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3 September 2026

Iberia response to the CAA's emerging policy position on H8 RAB indexation and the allowed return on debt

Dear Myuran,

Iberia welcomes the opportunity to respond to the CAA's emerging policy position on the treatment of Regulatory Asset Base (RAB) indexation for Heathrow Airport Limited and the allowed return on debt for H8.

Iberia supports the CAA's proposal to apply a fixed inflation assumption to the portion of Heathrow's RAB associated with notional fixed-rate debt, while retaining outturn CPIH indexation for the remainder. This represents a proportionate improvement to the existing framework and better aligns the treatment of the RAB with the financing costs it is intended to represent. Under the current approach, Heathrow's RAB is indexed to outturn inflation, including the portion associated with nominal fixed-rate debt. However, the cost of fixed-rate debt does not increase when inflation rises once that debt has been issued. Indexing this portion of the RAB to outturn inflation therefore creates an unnecessary mismatch between Heathrow's regulatory returns and its underlying financing costs.

This mismatch can result in windfall gains where inflation is higher than forecast, or losses where inflation is lower. The proposed fixed-indexation approach reduces this exposure and provides a fairer allocation of risk between Heathrow's investors and airport users.

Heathrow's charges represent a significant operating cost for airlines and are ultimately reflected in the cost of travel. Iberia therefore supports a framework that protects airport users and passengers from costs arising from regulatory mismatches rather than changes in Heathrow's efficient underlying costs.

The methodology should use transparent and auditable assumptions regarding Heathrow's notional fixed-rate and index-linked financing. These assumptions should reflect an efficiently financed notional company rather than automatically adopting or rewarding Heathrow's actual financing choices. The CAA should also demonstrate that the change does not create an unintended route to higher near-term airport charges.

Iberia supports the adoption of fixed indexation as part of the H8 Final Proposals. The approach better aligns RAB indexation with Heathrow's notional financing costs, reduces the potential for inflation-related windfalls and provides greater protection for airlines and passengers from unnecessary costs.

Kind regards,



Jaime García Blázquez
Manager Aeropolitical Affairs, Iberia