



UK Government

Changes to inflation indexation in the Renewables Obligation and Feed-in Tariff schemes

Analytical annex: Impact of indexation
options



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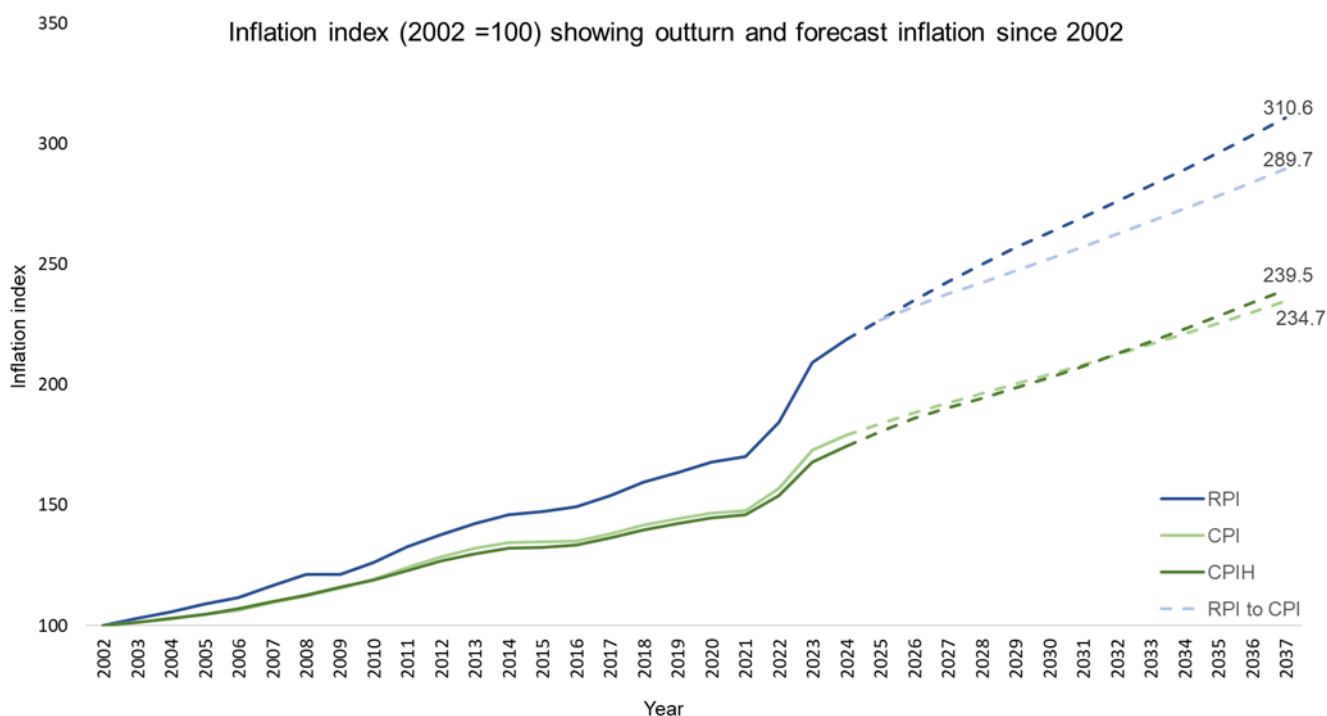
Background on indexation

An inflation measure quantifies the rate at which the general price level of goods and services rises in an economy. It serves to track the cost of living, gauge economic stability, and inform monetary and fiscal policy decisions by central banks and governments. It helps individuals, businesses, and governments understand how their purchasing power is changing and allows for appropriate adjustments to wages, contracts, and interest rates to maintain price stability and economic well-being.

There is often debate about which methodology is most appropriate with the three most common measures used in the UK being the Retail Prices Index (RPI), Consumer Prices Index (CPI), and Consumer Prices Index with Housing (CPIH).

The Office for Budget Responsibility (OBR) produce regular Economic and Fiscal Outlooks that provide projections for RPI, CPI, and CPIH (Figure 1) up to Q1 2030. In general, RPI has consistently tracked higher than both CPI and CPIH and is expected to remain higher in the future. Beyond Q1 2030, it is assumed that CPI increases at 2.0% with CPIH and RPI increasing at 2.4% based on OBR long-term forecasts from the publication “The long-run difference between RPI and CPI inflation”.¹

Figure 1. OBR projections for RPI, CPI and CPIH. The plot also shows the rate of change for RPI if the CPI methodology was used (which is expected to occur in the future)



¹ [The long-run difference between RPI and CPI inflation](#) - Office for Budget Responsibility

Operation of the Renewables Obligation Scheme

The Renewables Obligation (RO) operates as a market-based system of tradable green certificates. The scheme places an obligation on UK electricity suppliers to present a certain number of Renewable Obligation Certificates (ROCs) to the scheme administrator (Ofgem), for each unit of electricity they supplied to non-exempt customers during an obligation year.

Suppliers can purchase these ROCs from generators or traders (with the precise value of a ROC a matter for negotiation) or can meet their annual obligation, in part or in full, by paying into a 'buy-out' fund. The prices of ROCs sold through the buy-out fund is set by the Department for Energy Security and Net Zero (DESNZ), the price of which is adjusted by Ofgem each year in line with inflation - currently RPI.

Although the majority of suppliers meet their obligation by purchasing ROCs rather than paying the buyout price, the predefined buyout price is assumed to directly impact on the traded price of a ROC. Any adjustment to the rate of indexation will therefore directly impact on the total spend required by suppliers and the total revenue received by generators.

Operation of the Feed-in Tariff Scheme

The Feed-in Tariff (FiT) scheme was introduced in 2010 to incentivise small-scale renewable electricity generation. Although closed to new applicants, accredited generators continue to receive payments under the scheme for the duration of their contracts – typically 20 to 25 years.

Under the FiT scheme, accredited generators are registered with FiT licensees (electricity suppliers) who are responsible for administering payments. These payments consist of two components:

- **a generation tariff** – a payment for each kilowatt-hour (kWh) of electricity generated, regardless of whether it is consumed on-site or exported
- **an export tariff** – a payment for electricity exported to the grid, either metered or deemed

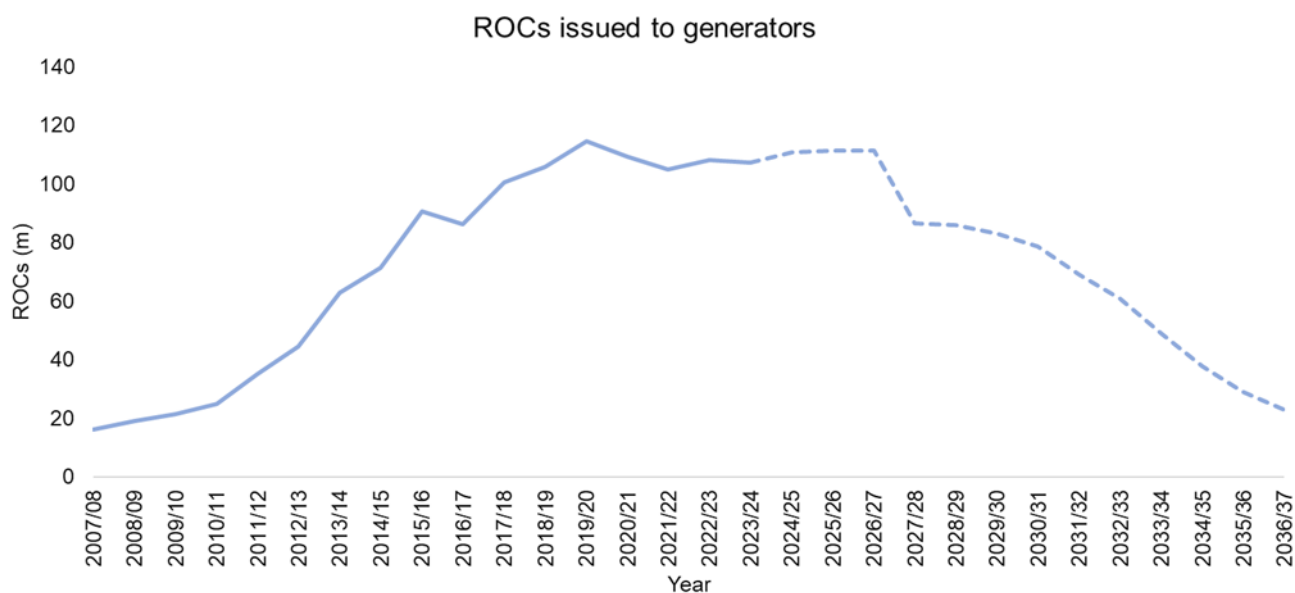
Tariff rates were set by DESNZ and its predecessors and are adjusted annually by Ofgem, also in line with RPI.

As tariffs are defined explicitly and indexed, any change in the indexation methodology would directly affect both the total value of payments made to generators, and the overall cost of the scheme, which is ultimately passed on to consumers.

Impact of the change of indexation

Each year the Department updates its projections for the number of ROCs that are expected to be produced under the scheme (figure 2), with these then being used to define the headroom required within the scheme and the obligation for suppliers.

Figure 2. Forecast of the number of ROCs produced each year until the end of the RO scheme (in 2037)



The RPI, CPI and CPIH forecasts from OBR are used to project buy-out prices (table 1). The impact of the change in indexation (table 2) has been calculated by multiplying the projected ROC volumes by the buy-out prices and uplifted by 10% to account for headroom. The scheme costs are paid by suppliers through the RO obligation which are assumed to be passed onto consumers. The savings in table 2 are assumed to be for the consumer.

Changing RO indexation from RPI to CPI is forecast to produce savings for the consumer of £80m (24/25 prices) in 26/27 increasing to £250m (24/25 prices) in 30/31. The savings beyond this point reduce as the total generation falls as the scheme closes in 36/37. Generators income would fall by similar amounts.

Freezing the RO indexation is forecast to produce savings for consumers of £300m (24/25 prices) in 26/27 increasing to £820m (24/25 prices) in 30/31. Generators income would fall by similar amounts.

Table 1. The forecast ROC buy-out price

	Actual	RPI	Increase (%)	CPIH	Increase (%)	CPI	Increase (%)
2024/25	£64.73						
2025/26	£67.06						
2026/27		£69.66	3.9%	£69.50	3.6%	£69.00	2.9%
2027/28		£72.06	3.4%	£71.34	2.6%	£70.58	2.3%
2028/29		£74.30	3.1%	£72.93	2.2%	£72.07	2.1%
2029/30		£76.40	2.8%	£74.49	2.1%	£73.53	2.0%
2030/31		£78.54	2.8%	£76.07	2.1%	£75.01	2.0%
2031/32		£80.44	2.4%	£77.85	2.3%	£76.51	2.0%
2032/33		£82.37	2.4%	£79.72	2.4%	£78.04	2.0%
2033/34		£84.35	2.4%	£81.63	2.4%	£79.60	2.0%
2034/35		£86.38	2.4%	£83.59	2.4%	£81.19	2.0%
2035/36		£88.45	2.4%	£85.59	2.4%	£82.81	2.0%
2036/37		£90.57	2.4%	£87.65	2.4%	£84.47	2.0%

Table 2. Impact of changing the indexation of the RO scheme

	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35	35/36	36/37
ROCs (m)	111.5	111.5	86.5	86.0	82.9	78.5	69.0	60.8	48.7	37.8	29.0	22.9
Buy-out price												
RPI	£67.06	£69.66	£72.06	£74.30	£76.40	£78.54	£80.44	£82.37	£84.35	£86.38	£88.45	£90.57
CPIH	£67.06	£69.50	£71.34	£72.93	£74.49	£76.07	£77.85	£79.72	£81.63	£83.59	£85.59	£87.65
CPI	£67.06	£69.00	£70.58	£72.07	£73.53	£75.01	£76.51	£78.04	£79.60	£81.19	£82.81	£84.47
No indexation	£67.06	£67.06	£67.06	£67.06	£67.06	£67.06	£67.06	£67.06	£67.06	£67.06	£67.06	£67.06
Cost (£bn, nominal prices)												
RPI	£8.2	£8.5	£6.9	£7.0	£7.0	£6.8	£6.1	£5.5	£4.5	£3.6	£2.8	£2.2
CPIH	£8.2	£8.5	£6.8	£6.9	£6.8	£6.6	£5.9	£5.3	£4.3	£3.4	£2.7	£2.2
CPI	£8.2	£8.5	£6.7	£6.8	£6.7	£6.5	£5.8	£5.2	£4.3	£3.4	£2.6	£2.1
No indexation	£8.2	£8.2	£6.4	£6.3	£6.1	£5.8	£5.1	£4.5	£3.6	£2.8	£2.1	£1.7
Cost (£bn, 24/25 prices)												
RPI	£7.9	£7.9	£6.2	£6.1	£5.9	£5.6	£4.9	£4.3	£3.5	£2.7	£2.1	£1.6
CPIH	£7.9	£7.9	£6.1	£6.0	£5.8	£5.4	£4.8	£4.2	£3.4	£2.6	£2.0	£1.6
CPI	£7.9	£7.9	£6.0	£5.9	£5.7	£5.3	£4.7	£4.1	£3.3	£2.6	£2.0	£1.5
No indexation	£7.9	£7.6	£5.7	£5.5	£5.2	£4.8	£4.1	£3.5	£2.8	£2.1	£1.6	£1.2
Savings (£m, 24/25 prices)												
RPI	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
CPIH	£0	£20	£60	£110	£150	£180	£160	£140	£110	£90	£70	£50
CPI	£0	£80	£130	£180	£220	£250	£240	£230	£200	£160	£130	£110
No indexation	£0	£300	£430	£600	£720	£820	£820	£810	£710	£600	£500	£420

The FiTs cost forecast is derived from the latest outturn data published by Ofgem for the 2023/24 financial year. Given that the FiTs scheme is closed to new entrants, the modelling assumes that aggregate costs remain constant in real terms until 2029. From 2030 onwards, costs are projected to decline annually, reaching zero by early 2040s, in line with the expected expiry of generator contracts.

Changing FiTs indexation from RPI to CPI is forecast to produce savings for the consumer of £20m (24/25 prices) in 26/27 increasing to £700m (24/25 prices) in 30/31. Generators income would fall by similar amounts.

Freezing the FiTs indexation is forecast to produce savings for consumers of £60m (24/25 prices) in 26/27 increasing to £230m (24/25 prices) in 30/31. Generators income would fall by similar amounts.

Table 3. Impact of changing the indexation of the FiTs scheme

	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35	35/36	36/37
Cost (£bn, nominal)												
RPI	£1.9	£1.9	£2.0	£2.1	£2.1	£2.0	£1.9	£1.7	£1.6	£1.5	£1.3	£1.2
CPIH	£1.9	£1.9	£2.0	£2.0	£2.0	£1.9	£1.8	£1.7	£1.6	£1.4	£1.3	£1.1
CPI	£1.9	£1.9	£2.0	£2.0	£2.0	£1.9	£1.8	£1.7	£1.5	£1.4	£1.2	£1.1
No indexation	£1.9	£1.9	£1.9	£1.9	£1.9	£1.7	£1.6	£1.4	£1.3	£1.2	£1.0	£0.9
Cost (£m, 24/25 prices)												
RPI	£1.9	£1.9	£1.9	£1.9	£1.9	£1.7	£1.6	£1.4	£1.3	£1.2	£1.0	£0.9
CPIH	£1.9	£1.9	£1.8	£1.8	£1.8	£1.7	£1.5	£1.4	£1.3	£1.1	£1.0	£0.8
CPI	£1.9	£1.9	£1.8	£1.8	£1.8	£1.7	£1.5	£1.4	£1.2	£1.1	£0.9	£0.8
No indexation	£1.9	£1.8	£1.8	£1.7	£1.7	£1.5	£1.3	£1.2	£1.0	£0.9	£0.8	£0.6
Savings (£m, 24/25 prices)²												
RPI	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
CPIH	£0	£10	£30	£40	£50	£50	£50	£40	£40	£30	£30	£30
CPI	£0	£20	£40	£50	£70	£70	£70	£70	£70	£60	£60	£50
No indexation	£0	£60	£120	£170	£210	£230	£240	£250	£250	£240	£230	£210

This projection is based on high-level aggregate modelling and is subject to several uncertainties. Key among these is the variability in generation output from FiTs-accredited installations and the pace at which existing generators will exit the scheme. No granular modelling has been undertaken at the individual generator level to estimate specific exit dates, which introduces further uncertainty into the long-term cost trajectory.

² Figures are rounded to the nearest £10m

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