

**From:** [John Savery](#)  
**To:** [economicregulation](#)  
**Subject:** Views on the issues published by the CAA July 2019  
**Date:** 22 August 2019 19:53:37

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## **Economic regulation of capacity expansion at Heathrow airport: consultation on early costs and regulatory timetable**

I have commented only on a selected number of issues

1.11 This indicates that the main driver of the cost increases due to HAL “not having developed a sufficiently mature understanding of the scope of the work”.

The suggestion by HAL that only the early stage costs have increased and that later costs will balance out this increase is highly questionable. In other major infrastructure developments, it is common for all stage costs to increase due to unpredicted foreseen events. In some cases, more distant costs increase at a faster rate. These may include unexpected restrictions to comply with any final DCO which increase total costs of the project.

### Incentive risk share mechanism

B Cost recovery above the agreed £265m should not be allowed above 100% under any circumstances. Otherwise the development process could become its own profit centre and thus encourage HAL to increase spending in anticipation of the application succeeded

C If the DCO fails the agreed recovery cap of 85% of £265m should be retained but exceptionally the CAA may increase this percentage up 95% if HAL’s conduct including cost forecasting and management justify this.

D It should be accepted that HAL might withdraw from the process in the event of unforeseen circumstances and/or tighter restrictions. Provided all expenditure is reasonable and strictly related to the planning process (not general corporate promotion) these costs should be accepted up to 95% of the agreed limit.

### 1.28

An updated cost of capital should be used to reflect the economic reality and the fact that interest rates have not increased as many forecasts indicated at the time of the initial financing costs recovery proposals.

In order to control costs, there should be no incentive for HAL to make more than the cost of capital on any extra expenditure.

### Early Category C costs

2.16 There are now new concerns. These include the forthcoming Judicial reviews, new legislation on climate change and concerns about the overall total costs including infrastructure development not paid for by HAL. In the interest of HAL and the consumers the expenditure on early Category C costs should be stopped until after the DCO has been completed. If the original timetable is now unrealistic without significant cost increases a revised timetable should be determined. The option to control costs at all stages must not be abandoned. This is the reality in complex developments such as this.

2.19 Some limited increase in airport charges should be accepted in this popular airport and ideally these should be weighted to incentivise the use of the less polluting and noisy

aircraft and to encourage the best practise in the operation of all aircraft including CDA.

### Governance

The CAA as the regulator of this process is entitled to full and prompt co-operation from HAL on all issues. There are several cases of UK regulators not adopting an appropriately rigorous approach.

### General

Control of costs is at least as significant an issue as the timetable. The risk of the project in its present format and in new circumstances not being viable cannot be ignored.

John Savery FCA

21 August 2019