Consultation on changes to inflation indexation in the Feed-in Tariffs scheme

Citizens Advice response

Summary of response

Citizens Advice, as the statutory advocate for energy consumers in England and Wales, welcomes the proposal to change the Feed-In Tariffs indexation. We recently responded positively to the government's proposals to change future indexation for the Renewable Obligation and the same rationale applies for Feed-In Tariffs.

We strongly agree that CPI is a fairer and more accurate measure of inflation than RPI. We see no credible reason for continuing to use RPI in relation to the Feed-In Tariff and welcome the proposal to switch to using CPI from 2026/27. This change in approach will reduce the risk of overcompensating renewable generators in future and minimise cost increases to consumers. This approach would also align the Feed-In Tariff indexation with Contracts for Difference, the Capacity Market and, subject to the outcome of the government's recently closed consultation, the Renewables Obligation.

We recognise that, for long-term contracts, investors must have reasonable confidence that the fundamental terms of the agreement will not change. However, we do not see reindexing future Feed-In Tariff payments from RPI to CPI as a fundamental change to the contract. Investors are still receiving inflation protection for the full duration of the agreement and their payments at the end of the scheme will have been adjusted at least in line with CPI, at least maintaining their real-term value. We support the change to CPI because it prevents future windfalls occurring which unfairly increase the cost to consumers.

With this in mind, we recommend that the government adopts option 2 - "temporary freeze and gradual realignment with CPI". Only option 2 tries to prevent overcompensation of generators over time by considering the years of above trend inflation such as 2021/22 to 2022/23 and the compound effect of RPI outstripping CPI. As the analysis in the consultation shows, considering overcompensation over time will have a significantly higher impact on consumer energy bills, more than tripling the benefit to consumers.

Consultation questions

1. Do you agree that CPI is a fairer and more accurate measure of inflation for adjusting the FiT tariffs than RPI? If not, why not?

We strongly agree that CPI is a fairer and more accurate measure of inflation than RPI. We see no credible reason for continuing to use RPI in relation to the Feed-In Tariff and welcome the proposal to switch to using CPI from 2026/27. This change in approach will reduce the risk of overcompensating renewable generators in future and minimise cost increases to consumers.

RPI is an outdated and inaccurate approach to calculating inflation that overestimates annual inflation. As noted in the consultation, the government is phasing out the use of RPI. In the energy sector, Ofgem has already moved away from using RPI in its price controls. The government officially adopted CPI as its preferred measure of inflation as far back as 2003. The Bank of England's official inflation target moved to CPI in December 2003. CPI has been used for increases in public service pensions and benefits since April 2011 and the UK Statistics Authority (UKSA) de-designated RPI as a "National Statistic" in March 2013.

We also agree with the government's rationale for using CPI, which better reflects the costs to scheme participants than CPIH.

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

Both options proposed will reduce the risk of overcompensating renewable generators in future and minimise future cost increases to consumers. We see no credible reason for continuing to use RPI indexation for the Feed-In Tariff scheme beyond March 2026.

We recommend that the government adopts option 2 - "temporary freeze and gradual realignment with CPI". Only option 2 tries to address the overcompensation of generators over time, considering years of above trend inflation such as 2021/22 to 2022/23 and the compound effect of RPI outstripping CPI. As the analysis in the consultation shows, making changes that consider overcompensation over time will have a significantly higher impact on consumer energy bills, more than tripling the benefit to consumers.

This approach would also align the indexation with Contracts for Difference, the Capacity Market and, subject to the outcome of the government's recently closed consultation, the Renewables Obligation.

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

Both options presented by the government will benefit consumers with lower bills than the status quo. Option 1 limits the future overcompensation of generators, while option 2 tries to prevent overcompensation over time. Both options represent a transfer from generators to consumers.

Option 1 reduces the risk of overcompensating renewable generators in future. Switching from RPI to CPI would produce savings of £20 million in 2026/27, rising to £70 million by 2030/31.

Option 2 delivers higher benefits for consumers by trying to prevent overcompensation of generators over time, particularly considering years of above trend inflation such as 2021/22 to 2022/23 and the compound effect of RPI outstripping CPI. As the analysis in the consultation shows, addressing this overcompensation over time would produce savings of £60 million in 2026/27, rising to £230 million by 2030/31.

The Feed-in Tariff scheme closed to new generators from April 2019 and replaced with the Smart Export Guarantee, which is a market mechanism without any indexation at all. As the government highlights, the design of the Feed-in Tariff scheme has led to overcompensation of generators since its inception. The government proposals seek, as a minimum, to end this overcompensation. The government has long signalled that RPI should be phased out and that changes to the Feed-in Tariff scheme could take place from 2026/27. For these reasons, we do not see any reason why switching from RPI to CPI will impact investor or consumer confidence.

We recognise that, for long-term contracts, investors must have reasonable confidence that the fundamental terms of the agreement will not change. However, we do not see reindexing future Feed-in Tariff payments from RPI to CPI as a fundamental change to the contract. Investors are still receiving inflation protection for the full duration of the agreement and their payments at the end of the scheme will have been adjusted at least in line with CPI, at least maintaining their real-term value. We support the change to CPI because it prevents future windfalls occurring which unfairly increase the cost to consumers.

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

We recommend that the government adopts option 2 - “temporary freeze and gradual realignment with CPI”.

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