



Consumers and Markets Group

26th March 2025

Dear Stakeholder

CAPACITY EXPANSION AT HEATHROW AND THE H8 PRICE CONTROL REVIEW

As you will know on 29th January the Chancellor issued a statement setting out Government support for the development of a 3rd runway and capacity expansion at Heathrow airport.

In response to this statement Heathrow Airport Limited (Heathrow) welcomed the Chancellor's support for capacity expansion at Heathrow and confirmed its intention to submit plans to Government in Summer 2025. Heathrow has said that 'successfully delivering the project at pace requires policy change – particularly around necessary airspace modernisation and making the regulatory model fit for purpose'.¹

In February, the Heathrow Reimagined group made a submission to the CAA requesting that there should be 'an urgent and fundamental review into the way in which Heathrow, the UK's only hub airport and the largest in Europe, is regulated, for the benefit of consumers, businesses, and the UK economy'.²

Capacity expansion at Heathrow is important to the Government, the wider economy, airlines and consumers. The Government has said that capacity expansion at Heathrow would support economic growth and has set out an aspiration of being able to approve the development consent order for capacity expansion in this Parliament.

To support capacity expansion and protect the interests of consumers, consistent with our statutory duties under the Civil Aviation Act 2012, we intend to respond to the requests from both airlines and Heathrow to review the framework for economic regulation for capacity expansion at Heathrow.

This review will look at options to ensure the regulatory model provides strong incentives for the efficient delivery of the substantial costs involved in expansion, and will consider the potential impact on the regulated asset base and airport charges (including how changes should be best managed over the longer term). We

¹ Heathrow statement on Chancellor's speech on expanding Heathrow, 29 January 2025

² The Heathrow Reimagined group includes the Heathrow AOC (which represents airlines at Heathrow), Arora Group, IAG and Virgin Atlantic called for urgent and fundamental reform of Heathrow's regulatory model, 10 February 2025

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will consult widely on these issues and where it is appropriate will work jointly with the Department for Transport on these matters.

We intend to set out further details on the work programme for capacity expansion after Heathrow has submitted its plans in summer 2025. We will also consider any representations HAL or other stakeholders make on early costs, and consult on the most appropriate treatment of such costs. It is not possible at this stage to provide a timescale for completion of the review, but we will do so when we have the necessary evidence and will work in a way that supports both the Government's aspirations for the timely delivery of capacity expansion and the appropriate discharge of our statutory duties.

Alongside dealing with these matters relating to capacity expansion, we will need to ensure that consumers continue to be protected while the airport operates under its existing two runway configuration. We have already started our review of Heathrow's price control for the period 2027 to 2031 (the H8 price control review) and plan to continue this work so that there are appropriate protections in place for consumers during the period when Heathrow will be developing its plans for capacity expansion and potentially starting the construction of new infrastructure.

We will ensure that our work on the H8 review is carefully coordinated and complementary to the work on capacity expansion. We are publishing the final method statement on the assumption that large investment programmes related to the significant expansion of the airport should be considered in the round as part of our wider work on capacity expansion, to make sure there is a coherent regulatory package for both terminal and runway expansion. Nonetheless, we will consider any further representations that HAL, airlines and or other stakeholders make on these matters and will retain an appropriate degree of flexibility such that issues can be dealt with in a way that is most appropriate and consistent with protecting the interests of consumers.

Bearing in mind the comments made by airlines and HAL on the importance of capital efficiency, we will also consider whether there are further steps we can take to strengthen and improve our assessment of capital efficiency and the incentives on HAL for the efficient delivery of the capital programme that will best support the operation of the airport over the period of the H8 price control.

We provide further details on our approach to the H8 price control review in the Final Method Statement that we are publishing alongside this letter. This builds on the draft we published in November 2024, taking account of stakeholder views and suggestions where appropriate.

Yours faithfully



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