# Response ID ANON-YDSY-8PXX-1

Submitted to Renewables Obligation scheme: Changes to Inflation Indexation
Submitted on 2025-12-02 15:09:14

## About you

### What is your name?

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### What is your organisation?

Organisation:
The Investment Association

### We usually publish a summary of all responses, but sometimes we are asked to publish the individual responses too. Would you be happy for your response to be published in full?

Yes, but without identifying information

### How did you hear about this consultation?

How did you hear about this consultation?:
Email from elsewhere

Other (please specify):

## Consultation questions

### 1 Do you agree that CPI is a fairer and more accurate measure of inflation for adjusting the RO scheme costs than RPI? If not, why not?

Not Answered

Please explain the reasons for your answer:

### 2 Of the two options, which do you think is the best alternative to the current methodology, and why?

Not Answered

Please provide justification for your answer :

### 3 Do you have any comments on the likely impacts of the proposed change for generators, consumers or investors?

Please respond here:

The policy proposal is explicit in its aim to reduce the policy costs of the Renewables Obligation (RO) by reducing the revenue to be paid to investors.

The consultation notes that the Renewables Obligation has been a part of a system which has incentivised UK renewable electricity generation for more than two decades, a period over which the UK has become a global example for the transition to clean energy. Private finance, incentivised by public policy, has been instrumental in achieving this transition.

The IA is the representative body for the UK-based investment management industry. The IA's 250 members manage £10trn for savers and institutions, such as pension schemes and insurance companies. These members have reported that the change proposed in this consultation would contribute to an uncertain policy environment, negatively impact sentiment towards investing in the UK, and contribute to an increase in the cost of capital for renewable energy infrastructure.

Organisations including the International Renewable Energy Agency (IRENA) and the International Energy Agency (IEA) have conducted interviews and surveys which demonstrate that policy uncertainty, including uncertainty about revenue to be expected, contributes to an increased cost of capital. [bit.ly/4iuKs46; bit.ly/48oVCml]

Investors have highlighted the previous removal of the Climate Change Levy exemption for renewable electricity and the introduction of the Electricity Generator Levy as policies which have cumulatively made the UK less attractive. Projects have been built and secondary transactions undertaken on the presumption of a stable framework, and they have materially impaired relative to expectations due to these policy changes. In relation to the Renewables

Obligation, companies that invest in renewable energy assets may have tied their debt at the time of investment using inflation-linked debt. A change to the inflation metric used in the revenues is likely to result in a mismatch with their existing liabilities.

The investors affected by these changes are most likely to be the investors from whom the government plans to seek future investment. In demonstrating that the UK Government, Scottish Government and Northern Ireland Executive are prepared to retrospectively change the terms on which an investment was made, the proposed policy change would introduce a credible additional policy risk for investors considering future UK energy projects.

It is challenging to precisely quantify the impact of a cumulative diminishment in positive sentiment towards UK energy projects or of this future and specific policy change on the cost of capital for renewables projects or the hurdle rate for investors. However, empirical analysis of climate and environmental policy risk by the University of Oxford found that countries with more stringent and predictable climate policies (using the OECD Environmental Policy Stringency Index) had borrowing costs for renewable energy projects which were around 31 basis points (0.31%) lower than for comparable fossil-fuel projects [bit.ly/3Y1HomF]. Conversely, policy uncertainty or risk can lead to higher costs.

A study by Imperial College London estimated that exposing renewables to volatile market prices by removing stable policy support could increase financing costs by 200 basis points [bit.ly/3MAkZu7]. While this outcome is not being proposed by the Government, the analysis demonstrates the importance of effective financial incentives to investors, and it is reasonable to infer that in a more unreliable policy environment with an uncertain expected return, additional financing costs would rise closer to the 200 basis point level.

The consultation repeats the Government's view that the deployment of clean energy will support energy independence and protect consumers and business from volatile energy prices. NatWest and BCG have estimated that more than £900bn of capital expenditure is needed by 2050 to support the transition of the UK energy supply and power generation sectors [bit.ly/49RwsPO]. The Clean Power 2030 Action Plan estimates an average of £40bn of investment in generation and transmission infrastructure each year to 2030 [bit.ly/4iuLJrU]. Given the scale of investment sought, a marginal increase in the cost of capital is likely to result in substantial additional costs for governments, generators and consumers. It is not apparent that the potential saving of approximately £3 per year for an average UK household, which the indexation change expects to deliver, is significant enough to justify the risk of higher costs or foregone investment.

This consultation takes place as the process is underway for the seventh allocation round of the Contracts for Difference scheme (AR7). The failure of AR5 to attract bids from offshore wind developers was a real-world example that uncertainty and inadequate financial incentives can act as a barrier to investment. The House of Commons Library has set out how lack of confidence and a need to meet higher costs of capital were contributing factors [bit.ly/48vrV3h]. Damage to confidence in UK infrastructure may also impact the availability or cost of capital for other sources of clean energy, including nuclear power. We note that the UK Government-commissioned Nuclear Regulatory Review recently articulated the wider benefits of investment in energy generation and argued that "stronger investor confidence will mean an immediate increase in UK nuclear projects" [bit.ly/43XIeo4].

4 Do you think there are alternative approaches that should be considered, and if so, what are these and why?

Please respond here:

The objective of aligning government support mechanisms behind one, best practice, inflation metric can be achieved by adopting CPI-based indexation as new schemes are introduced. As the consultation states, this has been the approach of the government for some time with Contracts for Difference (CfDs), Renewable Heat Incentive (RHI) tariffs, and the Capacity Market (CM) all CPI-indexed in some form. The Renewables Obligation schemes have been closed to new applications for nearly a decade, and costs will continue to fall until they end in 2037.

Any alternative approach to the objective of reducing the burden on consumers should be measured against the benchmark of this proposal, which expects to deliver an estimated annual saving rising to £3 per year for an average UK household by 2030. The IA does not typically take a view on the individual taxation, welfare, or energy bill support policies that might form a suitable alternative approach to this policy proposal. However, we are aware that expert stakeholders have proposed a range of policies that could offer households support worth considerably more than £3 per year. For instance, the Resolution Foundation briefing 'Splitting the Bill' recently discussed a range of policy options that could achieve a more substantial and immediate cut in energy bills for households [bit.ly/4iANeF6].

The recent Budget included a package of support for household energy costs that is expected to save households an average of £150 per year, and which already constitutes a more effective alternative to the approach outlined in this consultation. This package includes a decision to fund 75% of the costs of the Renewables Obligation (RO) for domestic customers from general taxation until March 2029.