Legacy Schemes Team
Renewable Electricity Directorate
Department for Energy Security and Net Zero
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By email: RO@energysecurity.gov.uk

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Dear Legacy Schemes Team

USS welcomes the opportunity to respond to your consultation papers on Renewables Obligation and Feed-in Tariffs. We've combined our responses to both papers into this letter for ease of reference, and because our concerns to each proposal are similar in nature. We have set out our key concerns followed by answers to the four specific consultation questions in the following pages.

We strongly oppose the proposed changes. As we note below, meeting the UK's climate goals depends on continued partnership with private capital, and that partnership hinges on trust. Reneging on indexation now for short-term gain would, in our view, do far more harm than good. Government unilaterally seeking to revisit historic investment terms will have much wider and very damaging implications for other areas where DESNZ, and the Government more widely, is seeking investment.

**About USS**

Universities Superannuation Scheme was established in 1974 as the principal pension scheme for universities and higher education institutions in the UK. We work with around 330 employers to help build a secure financial future for almost 577,000 members and their families. We are one of the largest pension schemes in the UK, with total assets of around £76.8bn (as at 31 March 2025). The trustee of USS is Universities Superannuation Scheme Limited. It has overall responsibility for scheme management and administration, led by a non-executive board of directors and employs a team of pension professionals in Liverpool and London. The trustee is regulated by The Pensions Regulator and has a legal duty to ensure that benefits promised to members are paid in full on a timely basis.

The trustee delegates implementation of its investment strategy to a wholly-owned subsidiary – USS Investment Management Limited (USSIM) – which provides in-house investment management and advisory services to the trustee. USSIM manages around 70% of the investments in-house and appoints and oversees external investment managers to manage the rest. USSIM is authorised and regulated by the Financial Conduct Authority.



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USS is a significant investor in infrastructure assets in the UK with private markets already forming an important part of our investment portfolio. We established our in-house private markets team in 2006 and now have a dedicated team of 79. At 31 March 2025, we had c.£26bn – or a third of the scheme's total assets – invested in private investments globally, 45% of which is invested in the UK. We have been closely involved in the Mansion House Accord and Sterling 20 initiative, working with Government to better support investment in both private markets and the UK.

**Our key concerns**

**USS strongly opposes the Government's proposals to alter the inflation indexation of the Renewables Obligation (RO) and Feed-in-Tariff (FiT) scheme for existing accredited generators**. USS is a long-term investor in UK renewable energy, including owning significant stakes in RO-supported offshore wind farms, including those acquired in 2017 from the Green Investment Bank, then itself a UK Government owned entity. USS has also provided financing to assets which have RO-supported revenues and assets that are supported by the FiT subsidy. When discussing RO-supported revenues in this letter, it should be understood that our objection to changes to the FiT-supported revenues are similar in nature.

For investors in such assets, the RO revenues were a fundamental part of the investment case. Indeed, investors expected (and indeed continue to expect) that the RO payments, as a promise from Government, would be honoured and, in the event changes were required to the scheme, that any existing commitments would be 'grandfathered'.

We also note that Government has repeatedly stated its commitment not to make retroactive policy changes, and English courts have historically ruled such policy changes to be unlawful. In terms of the specific changes being consulted on, investments in these assets were made on the basis that the RO's inflation indexation, pegged to RPI, was a settled commitment and therefore could be relied upon to be 'grandfathered' for the life of the scheme. The proposed changes – whether an immediate switch to CPI (Option 1) or a more extreme freeze and CPI realignment (Option 2) – represent an arbitrary and punitive action that would breach those commitments, undermine investor trust, erode asset values, and set a damaging precedent for the UK investment environment – both in energy investment and beyond. That damage would, in our view, far exceed any perceived economic benefits to the RO scheme itself.

The Department of Energy and Climate Change stated in a July 2011 White Paper[1] that "all technologies currently grandfathered will remain grandfathered in the vintaged RO… This will remove the need for further banding reviews, reducing the costly administration burden, and is intended to provide industry with revenue certainty". We agree.

We therefore urge the Government to refrain from any changes to RO indexation and to uphold the commitments that underpinned investments made, in good faith, in reliance thereon (including those acquired from a government-owned entity itself), and on which investor confidence in the sector depends.

**Our responses to the consultation questions**

**Question 1: Do you agree that CPI is a fairer and more accurate measure of inflation for adjusting**

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[1] "Planning our electric future: a White Paper for secure, affordable and low-carbon electricity" – Presented to Parliament by the Secretary of State for Energy and Climate Change – July 2011

**the RO scheme costs than RPI? If not, why not?**

We do not agree. Our foremost concern is the breach of the principle of respecting the prior commitments and promises made by Government – i.e. grandfathering. To debate the relative merits of CPI vs RPI is to entirely miss the point – RPI was the indexation measure chosen by the Government and it was a legitimate expectation that the rules of the scheme would not change for existing assets. The RO scheme's inflation index was a critical term. Investors allocated capital to UK renewables on the basis of those terms, in good faith.

In the context of RO scheme assets, RPI remains the most relevant and appropriate inflation measure. Many of the long-term operational cost components, such as operations and maintenance and asset management contracts, are commonly indexed to RPI. This alignment means RPI more accurately mirrors the actual cost pressures faced by generators currently and in the future given these services are contracted under long-term agreements. Moreover, a significant number of projects were financed using long-dated debt facilities that were structured and sized on the assumption of RPI-linked revenue streams. This indexation is fundamental to the integrity of these financing arrangements, underpinning both the creditworthiness of the debt and the ability of projects to meet their repayment obligations. Additionally, interest rate hedging instruments are often calibrated to these RPI-linked cash flows, meaning any shift in indexation would not only affect equity returns but could also jeopardise the financial resilience and debt service capacity of affected projects.

RPI indexation is therefore important to investors to provide protection from inflation. Changing this unilaterally, after investments have been made and, in some instances, financed with debt based on those cashflows, is effectively a default on an obligation by Government. It will be perceived as such by the market.

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

We oppose any change to the current methodology and consider both options presented to be unjust, arbitrary and self-defeating.

Both options change the rules of a scheme which underpinned investment decisions made many years ago. Option 2, by design, constitutes a more explicitly retroactive reduction in support levels. It goes beyond changing the future index; but rather holds payments flat until a historical "excess" is eroded. As well as a breach in trust in the promises of the UK Government (both options), Option 2 further violates investor trust as it effectively confiscates value that has already accrued to these projects.

Many projects that would be affected by these proposals have project finance debt. In such projects, debt covenants and coverage ratios would likely have been sized assuming RPI-linked revenues (because that was the promise at the time). Under both options, credit metrics would deteriorate, and this would be most damaging in Option 2. Investors would likely need to negotiate with lenders a new financial package [which may well be unsuccessful].

USS views both options to be unjust, retrospective (to varying degrees), and extremely harsh. Both options should be firmly rejected due to the precedent they would set, significantly undermining investor confidence. As noted, we strongly oppose both options but observe Option 2 is the more egregious of the two.

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

We believe that adopting either of the proposed options would have far-reaching and negative impacts on generators, consumers and investors.

The stated rationale for the indexation change is to save consumers money on bills and align with "regulatory best practice" of using CPI. While we support cost-effective decarbonisation, the perceived, upfront consumer benefit here is relatively minor and comes at a high hidden cost. Under either option, investors would need to write down the value of RO-dependent assets to reflect the loss of future income. In effect, Government is proposing what amounts to an expropriation from investors, including UK pensioners (present and future). However, this is not merely a zero-sum game. We consider this change will end up costing the Government (and therefore consumers and taxpayers alike) much more in the long-term as the negative repercussions of undermining existing agreements and investor confidence will reverberate for years – during a period in which Government will be looking to institutional investors to finance a very large investment programme.

In the energy sector, the UK has historically enjoyed a strong reputation for regulatory stability. Even when support schemes have evolved (for example closing the RO to new entrants and introducing CfDs), existing accredited projects were grandfathered under original rules. This consistency has been rewarded with continued investor appetite. A breach of this principle will be very damaging for investor confidence. The consultation itself rightly notes that any change must be balanced against impacts on renewables investment. We emphasise that those impacts will be profound and far-reaching if investors fear the Government may rewrite financial terms ex-post.

We would expect upward pressure on investors' cost of capital and a loss of trust in the Government's willingness to honour long-term obligations and a reduced allocation to investments in UK infrastructure generally. These factors will undermine customer affordability– the very opposite of the proposal's stated goal. The country risk premium for UK renewables would increase. This is especially counterproductive when the UK needs massive private investment to meet energy security and decarbonisation goals[2].

The impact of the consultation on investor sentiment has already been visible in public markets. As noted in a recent regulatory announcement by Greencoat UK Wind plc, "the listed renewables market is a bellwether for investor sentiment and, in the five trading days that followed the Government's announcement, the six largest UK listed renewable funds saw their combined market cap fall by circa £400 million / 5%." This immediate and material reaction underscores the broader market's concern about the precedent such policy changes would set and the potential for long-term damage to the UK's reputation as a stable and reliable destination for infrastructure investment.

We also expect that proceeding with a legislative change to RO indexation could invite legal challenges. The precedent of the 2011 High Court ruling that retroactive cuts to solar Feed-in Tariffs were unlawful looms large. A protracted court battle would benefit no one – not Government, not suppliers, not consumers and certainly not investors. Opening up this litigation risk appears completely unnecessary and self-defeating.

**Question 4: Do you think there are alternative approaches that should be considered, and if so,**

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[2] "Creating Conditions for Long-Term Infrastructure Investment: A Framework for Governments and Asset Owners" – International Centre for Pension Management – 2 October 2025

**what are these and why?**

The original policy intent of the RO scheme should be upheld. The RO's indexation was intended to ensure "stable and predictable" returns for investors, and it succeeded in doing so for two decades. It enabled projects to be built and helped drive down technology costs (and therefore power costs) over time. As was its right, Government sought to refine the support mechanisms for offshore wind through the introduction of the CFD arrangements, but all while grandfathering the existing arrangements under the RO scheme. These consultation papers argue that RPI 'overcompensated' generators due to being higher than CPI in recent years. Investors have not been improperly compensated – they have simply received what was promised: an RPI-linked revenue stream. Investors took on construction, operational, and market risks on these projects. The reward for assuming these risks was provided through the ROC framework. It is not "overcompensation" to honour the agreed indexation; rather it is the bargain that enabled these projects to be built and financed in the first place. We urge Government to recognise that maintaining policy certainty is in the long-term interest of consumers because it lowers the cost of financing renewable infrastructure, leading to lower support costs over time.

**Conclusion**

USS emphatically rejects the notion that switching to CPI for the RO is fair or appropriate for existing generators (see our response to Question 1). While CPI may be a more commonly used inflation measure for new schemes, applying it to the RO scheme now – or worse, freezing indexation – would be counter to the legitimate expectation of those who invested on the basis of the rules made by Government.

We believe neither Option 1 nor 2 represents an acceptable alternative (Question 2) to the current methodology for existing RO projects. Both options would undermine the principle of grandfathering and materially damage investor confidence. Option 2 is particularly severe in its impact, but we do not support either proposal.

In summary, the proposed changes (to RO-supported revenues or FiT-supported revenues) would be substantively similar:

- **For generators/investors:** these proposals would erode revenue and project equity value; potentially breach financing covenants; damage confidence in UK policy stability, causing investors to require higher returns or indeed impact appetite to invest with the UK Government as a counterparty. This in turn could reduce appetite for refinancings and secondary market transactions in the renewables space.
- **For consumers:** the proposals would provide a very modest short-term bill reduction, but at higher long-term costs as investor risk premiums increase. Also, any setbacks in renewable investment could slow deployment, indirectly exposing consumers to volatile fossil fuel prices for longer, contrary to the Department for Energy Security and Net Zero's objectives.
- **For the Government/public interest:** they would undermine the UK's standing as a safe investment destination for infrastructure. This could in turn make it harder for the Government to convince private capital to support its objectives in energy policy and elsewhere. The knock-on impact on risk premia will ultimately cost the Government and therefore taxpayers and consumers much more than will be gained in short-term bill impacts. It could also prompt legal challenges from generators, creating uncertainty and delay in achieving the intended savings.

USS therefore asks that Government upholds the terms of the RO's original commitment to generators. The UK's climate goals depend on continued partnership with private capital, and that partnership hinges on trust. Reneging on indexation now for short-term gain would, in our view, do far more harm than good. We remain at your disposal to discuss constructive solutions that address consumer costs without undermining the investments that have built the UK's renewable energy capacity and look forward to hearing from you at your earliest convenience.

Yours sincerely

**Simon Pilcher**
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