

Consultation on Sustainable Aviation Fuels Revenue Certainty Mechanism – REA response

The REA has over 550 members across the power, heat, transport, organics and clean tech sectors. The REA's Renewable Transport Fuels Forum has around 50 members with interests in fuel production, project development, supply chain and related areas. REA work streams of relevance to this consultation include waste management and regulation, biogas and biomethane, advanced conversion technologies and hydrogen.

We welcome DfT's intention to develop a revenue certainty mechanism for SAF. We responded to both mandate consultations, as well as the two Recycled Carbon Fuels consultations and the Jet Zero Strategy. Member engagement on these issues continues on a regular basis. Specific input on this consultation was gathered via a dedicated meeting on 5 June 2024 and by feedback on the initial draft response.

Section 1: Strategic case

1. Do you agree with the rationale for implementing a revenue certainty mechanism? If not, why not?

Yes.

We are involved in the relevant Jet Zero Council groups and first contributed to a paper specifically on the need for such a mechanism in Autumn 2020. Our key concern at this stage is the risk of further delays in developing and implementing the policy.

Due to the fundamentals of the design of the RTFO, it is a comparatively weak mechanism when looking to invest in fuel production. Not only is the level of potential price support uncertain, but there are considerable uncertainties around whether estimated support levels can be secured at all without a long-term offtake agreement with a credit-worthy counterparty.

As noted in the consultation, in an environment where investors are familiar with policies such as the Green Gas Support Scheme, the power Contracts for Difference and Renewables Obligation, a potential SAF producer that is solely reliant on the RTFO for government support will likely be out-competed for access to finance.

Section 2: Scope

2. Do you agree or disagree that HEFA-based SAF should not be covered by the proposed revenue certainty mechanism? Please provide supporting evidence.

We agree that HEFA should not be covered in the mechanism, for the reasons given.

Section 3: Revenue certainty mechanisms

3. Do you agree with our explanation of the Guaranteed Strike Price mechanism? Is there anything else we need to consider?

Broadly yes.

On page 22, the GSP is described as guaranteeing an agreed price ‘per litre of fuel’. We would note that, although that is one way in which it could operate, the price could be tied to other metrics such as mass.

The section on time to deliver could be clearer on when this mechanism could be available in practice. Putting all the necessary legislation in place (primary and secondary) by Q4 2026 is certainly possible, but it is quicker than experience would suggest is likely. Considerable effort and focus will be needed if this is to be achieved.

Even if all the necessary legislation were in force by that time, the point at which contracts could be entered into would take substantial additional time. How long that would take is obviously dependent on the choices made for allocation of contracts and how much this process can be streamlined.

Although we don’t believe this section of the description is incorrect in itself, if read quickly it could easily create a misleading impression of how soon the mechanism could be available to project developers.

Finally, the graphics on page 25 are unattractive and the explanations that accompany them would be hard to follow for someone not already heavily engaged in this issue or familiar with existing mechanisms based on a Contracts for Difference approach. Further work is likely to be needed to aid communications when detailed proposals are put together.

Further comments are set out in our response to Question 11.

4. Do you agree with our explanation of the Buyer of Last Resort mechanism? Is there anything else we need to consider?

We note that this mechanism assumes that the producer entering into a BOLR contract is also the entity entitled to claim SAF mandate certificates. Although the consultation acknowledges that there are many other permutations that would lead to the entitlement to SAF certificates arising elsewhere in the supply chain, it is unclear what impact this would have on BOLR contract design.

It is unclear whether DfT believes it would be possible to adapt the model so that it also provided support under other circumstances, or whether it is only seen as viable in situations where the producer also receives the SAF mandate certificates directly. If the latter, DfT would need to consider to what extent this would hamper a project’s ability to raise the funding they require or to operate in the most efficient way once commissioned.

With regard to delivery time, similar comments apply as in our response to Question 3. Although the time required to make high level decisions and get legislation in place may be much the same as with a GSP, when getting into the details of policy design, it is likely that these will be more speedily resolved for BOLR than with the GSP. We have seen in our experience of the development of the Low Carbon Hydrogen Agreements that additional issues can arise over the

course of policy design when putting together a full Contract for Difference mechanism. It might also be the case that the allocation process for BOLR contracts could be made quicker than for a full GSP.

In our view, it is a plausible scenario that the BOLR could be delivered significantly more quickly than the GSP. Although we agree that GSP should be the preferred option, it is for that reason that we support ongoing policy work on both options at this stage.

5. Do you agree with our explanation of the Mandate Auto Ratchet mechanism? Is there anything else we need to consider?

Yes.

With respect to the discussion of legal requirements, it would be worth considering the Green Gas Support Scheme budget management approach as an example. This leaves a number of key features of budget management (including changes to the quantity of capacity supported) to be adjusted by the energy department without the need for changes to the secondary legislation.

The GGSS is a very different mechanism to the RTFO, but this example should be considered. It is also worth noting that this approach evolved from the predecessor scheme (Renewable Heat Incentive) embedding the mechanism in its secondary legislation. Although this was an attempt to increase investor certainty, the benefits were less than hoped for and it led to project developers rushing to commission projects ahead of anticipated tariff reductions and a number of sub-optimal outcomes as a result.

6. Do you agree with our explanation of the Mandate Floor Price mechanism? Is there anything else we need to consider?

It is not entirely clear from the description provided how this would operate. A prohibition on making a sale at all unless the SAF mandate administrator is satisfied with the price raises a great many questions that are not directly addressed in the consultation – we have inferred them from the description of advantages and disadvantages given at page 44.

Section 4: Options assessment and conclusions

7. Do you agree or disagree that the Mandate Auto Ratchet option should not be taken forward? Please provide supporting evidence where possible.

Agree.

This approach would not provide sufficient certainty for investment. Any benefits it would provide would be shared indiscriminately with all potential suppliers to the mandate rather than a particular targeted group.

8. Do you agree or disagree that the Mandate Floor Price option should not be taken forward, even if it can be delivered sooner than the private law contract mechanisms? Please provide supporting evidence where possible.

Agree.

This approach shares the disadvantages of the Mandate Auto Ratchet. In addition, the Mandate Floor Price would potentially create market distorting behaviours which are inherently difficult to predict in advance.

There is no benefit to be had from being able to put either of the regulatory approaches in place more quickly than a contractual solution if they will not deliver the primary purpose required – sufficient certainty to enable investments in projects in the UK.

9. Do you agree or disagree that the certainty required by the investment community is best achieved through a private law contract between a producer and Government (or Government backed counterparty)? Please provide supporting evidence where possible.

Agree.

Evidence in support of such a basis being effective can be seen in the track record of the power Contracts for Difference and the wide range of sectors that are supportive of a similar mechanism such as for low carbon hydrogen, greenhouse gas removals, and CCS.

It should be noted that other policies have been effective that are not based on a private law contract – such as the Renewables Obligation, the Feed in Tariff, the Green Gas Support Scheme. So it would be more accurate to state that where government revenue support is required for a project to be investable that support needs to be long term, at a clearly defined level and ultimately backed by the government. This does not necessarily have to be via a private law contract, but there is ample evidence that a private law contract can be effective.

Given the inherent design choices of the RTFO and SAF mandate, we would agree that the only viable option is one based on a private law contract as proposed.

10. Do you agree or disagree that the GSP should be the preferred option to consider developing of the two private law contract options? Please provide supporting evidence where possible.

Agree,

We agree with the analysis that shows the GSP would be considerably stronger in giving confidence to investors. Since this is the purpose of such a mechanism it is right to focus on this as the lead solution.

As noted in our responses to questions 3 and 4, the BOLR proposal should continue to be worked on at this stage until detailed work on the GSP has been carried out and there is a much clearer understanding of the timing needed for contracts to be entered into.

Annex A: Detailed contract considerations

11. Are there any other key elements of any revenue certainty mechanism contract that need to be considered?

We agree that the elements identified are critical.

With regard to price setting, this relates to both the strike price and the reference price. If Achieved Sales Price is selected for the reference price, then care will need to be taken to ensure that the SAF producer remains incentivised to seek the best price they can for their SAF.

The Low Carbon Hydrogen Agreements use Achieved Sales Price as a reference price and includes a Price Discovery Incentive to address this. This may be sufficient to achieve the desired policy goals, but it should be noted that there was a wide range of stakeholder views on this

point and it is far from clear whether this approach will be effective to mitigate the risk of reduced commercial incentives – either in principle or at the level set. DfT should therefore seek input both from DESNZ and industry stakeholders involved with the LCHAs when developing this aspect of a SAF GSP.

The following would also need to be considered:

- 1) Whether the contract needs to take into account other ‘cross chain risks’ such as volume risk – in other words, scenarios in which the producer is able to produce SAF but their buyer is unable to take it
- 2) Capacity: whether there should be any maximum or minimum limits on the amount of production a contract can support
- 3) Any restrictions on end markets: would any of the SAF produced be required to be supplied to the UK market?
- 4) Interaction with other UK policies such as the Low Carbon Hydrogen Agreement, various CCS/GGR business models, and UK ETS
- 5) Whether there would be any restrictions on a project’s ability to expand capacity in future
- 6) Timing/commissioning:
 - a. How far in advance of contract allocation can be the target commissioning date?
 - b. What milestones will be required between contract allocation and full commissioning?
 - c. How far after the target commissioning date can the longstop date be?
 - d. What are the commissioning requirements – do they solely require the relevant equipment to be installed and commissioned? Must it be shown to have produced some SAF (or some SAF that meets the required technical specification for use as avtur/avgas)? Must it be shown to have produced SAF up to a certain % of its intended capacity?¹
 - e. What degree of flexibility can a project have between the information provided at the time of contract allocation and the construction/commissioning of the project?
 - f. What are the consequences for the project of failing to meet timing/scale-up deadlines?
- 7) Which (if any) provisions of the contract can be altered unilaterally by the counterparty and how will these be managed if they are to the financial disadvantage of the project?

¹ The LCHA goes some way beyond what has historically been required for power generation and renewable heat. There were significant concerns from industry stakeholders at the potential impact, particularly for technologies that are relatively high technology risk such as advanced conversion technology pathways – which obviously more closely resemble SAF production routes than (for example) electrolytic hydrogen. DfT should monitor closely evidence that emerges on any impacts on project funding or successfully completing the LCHA commissioning requirements once projects are built

12. Are there any other considerations that project developers will need to take into account?

These will vary according to project specifics and may also vary depending on size. We agree with the key issues identified.

13. Are there any other considerations that should be taken into account by the contract funder?

It is unclear whether this relates to project funders, the government or some other party. In any case, we agree that there is a balance to be struck in giving sufficient support to enable projects to be funded without either the level of duration of that support being too great.

14. Which contract allocation method is most appropriate? Why?

It is difficult to imagine that a **single fixed price** would be appropriate for all projects given the wide range of technologies, feedstocks and other elements of intended operation. Experience of other fixed price support schemes shows that this is hard to set appropriately, even when technologies use essentially the same equipment and are relatively mature. There will always be a risk that the level chosen would either be too low (resulting in no deployment) or too high (resulting in higher than expected deployment and risk of over-compensation). In the latter scenario it would also be likely that support levels would be reduced speedily, resulting in market destabilisation. Attempting to address the range of technologies by providing a wider range of different fixed prices merely makes the problem more complex.

For similar reasons, we do not believe an **auction** approach would be appropriate at this stage. This has been successful in the power CfD, at least for some technologies that already had a history of deployment prior to the mechanism being introduced. Auctions have been effective at driving cost reductions within a technology, but have been less so when setting different technologies to compete against each other – the result has usually been that one technology wins and the other loses entirely. Given the small number of projects that are likely to come forward for a SAF contract, it is difficult to see what value/competitive tension an auction would be able to drive. By the same token, the risks on co-ordinated bidding would be considerable and near impossible to police.

We would therefore support an approach based on bilateral negotiations between projects and either DfT or the contract administrator. Within this, we would see a **tendering process** as preferable. This provides transparency and clarity to developers on what is required – and in the event of there being insufficient funds to support all credible projects, provides a robust and fair means of deciding between them.

We note that the process for allocation of Low Carbon Hydrogen Agreements took longer than hoped and was a sufficient time commitment for both developers and the government. DfT should look to learn lessons from this process in order to streamline the process. There are some advantages in relation to SAF projects as there are likely to be fewer of them and many if not all of the projects coming forward will already be known to DfT through previous grant competitions. Another advantage of this approach is that DfT will obtain high quality real-world information on project funding considerations, which will help inform future policy development.

15. Do you agree that this is the most appropriate way to administer a revenue certainty mechanism?

We agree that neither the airline sector nor fuel producers would be the appropriate bodies to administer the contracts. Since a key requirement of the mechanism is to make projects investable by offering support over a relatively long period, it is essential this is seen as ultimately backed by the government.

16. Do you have any views on the most appropriate counterparty?

We would strongly support the use of the Low Carbon Contracts Company to perform this role. They have many years of experience in operating the CfDs and will shortly begin administering the Low Carbon Hydrogen Agreements – which is the closest model to a SAF CfD available. There are likely to be considerable similarities between the final form of a GSP for SAF and the LCHAs and many project developers and investors will also be familiar with both. We do not see any advantage in engaging (or creating) a different body, which would have to build up its expertise in administering these contracts from scratch. Even if the outcome were no worse, it would be another area in which there would be risks of delay.