# Consultation response – December 2025

**Consultation**

***Changes to inflation indexation in the Feed-In Tariffs (FiT) scheme*** *(as published on the DESNZ website).*

**About the respondent**

NextEnergy Capital ("NEC") is the Investment Adviser to NextEnergy Solar Fund ("NESF"), and has one of the strongest track records in UK renewables of raising and deploying capital into the GB energy system. We strongly believe in the UK's energy transition and intend to commit in excess of £1 billion to the market over the coming years. This will help deliver a secure and affordable electricity system for industrial and domestic consumers, and in support of this NEC and the funds it manages have already attracted and invested more than £2 billion in UK solar PV and storage since 2014. This includes assets supported by the Renewables Obligation ("RO") and Feed-in Tariff ("FiT") schemes in NESF, which is listed on the main market of the London Stock Exchange.

NEC is therefore a major investor in and supporter of the UK's renewable energy sector. We also take our broader obligations seriously. NEC is a responsible investor and proactively involved in multiple industry and academic initiatives to drive the most transparent and sustainable industry possible. We are a voluntary and early adopter of the most robust international sustainability frameworks currently in existence, including the International Sustainability Standards Board and the Taskforce on Nature-related Financial Disclosures.

Our response to this consultation builds on the response we provided to the adjacent consultation on the RO scheme by including additional commentary on the impact specifically on FiT schemes. However, many of the underlying investment dynamics that will be affected are a result of the retrospective nature of the proposed changes overall, and as such our commentary relating to these dynamics is not materially different. We would also note that amending one but not the other of the two schemes would still represent a retrospective policy change, and so the dynamics we describe remain valid.

This response will be published at https://www.nextenergysolarfund.com/campaigns/.

**Responses to consultation questions (where a response is provided)**

**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?**

No, we do not agree. The Government is proposing to adjust the previously agreed terms of a subsidy scheme to which it explicitly invited investors to commit capital on a long-term basis. This amounts to the retrospective imposition of additional costs. The consultation describes a concern that legacy scheme assets are being overcompensated as a result of "…higher revenues for generators than they would have received had their payments been indexed to CPI or CPIH." This premise is false: FiT generators have never forecast their compensation based on CPI indexation, precisely because it was not the measure used as the basis for

introducing the scheme. Generators are being compensated in line with what they expected, which is the RPI forecast as updated on a rolling basis.

Apart from the loss of revenue, assets deployed using long-term financing will also now in fact be undercompensated where either (i) revenue projections based on RPI were used to determine debt quantum and servicing ability for the duration of the subsidy, or (ii) debt was indexed with RPI – for which investors will not be able to re-sign or re-negotiate existing facility agreements with lenders to reflect any changes in how indexation is treated. In both cases, long term projected equity returns will be impacted. In a severe scenario, lower debt service ability may impact project viability itself under long-term third-party financing, if a change in indexation pushes debt cover ratio below required covenants. If financing cannot be renegotiated – which we believe will be the case – then investors could potentially take disproportionately large losses to their expected long-term returns, beyond a simple increase in the relative cost of financing.

There is in addition an extended ecosystem of long-term contracts, land and other leases, community benefits, and other potential project specific agreements associated with FiT generators, all of which will use RPI as the inflation assumption where one exists. These cannot simply be renegotiated overnight, and if the government implements a proposal that means it needs to be attempted, there will be significant transaction costs associated with it beyond the cost of the financial changes themselves.

The net impact of all of these issues is highly negative. This can be demonstrated via the sudden decline in the share prices of listed renewable infrastructure companies on Monday 03 November 2025, the first trading day after the publication of the consultation. The share price moves reflected the market responding immediately to the risk of lower-than-forecast revenue which FiT assets would generate under the proposals, and the other issues outlined in this response. The negative impact is also reflected in the subsequent announcements to the London Stock Exchange by listed funds including NESF of the decline in their Net Asset Value ("NAV"). There will be further specific exposure for investors including, for example, UK pension funds where their investments include portfolios of rooftop solar systems that generate income from the FiT.

The manner in which the proposals have been made is also concerning. The consultation came out of the blue, was not preceded by a specific call for evidence or other industry engagement that we are aware of and provided only six weeks in which to respond. There has never been a retrospective change to the FiT scheme since inception, and this is one of the reasons the UK has been a standout location in which to invest in renewables. The country now has a thriving subsidy-free solar sector, and the consultation period is an unacceptably short amount of time in which to assess how, not if, the proposals put this at risk. The consultation therefore amounts to a statement of intent that the Government will introduce one of two negative options without further investigation.

This is concerning because the analytical index provided by DESNZ contains insufficient detail to understand whether the purported benefits to consumers both short term and long term have been fully examined, as we describe in our response to question 3. Previous Governments tried retrospectively to amend the structure of the FiT scheme and lost in court, following which the then-Energy and Climate Change Secretary noted that the Government at the time would "focus all [its] efforts on ensuring the future stability" of solar. The present Government should not implement a measure which would potentially re-open legal challenge relating to policy stability.

As a result of these issues not only is the proposal concerning to investors in renewable energy infrastructure, it will also affect the perception of investors in the UK as a whole. In one of her pre-budget speeches the Chancellor was explicit that she would prioritise the national interest above political calculation. This provided welcome acknowledgement of the need to secure investment to drive the growth which the government is seeking in order to address the deficit. But given the issues with these proposals, they appear intended to deliver short-term gains at the expense of long-term costs to the economy. This is not in the national interest.

Renewable technologies such as solar PV are also the fastest and cheapest forms of new power generation, and therefore critical to achieving the Government's broader policy objective, known as Clean Power 2030 ("CP30"). This is intended to deliver an affordable, secure and clean power system by 2030, which are important goals and ones which NEC supports. But CP30 will require a once-in-a-generation level of public and private investment, with capital requirements estimated by the Government to be £40 billion a year between now and 2030. The Government has also directly stated that "CP30 will provide stability for businesses and confidence for investors," including by "Giving developers greater route-to-market certainty through a clear national plan for our power system." These proposals do the exact opposite, and undermining confidence in the solar sector cannot be offset by investment in other technologies, which are slower and more expensive to deploy.

The proposed changes will in addition be unfair to the homeowners, local authorities and other residential-related investors who installed rooftop solar under the FiT scheme as early adopters. This helped reduce costs and establish the installation market which meant that the domestic solar PV market reached a record high number of installations in 2025. UK Government data shows that there are approximately 860,000 FiT-accredited solar systems in the UK, the vast majority of which will be owned by or benefit domestic consumers, and the stated objective of the proposed changes is to support consumers with their energy costs. But there can be no more direct means of increasing the costs of these consumers than by reducing FiT payments made straight to domestic generators, given these act as a hedge against changes in power pricing. Households who wanted to do the right thing, and who invested in FiT-accredited solar systems in order to help address climate change and increase their own energy security, will therefore be directly penalised.

The owners of these systems will be particularly affected should they have financed their purchase using a loan, roof rental or similar scheme, where repayment agreements will have been structured using RPI-based assumptions and which they will be less able to service should the Government implement the changes. It is unclear whether the potential consequences of this – for example, consumers needing to use cash savings to make repayments, or incurring a negative impact on their credit scores – have been fully assessed. But should these consequences occur, they will have the opposite impact to what the Government intends. Further, housing associations and other organisations which have deployed FiT-accredited solar systems as a capital-efficient way of supporting action on energy bills and fuel poverty across their estates will be affected by revenue forgone, on which financing, maintenance and broader support to housing and energy schemes may all have been premised.

The proposed changes will therefore be to the direct detriment of these stakeholders. They are also inconsistent with the need for households to electrify their heat and power, and the Government's recent (and welcome) pro-solar messaging, for example, around removing

planning obstacles, and in turn would reduce the likelihood that consumers would support future domestic clean energy schemes. Consumer champions such as Martin Lewis have made precisely this point, and implementing these proposals would therefore undermine consumer trust in the energy transition at precisely the point when political consensus over the desirability of achieving a clean power system is fraying. We do not think this is in the UK's interest.

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

Neither option is acceptable. Both represent a retrospective change to government policies which were intended to – and did – encourage long term investment in clean energy. Any change, proposed or actual, will affect the UK's ability to attract and deploy capital into critical energy infrastructure projects such as renewable energy, and wider industry as a whole. It is not unreasonable to expect these policies to be maintained for the relevant investment horizon, to help continue the successful deployment of renewable energy across the UK and maintain confidence in the UK as a whole

The material and highly negative impact of the changes is particularly relevant for the listed funds which raised the majority of capital that deployed into the first stage of the UK's renewable energy roll-out. These are likely to face significant challenges as a result, and indeed the announcement of potential changes alone has already led to the destruction of significant shareholder value, including value held by retail investors. This will result in an increase in the cost of capital for new projects alongside a reduced pool of capital, which as it feeds through to costs will in turn outweigh any nominal benefit, in addition to the impacts that will be felt by domestic consumers who directly own and operate FiT-accredited rooftop solar systems. Under both proposed scenarios, GB consumers will be left worse off overall.

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

Yes. When properly assessed, it is clear that there are no positive impacts. There are a range of negative impacts for these stakeholders, and for CP30. These are outlined below:

- **Value destruction for generators:** the announcement of this proposal has already had a significant, material and negative impact on generators. This is visible in and can be quantified via analysis of share price movement: the shares of listed companies are highly liquid, and changes in share price are therefore a proxy indicator for broader financial market confidence in the infrastructure investment sector. Market concern about the proposed change is widespread: analysis by the Association of Investment Companies shows that on the first day of trading after the publication of the consultation, eight London-listed renewable Investment Companies saw declines in the range of around 3-9% in their share price, and in the five days after publication the value of these eight companies alone collectively dropped by £346 million. Between then and the date of submission of this consultation response, we have observed a further decline in value. These figures show that the market views the proposals as a major risk to the stability of the UK's critical energy infrastructure investment environment.

  Investors in these London-listed renewable Investment Companies include UK pension funds, and significant retail investor holdings via Independent Savings

Accounts and Self-Invested Pension Plans. Value has therefore been lost that would otherwise support long-term social care and related obligations. Pension funds, as with other investments, require long-term policy stability, and noting recent calls for the government to do more to direct UK pension fund capital into UK assets, the proposed changes deliver the opposite signal, which is that the Government is not serious about maintaining the UK's position as a stable and mature investment destination.

- **Decline in investor confidence and reduced ability to raise new capital:** investor confidence has been negatively impacted by the announcement alone of the proposed change from RPI to CPI, and will worsen if the change is implemented. The proposed change must not be assessed in isolation. Instead, it needs to be understood in the broader context of the challenges London-listed Investment Companies, notably listed renewable energy Investment Companies which invested in RO and FiT assets, face. The sequence of events which has impacted these companies from 2022 to date includes the 'mini budget' of the Liz Truss Government, issues with Investment Company cost disclosures leading to an apparent double-counting of fees for investors, the public market mandate exclusion from the Mansion House Accords, the imposition of the Electricity Generator Levy, and the current proposed changes.

  The impact of this sequence of events is that the market capitalisation of renewable energy Investment Companies is typically around 50% of what it was at the close of trading on September 22 2022, the day prior to the mini budget. Approximately £6.9 billion of value has been destroyed across NESF and its nine closest peers since then, and current share prices represent a wide discount to NAV. NAV is a key investment valuation metric, and when share prices trade at a discount to NAV it indicates market concern about a company's prospects or the environment in which it operates. The current discounts therefore indicate a lack of confidence in Government infrastructure investment policy, which is the direct consequence of a series of changes about which policymakers were warned every time.

  The ability of Investment Companies to raise capital has been curtailed as a result. This is due to stock market rules which prevent listed equities from raising new funds when they are trading at a discount to NAV. The investment impact in turn is that they are unable to deploy new clean energy projects which might otherwise contribute to CP30 and exert downward pressure on consumer costs.

  Because of the damage the proposed change has done to investor confidence, the UK is therefore depriving itself of a key pool of potential future investors for its renewable roll-out, and, worse, making it significantly less likely that existing investors will wish to re-invest in the UK, given their exposure to policy-induced losses.

  Whether intended or not, no government should accept this level of self-inflicted damage. We reiterate that the proposed changes should not be considered as a standalone consultation, but as the latest in a series of damaging proposals, the cumulative impact of which is the inability of the entire public equity sector to support a major government policy objective, in the form of CP30. This also means that private capital will need to make up a larger share of the investment required, which is precisely what the proposed change will make more difficult.

- **Cost to consumers**: the impact of the issues outlined above will be reflected in an increased cost of financing new renewable projects. This is because investors active in or considering new projects will question whether the UK remains a safe and reliable destination for long-term capital, while for lenders financing existing assets on a long-term basis, the risk that their loans will underperform has now increased. This will be priced into their assessment of future projects, including future Contracts for Difference ("CfD") projects, via either an increase in lending margin, or a lower cap on lending ability. The collective impact will be an increase in turn in the cost of deploying new clean energy capacity. This will be revealed in price formation for the market as a whole – leading ultimately to higher costs to the consumer, not lower.

  NEC, on behalf of NESF, worked with market-leading energy consultancy LCP Delta to assess the cumulative effect of the proposed change on the cost of capital to the renewable energy sector. Bespoke modelling carried out between 17 – 29 November 2025, the results of which will be made available at Campaigns - NextEnergy Solar Fund, indicates that the increased cost of financing will increase energy costs in turn. The basic mechanism for this is as follows:

  - The current proposals introduce significant uncertainty to the UK investment environment, for the reasons described in this consultation response.
  - The uncertainty increases the cost of capital (financing) for new projects.
  - Because new projects cost more, the auction price for new solar and wind farms bidding into the Contracts for Difference ("CfD") system will increase.
  - Wholesale prices and the costs of the scheme itself will therefore go up, and so will the costs to the consumer in turn.

  Figures 1 and 2 present the conclusions of the modelling, which is clear: under both option 1 and option 2, introducing the proposed change would be negative overall, and lead to a net increase in the overall cost to the consumer of £584 million - £2.5 billion from 2026 to 2050. This is because any short-term savings would be comfortably outweighed by the long-term costs.

*Figure 1: the actual estimated impact of the options presented by DESNZ will be net negative for consumers. This is because any short-term savings will be outweighed by long-term costs*

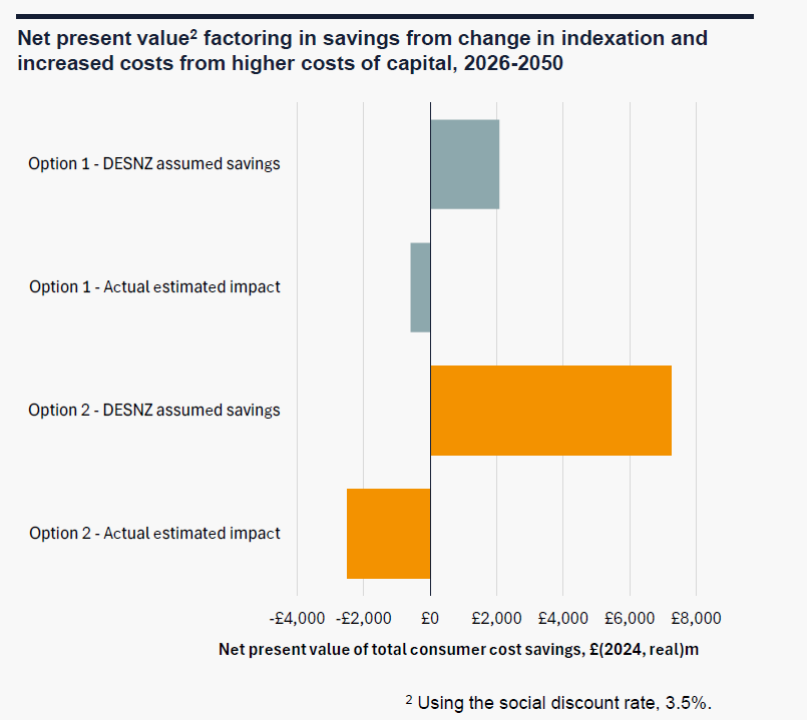
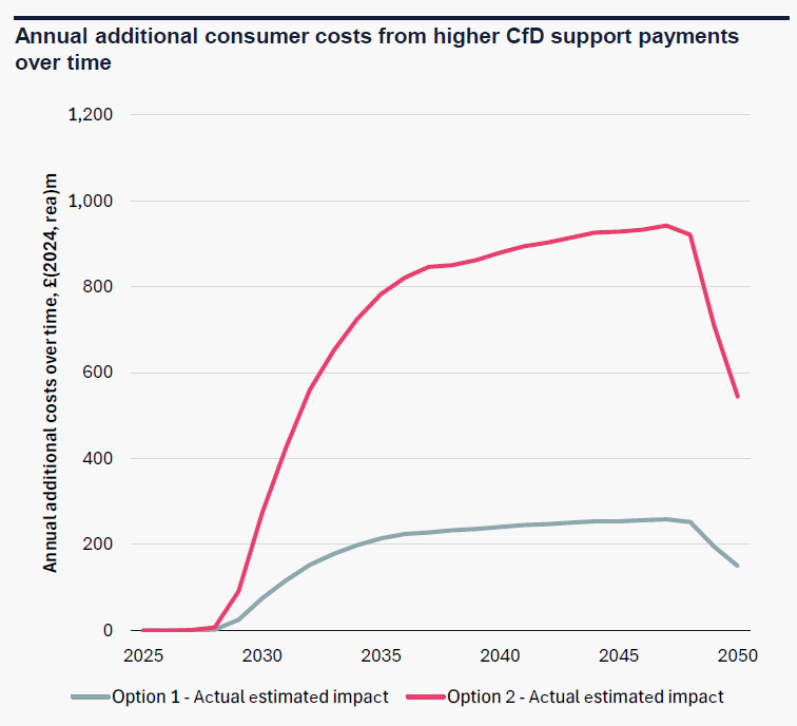



*Figure 2: the proposals harm investor confidence. This will increase the cost of capital for CfD projects, which will increase costs to consumers in turn.*



The analysis reflects previous energy policy assessment performed by DESNZ itself, which has stressed that costs and benefits are highly sensitive to discount rates. For example, DESNZ spent three years exploring the potential to move to a system of zonal electricity pricing, and explicitly acknowledged that one of its reasons for rejecting it was the negative impact that investor uncertainty would have, and how this would feed through to consumers. Three months later, it is contradicting its own work and introducing exactly this dynamic.

In addition, the analysis above represents a conservative estimate of the negative impact on consumers. This is because it relates solely to CfD backed schemes, which have a known price discovery mechanism, and for which it is more straightforward to model the impact of an increased cost of capital. However, the impact of reduced investor confidence will apply across the energy system, and so new non-CfD renewable capacity will also require higher discount rates to achieve financial close. It is highly likely that this will further increase the overall cost to consumers as a result.

The premise of the consultation that "Lowering levy costs will also support wider UK government priorities, including efforts to reduce industrial electricity prices" therefore does not stand up to scrutiny. There is insufficient detail in the analytical annex provided with the consultation to examine impacts appropriately, and it is unclear to us whether DESNZ, HMT and others have considered that the potential short-term benefit which may accrue by switching to CPI will be outweighed by long-term increases in the total cost to consumers caused by changes in the cost of capital. This is what matters to securing an affordable energy system in the long run, and so the government should not embark on the proposed policy changes, and certainly not without an extensive explanation of how it has modelled the purported benefits, net of the knock-on impact on other policy objectives.

- **Forward-looking political risk:** a further, unintended and also negative consequence of switching to CPI relates to proposals made by parts of the political spectrum in summer 2025 to review aspects of the CfD mechanism. 59 MPs immediately opposed these proposals, and it was noted in response that CfD agreements are private-law contracts and would be difficult for the Government to amend. Nonetheless, by retrospectively amending the parameters of legacy schemes, the present Government could in effect set precisely the precedent on which a future government might try and draw to challenge the CfD system. This would be a catastrophe for the UK's energy system and should be avoided at all costs.

- **Further impacts on CP30:** Because the secondary market for shovel-ready projects will be depressed as investors recalculate whether these are viable based on their updated financing costs, the time required to deploy the current pipeline will also inevitably increase. The proposals as presented also therefore introduce programme risk for existing, ready-to-build projects that have not yet been acquired, which will further stall the ability of firms to build new clean energy capacity in the context of the well-known challenges with grid connections and queue management. CP30 will therefore become more difficult to achieve. Furthermore, with elevated long term capital costs investment funds will also pay lower premiums to developers, reducing their incentive to bring forward new schemes. This will likely result in lower deployed renewable capacity relative to demand, and, again, higher electricity prices for consumers.

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

Yes, we think alternative approaches should be considered. The announcement in the Budget of 26 November 2025 that 75% of costs under the adjacent, RO scheme would be moved to general taxation will not negate the overall negative impact on consumers of making the proposed change. Despite the fact that bills may appear to decrease, this will simply be a function of moving the responsibility for bearing the cost from bills to taxation. The overall costs to consumers themselves will still be subject to upwards pressure as a result of the proposed change, because of the dynamics we outline in our response to question 3. This is why the impact for consumers remains negative, and hence why with total costs in mind the proposals should not be progressed.

We note in addition the hypothetical benefit on the cost of capital of moving part of the RO to general taxation, if doing so is intended as a means to try and reduce inflation, through a perceived impact on the reference basket of goods and services used to calculate inflation. However, the premise that this would offset the negative impacts for generators and investors of switching from RPI to CPI is flawed, given that the total consumer cost of electricity will not decrease. Because there is no direct link between inflation and interest or project finance discount rates, any potential investment benefit deriving from this also remains hypothetical. And even if the effect were observed, it would drive the CfD clearing price higher, because generators will have to bid higher to obtain the same discount rate.

Any alternative options should not include retrospective changes to existing policies, for the reasons we have described. The process for determining them also needs to be in a detailed, structured format with a clear and considered process to establish the costs and benefits of the available options. Indeed, this is one of the stated objectives of the Review of Electricity Market Arrangements (REMA) process, which is supposed to be the mechanism through which government will adjust electricity market policy. The government cannot and must not rush through changes of this potential magnitude. Generators, investors, trade associations and consumer groups all need sufficient time to evaluate the technical and commercial impacts of new market arrangements.

The overall consequences of this proposal for consumers and investors are significant and extremely harmful, and as such we firmly reject the change proposed in this consultation, and request that both suggested options be withdrawn. However, we reiterate that at NEC we welcome constructive debate on renewable energy investment policy, and are willing and available to work closely with the Government to assess how the sector can best support consumers and industry with their bills.

**ENDS**