions on wider aspects of early cost recovery it would not be appropriate to pre-empt those decisions in formulating the holding price cap for 2027.
- 1.15 We agree with BA's comments on the importance of avoiding unintended consequences in the design of the 2027 holding price cap. We are, therefore, proposing true up mechanisms for inflation and other adjustment terms, which is set out in more detail in chapter 2. This is a development of our approach to setting the holding price caps for 2022 and 2023, and it should provide both HAL and consumers with more certainty about the holding price cap and avoid inappropriate volatility in the real level of the cap.
- 1.16 Finally, on BA's comment that the flat real cap does not in itself deliver stability, we note that these comments have limited relevance to our work on the holding price cap. We also note that on a wider basis we expect consumers to benefit from the protections that HAL has from the volatility associated with inflation (in terms of a lower cost of capital), that adjustments to support the effective functioning of performance incentives also benefit consumers, as does the flexibility to adjust (where appropriate) the regulatory settlement for HAL to take account of the early costs of capacity expansion.

Conclusion

- 1.17 In the light of the above assessment, we remain of the view that it is appropriate to set the holding price cap for 2027 on the basis of the broad approach envisaged in the H8 Initial Proposals, except for the treatment of early costs. Our Draft Decision on early costs for 2025 and 2026 has proposed adjusting HAL's price control revenue in 2026 for certain elements of early costs incurred in 2025 and 2026. As we have yet to finalise decisions on wider aspects of early cost recovery it would not be appropriate to pre-empt those decisions in formulating the holding price cap for 2027. Therefore, we do not intend to adjust the holding price cap for 2027 for the early costs of capacity expansion.

Chapter 2

Our proposals for a holding price cap

Introduction

- 2.1 This consultation sets out our updated policy position on the 2027 holding price cap and establishes a specific level/approach to the price cap to further the interests of consumers. Certainty over HAL's charges for 2027 supports airlines in setting ticket prices and organising their services in an appropriate way, which ultimately provides benefits for consumers. By contrast, the absence of a price control condition (even for a relatively short period of time) would create uncertainty and the possibility of inappropriate instability in price levels if the charges HAL set in 2027 were significantly different from those in the final H8 price control.
- 2.2 We have set holding price caps previously, for Regulatory Years 2022 and 2023. They have worked as intended in protecting consumers from the possibility of unduly high airport charges. We expect that setting the 2027 holding price cap would offer similar benefits to consumers.
- 2.3 This chapter starts by addressing where in the range identified in the Initial Proposals we will use as an anchor point for the holding price cap for 2027. It then goes on to discuss the other adjustments we will make to this anchor point in terms of other policy objectives (including the inflation true-up discussed in chapter 1) and how we intend to implement these arrangements through changes to the Licence.

Establishing an anchor point for the holding price cap for 2027

- 2.4 Chapter 1 explains that we remain of the view that the step flat range in the Initial Proposals of between £25.79 and £27.44 (2024 CPIH-real) for 2027 remains the appropriate starting point for decisions on the level of the holding price cap for 2027.
- 2.5 In making proposals for where in the range it is appropriate to anchor the holding price cap, we are mindful of the need to protect consumers, support a reasonable profile of charges over the H8 period and have regard to HAL's financeability. Setting the holding price cap at the low end of the range would tend to mean higher charges later in the H8 period and would create somewhat greater pressure on HAL's financeability. On the other hand, setting the holding price cap towards the top of the range would mean a relative large increase over 2026 levels and there is no compelling evidence to suggest that this would be necessary to support HAL's financeability.

- 2.6 Bearing these considerations in mind suggests that the mid-point of the Initial Proposals range will further the interests of consumers and discharge our duty to have regard to HAL's financeability. We discuss further below how to implement this proposal in the Licence, including how we propose to deal with inflation and the other appropriate adjustments to this mid-point.

Background – the price control formula

- 2.7 If 2027 had been a 'normal' year for us to apply the price control condition to calculate the price cap, we would likely have used the formula akin to that specified in our proposed modifications to Condition C1.5 of HAL's Licence⁹ as follows:

$$M_{2027} = Y_{2026} \times (1 + CPIH_{2027} + X_{2027} + B_{2025}) + \frac{AC_{2027}}{Q_{2027}} - \frac{T_{2027}}{Q_{2027}} + \frac{TDO_{2027}}{Q_{2027}} + \frac{TRS_{2027}}{Q_{2027}} - K_{2027}$$

where

- M_{2027} is the maximum revenue yield per passenger using the Airport in Regulatory Year 2027 expressed in pounds sterling;
- Y_{2026} is the average revenue yield per passenger in Regulatory Year 2026;
- $CPIH_{2027}$ is the percentage change between:
 - the average value of the Office for National Statistics monthly L522 Consumer Price Index including owner occupiers' housing costs over Regulatory Year 2027; and
 - the average value of the Office for National Statistics monthly L522 Consumer Price Index including owner occupiers' housing costs over Regulatory Year 2026;
- $X_{2027} = 3.043\%$, as illustrated later in this chapter;
- B_{2025} is the bonus factor in Regulatory Year 2025, based on the Licensee's service quality performance in Regulatory Year 2025;
- AC_{2027} is the Licensee's allowed capex adjustment in the Regulatory Year 2027;
- Q_{2027} is the number of passengers using the Airport in the Regulatory Year 2027;

⁹ CAA, [CAP3232](#) H8 Initial Proposals Appendix C, March 2026. The price control condition (Condition C1) in the Licence contains further details on each term. This chapter shows only the main formula that calculates the price cap.

- T_{2027} is the capital trigger factor in the Regulatory Year 2027;
- TDO_{2027} is the terminal drop-off charge factor in Regulatory Year 2027;
- TRS_{2027} is the traffic risk sharing factor in Regulatory Year 2027; and
- K_{2027} is the correction factor in Regulatory Year 2027.

Calculating the forecast 2027 holding price cap

2.8 The table below summarises the approach we intend to take to the 2027 holding price cap for the key terms in the price control formula discussed above. Each of the main lines in the table is explained further below.

Calculating the forecast maximum revenue yield for 2027, M_{2027} (2027 prices)				
$M_{2027} =$	+	$Y_{2026} \times (1 + CPIH_{2027} + X_{2027})$	Forecast profiled charge for 2027	28.951
	+	$Y_{2026} \times B_{2025}$	Service quality bonuses	+0.063
	+	$\frac{AC_{2027}}{Q_{2027}} - \frac{T_{2027}}{Q_{2027}} + \frac{TDO_{2027}}{Q_{2027}} + \frac{TRS_{2027}}{Q_{2027}}$	Adjustment terms	deleted
	-	K_{2027}	Correction factor for 2027	-0.616
	=			28.398

Forecast profiled charge for 2027

2.9 In March, we published the Initial Proposals¹⁰, in which we specified a range between £25.79 and £27.44 (2024 CPIH-real) for 2027. As explained earlier in this chapter, we propose that, to work out the forecast profiled charge for 2027, we would take the mid-point of this range. We also need to apply CPIH indexation adjustment to bring this into 2027 prices.

2.10 On this basis, the forecast profiled charge for 2027 is given by:

$$\text{Forecast profiled charge for 2027} = \frac{1}{2} \times (\pounds25.79 + \pounds27.44) \times \frac{\text{CPIH index}_{2027}}{\text{CPIH index}_{2024}}$$

where

- CPIH index_{2027} is the average value of the Office for National Statistics monthly L522 Consumer Prices Index including owner occupiers' housing costs over Regulatory Year 2027. As this is not yet available, we propose to use the forecast of 144.501¹¹; and

¹⁰ CAA, [CAP3232](#) Initial Proposals Section 3: financial issues and calculating the price cap, March 2026, paragraph 11.22

¹¹ Office for Budget Responsibility Economic and fiscal outlook, [March 2026 edition](#).

- CPIH index₂₀₂₄ is the average value of the Office for National Statistics monthly L522 Consumer Prices Index including owner occupiers' housing costs over Regulatory Year 2024, and takes the value of 132.842¹².

2.11 So, the forecast profiled charge for 2027 would be given by:

$$\begin{aligned} &= \frac{1}{2} \times (£25.79 + £27.44) \times \frac{\text{CPIH index}_{2027}}{\text{CPIH index}_{2024}} \\ &= \frac{1}{2} \times (£25.79 + £27.44) \times \frac{144.501}{132.842} = £28.951 \end{aligned}$$

Service quality bonuses

2.12 It is a standard feature in HAL's price control arrangements since Q5 for HAL to recover service quality bonuses through airport charges. Incentivising service quality is one of the key ways that the overall price control framework furthers the interests of consumers and so we intend to retain these adjustments in the 2027 holding price cap. Based on service quality performance in 2025, HAL has earned service quality bonuses of 0.230% of airport charges per passenger. To calculate the amount recoverable through the 2027 holding price cap, we propose that we multiply this percentage by the average revenue yield per passenger as follows:

$$\text{Service quality bonuses} = Y_{2026} \times B_{2025} = £27.532^{13} \times 0.230\% = £0.063$$

Adjustment terms

2.13 The adjustment terms AC_{2027} , T_{2027} , TDO_{2027} and TRS_{2027} correspond to allowed capex adjustment, capital triggers, terminal drop-off charge and traffic risk sharing respectively. They represent, collectively, the effect of these policies on the 2027 price cap. As we are yet to finalise our H8 policies in these areas, we propose that we do not include these adjustment terms in the calculation of the 2027 holding price cap.

Correction factor for 2027

2.14 It is a standard feature in HAL's price control arrangements for HAL to adjust airport charges for over- or under-recovery against the maximum allowed yield per passenger through the correction factor. These correction factor arrangements further the interests of consumers by returning any over-recovery of revenue by HAL and ensuring an appropriate degree of stability in HAL's price control revenues (that prevents undue upward pressure on financing costs). In the light of these consideration we intend to retain the correction factor

¹² Office for National Statistics, CPIH L522 index.

¹³ Calculation of the average revenue yield per passenger in Regulatory Year 2026, Y_{2026} , is shown later in this chapter.

adjustment in the holding price cap. The correction factor for 2027, K_{2027} , enables an adjustment to be made to the 2027 holding price cap to account for the difference between forecast and outturn maximum revenue yield for 2025, M_{2025} , and is given by:

$$K_{2027} = \frac{1}{Q_{2027}} \times (R_{2025} - Q_{2025} \times M_{2025}) \times \left(1 + \frac{I_{2025}}{100}\right)^2$$

where

- Q_{2027} is the number of passengers using the Airport in Regulatory Year 2027. As this is not yet available, we propose to use the forecast of 85.900 million¹⁴;
- R_{2025} is the total revenue from airport charges in respect of relevant air transport services levied at the Airport in Regulatory Year 2025 expressed in pounds sterling, and takes the value of £2,239 million¹⁵;
- Q_{2025} is the number of passengers using the Airport in Regulatory Year 2025, and takes the value of 84.506 million¹⁶;
- M_{2025} is the maximum revenue yield per passenger using the Airport in Regulatory Year 2027 expressed in pounds sterling. As this is not yet available, we propose to use the forecast of £25.948¹⁷;
- I_{2025} is the appropriate interest rate for Regulatory Year 2025, which is equal to:
 - the specified rate¹⁸ plus 3% where K_{2027} is positive; or
 - the specified rate where K_{2027} is negative.

The specified rate is 4.004%.

$$\begin{aligned} K_{2027} &= \frac{1}{Q_{2027}} \times (R_{2025} - Q_{2025} \times M_{2025}) \times \left(1 + \frac{I_{2025}}{100}\right)^2 \\ &= \frac{1}{85.900 \text{ million}} \times \text{£}(2,239 \text{ million} - 84.506 \text{ million} \times 25.948) \times \left(1 + \frac{4.004 + 3}{100}\right)^2 \end{aligned}$$

¹⁴ CAA, [H8 Initial Proposals Section 1](#): consumer engagement, passenger forecasts and service quality, March 2026, table 2.9.

¹⁵ HAL, [Heathrow \(SP\) Limited Regulatory Accounts Year ended 31 December 2025](#), March 2026.

¹⁶ HAL, [Heathrow \(SP\) Limited Regulatory Accounts Year ended 31 December 2025](#), March 2026.

¹⁷ HAL, [Decision – 2025 Airport Charges and Conditions of Use](#), October 2024.

¹⁸ The specified rate means the average of the three month Treasury Bill Discount Rate (expressed as an annual percentage interest rate) published by the UK Debt Management Office (www.dmo.gov.uk/data/treasury-bills/tenderresults/), during the 12 months from the beginning of May in Regulatory Year 2025 to the end of April in Regulatory Year 2026.

$$= \text{£}0.616$$

Forecast level of the 2027 holding price cap

2.15 On this basis of the above, the forecast 2027 holding price cap would be given by:

$$\begin{aligned} M_{2027} &= Y_{2026} \times (1 + \text{CPIH}_{2027} + X_{2027}) + Y_{2026} \times B_{2025} - K_{2027} \\ &= \text{£}(28.951 + 0.063 - 0.616) \\ &= \text{£}28.398 \end{aligned}$$

True-up of 2027 inflation and other quantities

2.16 Noting BA's comment on the importance of avoiding unintended consequences in the design of the holding price cap, we propose that we incorporate mechanisms to true up various quantities, including inflation.

2.17 A true up is conducted by calculating and comparing the forecast and outturn holding price cap for 2027. The values to be trued up will have to form part of the calculation of the holding price cap:

- inflation, the term CPIH_{2027} is part of the 2027 holding price cap calculation;
- other quantities, AC_{2027} , T_{2027} , TDO_{2027} and TRS_{2027} , are not part of the 2027 holding price cap calculation. We propose that HAL should publish forecasts of these adjustment terms, and we will work with HAL to design the best way to undertake true up when the outturns become available.

True up of CPIH inflation in 2027

2.18 In order to incorporate inflation true up for the holding price cap for 2027, we would need to express the forecast profiled charge in terms of CPIH_{2027} . Only in this way, would we be able to:

- replace forecast CPIH_{2027} with outturn CPIH_{2027} ; and
- adjust for the difference between the forecast and outturn 2027 holding price cap M_{2027} .

2.19 In the following sections, we will show the steps we have taken to work out the price profiling factor X_{2027} , that we have designed to support the inflation true-up.

2.20 As shown in paragraph 2.11, the forecast profile charge for 2027 would be given by:

$$\text{Forecast profiled charge for 2027} = Y_{2026} \times (1 + \text{CPIH}_{2027} + X_{2027})$$

Calculating the forecast profiled charge for 2027			
Forecast profiled charge for 2027 ¹⁹	=	Y ₂₀₂₆	The forecast average revenue yield per passenger for 2026
	+	CPIH ₂₀₂₇	CPIH Inflation adjustment from 2026 to 2027
	-	X ₂₀₂₇	Price profiling factor

The forecast average revenue yield per passenger in 2026 Y₂₀₂₆

2.21 The forecast average revenue yield per passenger for 2026 Y₂₀₂₆ would be given by:

$$Y_{2026} = Y_{2025} \times (1 + CPI_{2026} + X_{2026}) + S_{2026}$$

where

- Y₂₀₂₅ is the average revenue yield per passenger for 2025, and is equal to £26.913 (2025 CPI-real prices)²⁰;
- CPI₂₀₂₆ is the percentage change between:
 - the average value of the Office for National Statistics monthly D7BT Consumer Prices Index over Regulatory Year 2026. As this is not yet available, we propose to use the forecast of 141.551²¹; and
 - the average value of the Office for National Statistics monthly D7BT Consumer Prices Index over Regulatory Year 2025, and takes the value of 138.367.

$$CPI_{2026} = \frac{141.551}{138.367} - 1 = 2.3011\%$$

- X₂₀₂₆ = 0, as per the Licence; and
- S₂₀₂₆ is the allowable security and/or health and safety cost per passenger in Regulatory Year t – 1 arising as a result of changes to security and/or health and safety standards. Additional costs from such changes shall be positive values; reductions in costs from such changes shall be negative values. We assume that this is zero.²²

2.22 Thus, the forecast average revenue yield per passenger in 2026 would be:

¹⁹ Earlier in this chapter, we proposed that we take £28.951 as the forecast profiled charge for 2027.

²⁰ HAL, [Heathrow Airport Limited Charges for 2026 Consultation](#), August 2025, chapter 3. We calculated Y₂₀₂₅ from Y₂₀₂₄ using outturn CPI inflation for 2025.

²¹ Office for Budget Responsibility Economic and fiscal outlook, [March 2026 edition](#).

²² The allowable security and/or health and safety cost factor has been zero since its introduction to the calculation of HAL’s price cap.

$$Y_{2026} = Y_{2025} \times (1 + \text{CPI}_{2026} + X_{2026}) + S_{2026}$$

$$= £26.913 \times \left[1 + \left(\frac{141.55}{138.37} - 1 \right) + 0 \right] + 0 = £27.532$$

Inflation adjustment CPIH₂₀₂₇

2.23 The inflation adjustment CPIH₂₀₂₇ would be given by the percentage change between:

- the average value of the Office for National Statistics monthly L522 Consumer Prices Index including owner occupiers’ housing costs over Regulatory Year 2027. As this is not yet available, we propose to use the forecast of 144.501²³; and
- the average value of the Office for National Statistics monthly L522 Consumer Prices Index including owner occupiers’ housing costs over Regulatory Year 2026. As this is not yet available, we propose to use the forecast of 141.514²⁴.

2.24 On this basis, the inflation adjustment CPIH₂₀₂₇ would be:

$$\text{CPIH}_{2027} = \frac{144.501}{141.514} - 1 = 2.1107\%$$

The price profiling factor X₂₀₂₇

2.25 As the method set out above enables us to obtain values for the forecast profiled charge for 2027, the average yield per passenger for 2026 Y₂₀₂₆ and inflation CPIH₂₀₂₇, we can now work out the proposed price profiling factor X₂₀₂₇:

$$\text{Forecast profiled charge for 2027} = Y_{2026} \times (1 + \text{CPIH}_{2027} + X_{2027}) = £28.951$$

$$£27.532 \times \left[1 + \left(\frac{144.501}{141.514} - 1 \right) + X_{2027} \right] = £28.951$$

$$X_{2027} = 3.043\%$$

True up 2027 inflation

2.26 Using these figures we set out the calculation of the proposed forecast and outturn 2027 holding price caps as follows:

Forecast and outturn 2027 holding price caps		
Forecast M ₂₀₂₇	$= Y_{2026} \times (1 + \text{CPIH}_{2027} + X_{2027}) + Y_{2026} \times B_{2025} - K_{2027}$ $= £28.951 + £0.063 - £0.616 = £28.398$	Depend on Forecasts of Y ₂₀₂₆ and CPIH ₂₀₂₇
Outturn M ₂₀₂₇	$= Y_{2026} \times (1 + \text{CPIH}_{2027} + X_{2027}) + Y_{2026} \times B_{2025} - K_{2027}$	Depend on Outturns of Y ₂₀₂₆

²³ Office for Budget Responsibility Economic and fiscal outlook, [March 2026 edition](#).

²⁴ Office for Budget Responsibility Economic and fiscal outlook, [March 2026 edition](#).

Forecast and outturn 2027 holding price caps		
	$= Y_{2026} \times (1 + \text{CPIH}_{2027} + 3.043\%) + Y_{2026} \times 0.230\% - 0.633$	and CPIH_{2027}

2.27 We will obtain the outturn holding price cap when information becomes available for us to update the forecast average yield per passenger for Regulatory Year 2026 (Y_{2026}) and inflation for 2027 (CPIH_{2027}). We propose that the difference between Forecast M_{2027} and Outturn M_{2027} should to be adjusted through the correction factor K_{2029} in the calculation of the maximum revenue yield for 2029. This is a standard practice for HAL’s price cap calculations.

True up of four adjustment terms in 2027

2.28 As noted above, we do not propose to include the adjustment terms AC_{2027} , T_{2027} , TDO_{2027} and TRS_{2027} in the calculation the 2027 holding price cap. This is not because we consider that there are inherent shortcomings in these adjustment terms. Rather, their non-inclusion is a timing issue as we consider that we need to have the holding price cap in place to protect consumers before the relevant H8 policies have been finalised.

2.29 We consider that it is important to retain some form of true up when the outturn figures of these adjustment terms for 2027 become available, but not as part of the H8 holding price cap formula. To facilitate such a true up, we propose that HAL should provide, in the 2027 charges consultation, forecasts for AC_{2027} , T_{2027} , TDO_{2027} and TRS_{2027} . HAL should then provide outturn figures for them when they become available. We would invite views on further possible true-up mechanisms for these adjustment terms to be applied outside of the 2027 holding price cap and intend to work with stakeholders further on these matters.

Calculation of allowed revenues for H8

2.30 For developing our final proposals and making our final decision for the H8 price control, we intend to take the level of the holding price cap for 2027 as an input to the H8 financial modelling, in order to work out the H8 total allowed revenues for the remaining four years of the H8 price control. This will ensure that the holding price cap does not alter the net present value of HAL’s allowed revenues over the five year period of the H8 price control. This approach is consistent with previous policy including that for the H7 price control when we implemented holding price caps for 2022 and 2023. In this sense, the precise level of the holding price cap for 2027 is not material in the context of the five year period as it will get trued up (or down) in the calculation of the final proposals and final decision for the H8 price control.

Implementing our proposals

- 2.31 We propose to update the current Condition C1.1 in the Licence to reflect our proposed 2027 holding price cap as discussed above. We set out the proposed modifications to effect this in Appendix B.

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 AOC 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 Better Regulation principles.
- A6 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.

- A7 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

Notice under section 22(2) of the Civil Aviation Act 2012 (“CAA12”) that the CAA proposes to modify HAL’s licence

Introduction

- B1 Before we can make any modifications to the licence granted to HAL by the CAA under section 15 CAA12 on 13 February 2014 (“the Licence”), the CAA must publish a notice under section 22(2) CAA12 in relation to the proposed modifications.
- B2 Such notice must:
- state that we propose to modify the Licence;
 - specify the proposed modifications;
 - give the reasons for the proposed modifications;
 - state the effect of the proposed modifications; and
 - specify a reasonable period for making representations.
- B3 This Appendix constitutes notice under s22(2) that the CAA proposes to modify the Licence to implement the policy proposals for a holding price cap for HAL for 2027, working alongside the policy approach set out in this consultation.
- B4 The modifications to the Licence we propose to make are set out below together with an explanation of the reasons for them and their effects. References to the Summary, chapter 1 (Stakeholders’ views and CAA assessment) and chapter 2 (Our proposals for a holding price cap) of this consultation and to the Initial Proposals²⁵ are provided to indicate where further relevant supporting materials on the reasons for and effects of these modifications are to be found. To the extent that the reasons for and effects of the proposed modifications are set out in the Summary, those chapters and the Initial Proposals, those reasons and effects are deemed to be incorporated in this notice.
- B5 Stakeholders have the period from the date on which is consultation is published until no later than 5pm on 28 July 2026 to submit their representations on these

²⁵ CAA, [CAP3232](#) Initial Proposals Section 3: financial issues and calculating the price cap, March 2026.

proposed modifications to us. Please e-mail responses to economicregulation@caa.co.uk.

- B6 The modifications we propose to make are set out below in “tracked change” format in red compared with the current version of the Licence.

Modifications proposed to implement a holding price cap for 2027

Reasons for and effects of the proposed licence modification

- B7 For the reasons set out in the Summary, chapter 1 (Stakeholders’ views and CAA assessment) and chapter 2 (Our proposals for a holding price cap) of this consultation, we are proposing to modify the Licence to implement a holding price cap applicable to HAL’s yield per passenger for Regulatory Year 2027. The overall effect of this is to ensure that the interests of consumers will continue to be protected by a price cap until our final decision on the H8 price control comes into effect.
- B8 As noted in those chapters, the effects of having a holding price cap for 2027 is that the outturn yield collected by HAL from airport charges in 2027 should not exceed the maximum revenue yield for 2027. Having a holding price cap also supports HAL and airlines appropriately engaging in business planning for 2027.
- B9 We propose that the 2027 holding price cap would be set by the formula shown below, rather than a fixed number. The effect of this approach would be to make the 2027 maximum airport charges reflect more accurately the outturn inflation for 2027 and the outturn of various costs to be incurred by HAL in 2027.
- B10 The proposed formula will set HAL’s maximum revenue yield per passenger that HAL can earn from airport charges in 2027, M_{2027} , is a sub-set of the current formula specified in Condition C1 of the Licence. We propose that M_{2027} should be £28.398, as given by:

$$\begin{aligned} M_{2027} &= Y_{2026} \times (1 + \text{CPIH}_{2027} + X_{2027}) + Y_{2026} \times B_{2025} - K_{2027} \\ &= \text{£}(28.951 + 0.063 - 0.616) \\ &= \text{£}28.398 \end{aligned}$$

where

- Y_{2026} is the forecast average revenue yield per passenger for Regulatory Year 2026, and is calculated to be £27.532 (see paragraph 2.21 and 2.22);
- CPIH_{2027} is CPIH inflation adjustment for Regulatory Year 2027, and is calculated to be 2.1107% (see paragraph 2.23 and 2.24);

- X_{2027} is the price profiling factor for Regulatory Year 2027, and is calculated to be 3.043% (see paragraph 2.25);
- B_{2025} is the service quality bonuses; and is calculated to be 0.230% (see paragraph 2.12);
- K_{2027} is the correction factor for Regulatory Year 2027, and is calculated to be £0.616 (see paragraph 2.14).

B11 In the formula to calculate HAL’s holding price cap for 2027 M_{2027} , we propose that the adjustment terms AC_{2027} , T_{2027} , TDO_{2027} and TRS_{2027} (correspond to allowed capex adjustment, capital triggers, terminal drop-off charge and traffic risk sharing respectively) should not be included. These terms represent, collectively, the effect of these policies on the 2027 price cap. As we are yet to finalise our H8 policies in these areas, we propose that we do not include these adjustment terms in the calculation of the 2027 holding price cap.

B12 When we calculate M_{2027} , we need to calculate the forecast average revenue yield per passenger for Regulatory Year 2026 Y_{2026} . In the formula for calculating Y_{2026} , we propose the following:

- the price profiling factor for 2026 X_{2026} should be set at zero, which is consistent with the Licence.
- the allowable security and/or health and safety cost factor S_{2026} should be set at zero. It has been zero since its introduction to the calculation of HAL’s price cap.

Proposed licence modifications

B13 In the light of the above, we propose the following modifications to the Licence:

- to modify Conditions C1.1, C1.2, C1.4, C1.6, C1.9, C1.24, C1.25(i) and Table 7 of Schedule 1; and
- to replace Conditions C1.5, C1.7, C1.8, C1.10 to C1.23 with “[NOT USED]”.

B14 The modifications we propose to the licence conditions in question in relation to the maximum revenue yield per passenger for 2027 M_{2027} (shown in red below) are²⁶:

- C1.1 When the Licensee fixes the amounts to be levied by it by way of airport charges in respect of relevant air transport services in the Regulatory Year ~~2027~~²⁰²³ it shall fix those charges at the levels best calculated to secure that; in that Regulatory Year, the total revenue at the Airport from such charges divided by the total number of passengers using the Airport does

²⁶ We have not shown the conditions that we propose to replace with “[NOT USED]” in this Notice.

not exceed the maximum revenue yield per passenger, which shall be ~~£28.398~~ ~~£31.57~~.

C1.2 If the Licensee has fixed the amounts to be levied by it by way of airport charges in respect of relevant air transport services in the Regulatory Year ~~2027~~~~2023~~ at levels that exceed the maximum yield per passenger set out in Condition C1.1, the Licensee shall, within one month of Condition C1 Price Control coming into effect in relation to the Regulatory Year ~~2027~~~~2023~~, consult airlines under the Airport Charges Regulations 2011 (2011 No.2491) to reset its prices to a level calculated to secure compliance with Condition C1.1.

C1.4 ~~After Regulatory Year 2027, when~~ ~~When~~ the Licensee ~~calculates~~ ~~fixes~~ the amounts ~~to be~~ levied by it by way of airport charges in respect of relevant air transport services in the Regulatory Year ~~2027~~~~2024~~, it shall ~~ensure~~ ~~fix~~ those charges at the levels best calculated to secure that, in ~~that~~ Regulatory Year ~~2027~~, the total revenue at the Airport from such charges divided by the total number of passengers using the Airport does not exceed the maximum revenue yield per passenger, which shall be calculated as follows:

$$M_{2027} = Y_{2026} \times (1 + CPIH_{2027} + X_{2027} + B_{2025}) - K_{2027}$$

$$M_{2024} = Y_{2023} \times (1 + CPI_{2024} + X_{2024} + B_{2022}) + \frac{AC_{2024}}{Q_{2024}} - \frac{T_{2024}}{Q_{2024}} + \frac{TDO_{2024}}{Q_{2024}} - AK_{2024} - K_{2024}$$

where

- (a) ~~M₂₀₂₇~~ ~~M₂₀₂₄~~ is the maximum revenue yield per passenger using the Airport in Regulatory Year ~~2027~~~~2024~~ expressed in pounds sterling;
- (b) ~~Y₂₀₂₆~~ ~~Y₂₀₂₃~~ is the ~~average maximum~~ revenue yield per passenger using the Airport in Regulatory Year ~~2026~~~~2023~~, as defined in Condition C1.6(a);
- (c) ~~CPIH₂₀₂₇~~ ~~CPI₂₀₂₄~~ is the percentage change between:
 - (i) the average value of the Office for National Statistics monthly ~~L522D7BT~~ Consumer Prices Index ~~including owner occupiers' housing costs~~ over Regulatory Year ~~2027~~~~2024~~;
 - (ii) the average value of the Office for National Statistics monthly ~~L522D7BT~~ Consumer Prices Index ~~including owner occupiers' housing costs~~ over Regulatory Year ~~2026~~~~2023~~;
- (d) ~~X₂₀₂₇~~ ~~X₂₀₂₄~~ = 3.043% ~~—20.07%~~;

- (e) B_{2025} ~~B_{2022}~~ is the bonus factor in Regulatory Year ~~2027~~2024, based on the Licensee's service quality performance in Regulatory Year ~~2025~~2024, as defined in Condition C1.9; and
- (f) [NOT USED]
- (g) [NOT USED]
- (h) [NOT USED]
- (i) [NOT USED]
- (j) [NOT USED]
- (k) K_{2027} ~~K_{2024}~~ is the correction factor in Regulatory Year ~~2027~~2024, as defined in Condition C1.24.

C1.5 [NOT USED]

Average revenue yield per passenger Y_{2026} ~~Y_{t-1}~~

C1.6 Y_{2026} ~~Y_{t-1}~~ is the average revenue yield per passenger in Regulatory Year ~~2026~~ $t-1$ calculated in accordance with the following formula:

$$Y_{2026} = Y_{2025} \times (1 + \text{CPI}_{2026} + X_{2026}) + S_{2026}$$

~~$$Y_{t-1} = Y_{t-2} \times (1 + \text{CPI}_{t-1} + X_{t-1}) + S_{t-1}$$~~

where

- (a) $Y_{2026} = £27.532 + S_{2026}$ ~~$Y_{2023} = £31.570 + S_{2023}$~~ ;
- (b) CPI_{2026} ~~CPI_{t-1}~~ is the percentage change between:
 - (i) the average value of the Office for National Statistics monthly D7BT Consumer Prices Index over Regulatory Year ~~2026~~ $t-1$;
 - (ii) the average value of the Office for National Statistics monthly D7BT Consumer Prices Index over Regulatory Year ~~2025~~ $t-2$;
- (c) $X_{2026} = 0$ ~~X_t has the same value as in Condition C1.5(d), except that in respect of Regulatory Year 2024, X_{2024} has the same value as in Condition C1.4(d); and~~
- (d) $S_{2026} = 0$ ~~S_{t-1} is the allowable security and/or health and safety cost per passenger in Regulatory Year $t-1$, as defined in Condition C1.7 to C1.8.~~

Allowable security and/or health and safety cost per passenger S_{t-1}

C1.7 [NOT USED]

C1.8 [NOT USED]

Bonus factor B_{2025}

C1.9 B_{2025} is the bonus factor based on performance achieved in respect of the specified elements k and bonus measures bm of the Licensee's service quality performance as each such term is defined in Condition D1. The bonus factor shall be calculated in accordance with Schedule 1 of this Licence.

Allowed capex adjustment AC_t

C1.10 [NOT USED]

C1.11 [NOT USED]

C1.12 [NOT USED]

C1.13 [NOT USED]

C1.14 [NOT USED]

C1.15 [NOT USED]

Trigger factor T_t

C1.16 [NOT USED]

C1.17 [NOT USED]

Terminal drop-off charge TDO_t

C1.18 [NOT USED]

C1.19 [NOT USED]

Triffic risk sharing adjustment TRS_t

C1.20 [NOT USED]

C1.21 [NOT USED]

Additional correction factor AK_t

C1.22 [NOT USED]

C1.23 [NOT USED]

Correction factor K_{2027}

C1.24 K_{2027} is the correction factor (whether positive or negative value) to be made in Regulatory Year 2027, which is calculated as follows:

$$K_{2027} = \frac{1}{Q_{2027}} \times (R_{2025} - Q_{2025} \times M_{2025}) \times \left(1 + \frac{I_{2025}}{100}\right)^2$$

$$K_t = \frac{1}{Q_t} \times (R_{t-2} - Q_{t-2} \times M_{t-2}) \times \left(1 + \frac{I_{t-2}}{100}\right)^2$$

where

- (a) R_{2025} ~~R_{t-2}~~ is the total revenue from airport charges in respect of relevant air transport services levied at the Airport in Regulatory Year ~~2025~~ ~~$t-2$~~ expressed in pounds sterling;
- (b) Q_{2025} ~~Q_{t-2}~~ is the number of passengers using the Airport in Regulatory Year ~~2025~~ ~~$t-2$~~ ;
- (c) M_{2025} ~~M_{t-2}~~ is the maximum revenue yield per passenger using the Airport in Regulatory Year ~~2025~~ ~~$t-2$~~ expressed in pounds sterling; ~~except that in respect of Regulatory Year 2022, M_{2022} it shall bear the value £30.19;~~
- (d) I_{2025} ~~I_{t-2}~~ is the appropriate interest rate for Regulatory Year ~~2025~~ ~~$t-2$~~ , which is equal to:
 - (iii) the specified rate plus 3% where K_{2027} ~~K_t~~ is positive; or
 - (ii~~v~~) the specified rate where K_{2027} ~~K_t~~ is negative.

Definitions

C1.25 In this Condition C1:

- (i) **specified rate** means the average of the three month Treasury Bill Discount Rate (expressed as an annual percentage interest rate) published by the UK Debt Management Office (www.dmo.gov.uk/data/treasury-bills/tender-results/), during the 12 months from the beginning of May in Regulatory Year ~~2025~~ ~~$t-2$~~ to the end of April in Regulatory Year ~~2026~~ ~~$t-1$~~ ;

Table 7: Periods of bonuses earned to be taken into account when setting M_t as specified in Condition C1

Bonuses earned in Regulatory Year	are included in
2020	the overall H7 allowed revenues and profiled across H7
2024	the maximum revenue yield per passenger for Regulatory Year 2023
2022	the maximum revenue yield per passenger for Regulatory Year 2024 M_{2024} through the bonus term B_{2022}
2023	the maximum revenue yield per passenger for Regulatory Year 2025 M_{2025} through the bonus term B_{2023}

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Bonuses earned in Regulatory Year	are included in
2024	the maximum revenue yield per passenger for Regulatory Year 2026 M_{2026} through the bonus term B_{2024}
2025	the maximum revenue yield per passenger for Regulatory Year 2027 M_{2027} through the bonus term B_{2025}