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Response to the UK government consultation on Renewables Obligation (RO) scheme: indexation changes

Brunel welcomes the opportunity to respond to the UK government's proposed changes to the inflation indexation calculation for the Renewables Obligation (RO) and Feed-in Tariffs (FiT) schemes, from the Retail Price Index (RPI) to the Consumer Price Index (CPI). Brunel strongly oppose the proposals on the basis that it will not only damage investments made by Brunel and its partner funds, and thereby not in our clients' best interests, but believe it will cause lasting damage to investor confidence in the deployment of capital, in all forms, to the UK, and thereby not in UK Government's or Country's best interests.

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Brunel Pension Partnership is one of eight UK Local Government Pension Scheme (**LGPS**) pools. Our aim is to forge better futures by investing for a world worth living in.

We do this by making long-term, sustainable investments on behalf of our clients. By using our collective expertise, we seek to set an example for the industry, and to use our voice to argue for broader change. We are proud to be a recognised leader in Responsible Investment, and a driving force behind structural change in the financial industry.

Within the Brunel pool, we collectively manage over 80% of the total assets and investments held by our clients, which currently sits above £40bn in AUM with roughly a third invested in the UK. Brunel is authorised and regulated by the Financial Conduct Authority as a full-service MiFID firm. We act as the discretionary investment manager to our clients and are authorised by the FCA (reference no. 790168) for the conduct of investment business.

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We have a strong industry presence in the global asset owner community. We are often invited by the UK Treasury and other government departments and regulators to support the development and implementation of corporate and sustainable finance policy objectives, for example the Green Taxonomy Taskforce and Transition Plan Taskforce Delivery Group. In addition, Brunel sits on the Board of the International Investor Group on Climate Change ('IIGCC') as Chair. We have both actively supported the UK Government in developing its strategies to make the UK a global leader in sustainable finance as well as in the deployment of capital to in support of the UK economy and our communities.

Key messages:

- Brunel opposes switching ROC/FIT indexation from RPI to CPI, as it would harm investments, investor confidence, and the UK's reputation for sustainable finance and undermines several of the government's own policy commitments
- The proposals create policy uncertainty, risking not only reduced investment in UK renewables and broader infrastructure, but UK assets in general
- Retrospective changes erode trust in core infrastructure with regulated returns and government-backed contracts, raising the cost of capital and delaying climate and energy goals
- International examples show retrospective policy changes deter investment.
- Neither indexation option is supported; both disrupt financing and constitute a betrayal of all investors' trust in the stability and predictability of UK policy
- Generators, consumers, and investors all face negative impacts: lower revenues, higher costs, and weakened confidence. Proposed changes tackle the symptoms, not the root cause
- Brunel urges maintaining RPI indexation until 2030 for stability and long-term investment

Please find below our detailed responses to the questions we have chosen to respond to. We welcome an open dialogue, so if you would like to contact Brunel to discuss any of the topics or points raised, please contact:

Faith Ward, Chief Responsible Investment Officer
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1. Do you agree that CPI is a fairer and more accurate measure of inflation for adjusting the ROC / FIT tariffs than RPI? If not, why not?

With respect, in the context of the proposed consultation and its potential impacts, this question is misleading and irrelevant. It has been established that the RPI formula is flawed and is due to be replaced by CPI from 2030 for that very reason. But whether RPI is flawed or not, RPI is the indexation that was agreed by UK Government in legislation to attract investment into the nascent UK renewable energy generation industry over a decade and a half ago, and the basis upon which investors made decisions at all points in those assets' lifecycle. That can not be changed retrospectively with the benefit of hindsight.

Policy certainty is essential to ensuring that investors continue to deploy the long-term capital required to finance the UK's decarbonisation targets. This is particularly important as the UK seeks to accelerate progress towards its climate goals and encourage investment in UK infrastructure. Recent government publications, including the Carbon Budget Growth and Delivery Plan, have emphasised stability and predictability as key to maintaining investor confidence.

Investors, such as Brunel, plan over multi-decade horizons and base their investment decisions in part on the stability and predictability of the policy framework. In 2020, HM Treasury confirmed that the RPI would be phased out and replaced by the CPI including owner occupiers' housing costs (CPIH) from 2030. At that time, investors were provided with a 10-year notice period, allowing sufficient time to adjust their financial models and valuations accordingly.

By contrast, the current proposal to introduce similar changes from April 2026 provides limited notice. This creates significant uncertainty and harms investor confidence in the reliability of UK renewable-energy subsidy arrangements. Noting that CPI usually runs about 1% below RPI, the proposed indexation changes would reduce revenues for UK-focused renewable funds, pressuring valuations and dividend cover. Uncertainty over future RO and FiT indexation also makes it difficult to value affected projects, likely freezing transactional activity in an already quiet market.

Brunel's Clients have invested heavily in this space as part of various Brunel portfolios since 2019, namely Secured Income, Cornwall Local Impact Portfolio, client specific elective services, and Wessex Gardens (not under direct Brunel management) all of which will be severely impacted by the proposed changes. This was all to support the UK's decarbonisation and energy transition and all in line with UK Government policy and strategy of the day.

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To generate inflation-linked cashflows, the funds make use of subsidies (including ROCs and FiTS) to ensure inflation-linked contracted cashflows. These ROC/FIT accredited renewable projects were financed, constructed and contractually structured on the basis that revenues would be indexed to RPI for the duration of the applicable support scheme.

This assumption directly shaped:

- the inflation indexation chosen for key contracts such as land leases, O&M
- agreements, insurance, spares frameworks, community benefit commitments
- and risk mitigation tools such as inflation hedging,
- debt sizing and covenants, and
- ultimately the equity returns expectations for investors – which were modest but acceptable, given portfolio objectives.

We would also note that the actual cost base (operating and maintenance costs, land leases, etc) for of ROC/FIT accredited projects increases with RPI, thereby widening the mismatch and undermining the investment case. We believe the proposed changes, if implemented in April 2026, are sudden and give investors little time to address effects on debt covenants, O&M agreements, or other RPI-based contracts. This could negatively impact investments and reduce investor confidence in the UK's openness to infrastructure investment for a sustained period of time.

The analytical annex that accompanies the consultation and assesses the impact of indexation does not consider the effect of the proposed changes on investors. This directly contradicts the consultation's position that 'balance must be achieved between ensuring that generators continue to receive an appropriate return on their investments and managing costs to consumers.'

As a retrospective revision of government-backed contracts, this move undermines confidence in the UK's support frameworks and may lift sector discount rates. It also raises broader concerns about the reliability of 20-year Contracts for Difference (CfDs) and confidence in other regulated models such as Regulated Asset Base (RAB) arrangements. Eroding policy stability risks delaying projects, increasing the cost of capital, and weakening the UK's competitiveness as a destination for investment.

International experience also demonstrates the consequences of retroactive policy intervention. Spain and Italy experienced a prolonged downturn in renewable-energy investment after introducing retroactive changes to support mechanisms. Between 2010 and 2014, Spain implemented a series of retroactive changes to its renewable-energy support schemes. This prompted numerous foreign investors to bring claims under the Energy Charter Treaty. Several tribunals – including Masdar and Novenergia – found that the reforms materially and adversely altered investor conditions.

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The fundamental concern is that the proposed changes – either options - would constitute a material (and retrospective) change in the investment credentials of UK Government-backed renewable projects, undermining confidence in UK energy policy that we believe will have far wider implication than the direct financial impact on individual projects.

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

Brunel does not support either option. Both Option 1 (immediate switch to CPI) and Option 2 (freeze and shadow CPI realignment) represent material retrospective policy changes and would disrupt our existing financing structures. Option 2 is particularly devastating to existing investors in UK operating renewables.

In one of our largest funds, over a third of the fund's cashflows are exposed to ROC/FiT with an average ROC cashflow due to run off in 6 years, although the longest is 13 years. The anticipated impact on total yield, over subsidies period, from Option 2 is circa 10%, and even Option 1 will have an impact of over 2% of total yield.

We believe either option is a betrayal of trust, as a change to the methodology at this time undermines the very investments in UK renewables made by UK pension funds, particularly those representing the public sector, which have been actively encouraged by multiple administrations to invest in local and impact investments.

The risk of irreparably damaging investor confidence not only in investing in UK infrastructure – but investing in the UK at all. This proposal could not come a worse time. The Mansion House Accord is barely six months old. The Accord, under which investors were asked and agreed to put 10% of workplace portfolios into economy-boosting assets by 2030, with at least 5% dedicated to the UK—aiming to unlock £25 billion for the UK's economy. **Less predictable investor returns could discourage further investment in the UK green sector.**

If there is doubt over the impact on investment, it is already being felt. The indexation proposals were clearly price sensitive, given the falls in share prices across the listed renewable infrastructure trust sector of typically between -4% to -8% in recent weeks. The sector has been under intense pressure, trading at material (~30%) discounts to NAV even before this latest surprise news owing to a combination of:

- Low UK power prices
- Extreme weather
- Low energy generation due to low wind

- +400bp interest rate rise
- Investor Portfolio substitution effects as a result of base rate changes

Many of the trusts have published their expected impact on NAV, with Option 1 expected to reduce NAVs by between 0.6 to 2pps, and Option 2 by between 1.2 to 12pps. Whilst the impact on funds does vary by subsidy and level of UK exposure it clearly demonstrates the impact will have far reaching affects.

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

Brunel strongly opposes switching ROC/FIT indexation from RPI to CPI, as it would create a structural mismatch between revenue and cost inflation, erode investor confidence, and disrupt existing financing structures, and the UK Government own plans to support our economy's decarbonisation, energy security and transition which will not serve consumers in the longer term.

- **Negative Impacts on Generators**: Switching to CPI would decrease revenues, cause a divergence between revenue and cost inflation, increase operational risks, and reduce the bankability of projects due to altered debt covenants and refinancing challenges.

- **Negative Impacts on Consumers**: Reduced investor confidence and higher financing costs could lead to increased long-term system costs, greater reliance on fossil generation, and higher household bills.

- **Negative Impacts on Investors**: The proposed changes would reduce returns, decrease portfolio values, weaken confidence in UK renewable policy stability, and increase the cost of capital, potentially diverting investment to other markets.

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

ROCs & FiTs make up only part of the Environmental and Social obligations component of a standard electricity energy bill. Most importantly, 'policy costs' make up **>20%** of electricity bills compared to only **7%** for gas, as shown by research from Nesta: What's in an energy bill? | Nesta. The policy costs of the energy transition in the UK are being put on electricity, as opposed to the fuel source we are trying to transition away from.

We welcome the recent changes outlined in the November 2025 Budget Statement, which is a step in the right direction, but strongly encourage acting for the long term and taking a system-wide approach to changes. **We emphasise again, the unintended consequences of these proposals are profound.**

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We strongly recommend RPI indexation is maintained until the legislated 2030 transition to CPIH, as previously communicated and planned for by investors and operators. This is an opportunity to demonstrate that UK Government is listening to investors, maintaining a consistent and stable policy approach to the energy transition and provides a balanced approach which will best serve consumers over the long-term.

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