Section 1: Strategic case

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

Yes

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.

The RTFA has a principle of being technology neutral. Our position is therefore that HEFA plants should not be excluded from the RCM, on the proviso that this does not compromise the availability of revenue certainty for non-HEFA projects, i.e., if contracts are awarded on a competitive basis, the competition must be in separate bands / pots to waste-to SAF or PtL SAF. The RTFA has a broad membership covering a range of different renewable transport fuel sectors, and consequently there are some members who have differing views to the general consensus of the Association.

HEFA plants would benefit from the RCM, as it would be very difficult to finance a UK-based project without a GSP contract. This situation is made more difficult by the fact that there is a cap on HEFA in the SAF mandate.

If HEFA projects are to be included, it must be considered what effect this might have on the funding of the GSP contracts as a whole. Depending on GSP prices and market prices, having HEFA as well as non-HEFA *and* PtL SAF GSP contracts may make it more challenging to predict money flows into and out of the pot. There is an additional challenge of contract allocation, if there are relatively few HEFA projects seeking revenue certainty.

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? How does it work?

If the reference price is the achieved sales price, the SAF producer or the fuel supply purchaser will need to be obliged to inform the LCCC of the price achieved.

We understand that DfT’s assumption is that in the early years of the SAF Mandate, the market is expected to be short, and the reference price is likely to be above the strike price. Therefore, money will build up in the “pot”. Assuming GSPs operate in a similar manner to CfDs, this money will need to be distributed to the parties that may have to pay a levy in later years. We expect this distribution to happen in a relatively short turnaround time – i.e. the system will be dynamic with regular distribution of the funds (e.g. quarterly), rather than the fund building up over time.

Also note that as per our answer to Q2, the payment situation may involve different SAF technologies selling product at above and below the strike price at the same time, across the two (or three) main technology bands (HEFA, non-HEFA, and PtL).

The reference and strike price will need to be based upon the same logical underpinnings as the SAF mandate – i.e., that a "typical" SAF has a GHG saving of 70%. Adjustment will need to be made pro-rata for SAF with differing GHG savings (above or below 70%). This is straightforward enough but does need setting out in the rationale for how it will work so that it is clear to all.

It is essential that the LCCC has the ability to raise funds to pay for the GSP in the case of a long market. There also needs to be consideration of how the strike price will need to change over time in response to inflation, input costs etc.

The GSP must adequately reward equity investors. It may be that with the degree of risk involved in FOAK SAF projects, a higher equity-to-debt ratio is required. The risk appetite of the equity investors must either be accommodated in some sharing of the upside of projects selling at prices above the GSP, or in the strike price itself (whether this is discovered by an auction or bilateral negotiation).

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

We do not think that the explanation of the buyer of last resort is true to the proposal that we put forward. However, we welcome the fact that this consultation has set out a preferred option. We are not intending to challenge the choice of GSP as the preferred option and therefore have focused solely on the GSP in the remainder of our response. Please note however that a number of RTFA member companies individually favour the BOLR proposal.

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

Yes. There is nothing else that needs to be considered.

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

Yes. There is nothing else that needs to be considered.

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.

We agree that the auto-ratchet option should not be taken forward (at least at this stage). It may be a desirable future feature for the SAF mandate, but it is not a priority. In the case of oversupply into the market, it will be in the

interests of the SAF production industry as well as Government, (in meeting Net Zero targets), to increase the obligation in a relatively swift manner.

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

We agree that it should not be taken forward.

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. We have been arguing this for a very long time, and the work by Phil New backs this up.

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.

We have always been agnostic as to which of the two private law contract options the RCM should take. As per the response to question 4 we are pleased to work with the DfT's preferred option and have set out our thoughts on some aspects that would need to be considered in Annex B. Some RTFA members have a preference for the BOLR over the GSP, which may have offered a simpler / quicker solution, but on balance it is the RTFA's view to work proactively to progress the GSP.

Annex A: Detailed contract considerations

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

The aim should be to cover only the minimum requirements to make the CfDs operational. The Government need to take care to design a system that creates the required revenue certainty without overcomplicating something that is already quite complex. Two big differences between the other CfD mechanisms outlined in the consultation document and the GSP are that:

> a) the SAF Mandate is the main mechanism for driving forward the deployment of the services concerned (renewable power generation, hydrogen production etc.). With the GSP, the SAF mandate remains the main mechanism, the GSP will work in parallel purely to cover price risk and regulatory risk.
>
> b) the markets for the other products such as electricity are captive, whereas SAF is a fungible product with significant demand in other jurisdictions.

We are working with RTFA members and the LCCC to develop a proposed heads-of-terms, which we will be pleased to share with the DfT once it is ready.

Another difference between SAF production and renewable electricity generation is that the former can have very significant variable costs (e.g., feedstock, electricity), depending on the pathway. A key consideration for the RCM is to what extent the risk of these variations is left with the producer, (which might make it difficult to finance the projects), or taken by the counterparty and therefore passed on to the consumer. This is one of several reasons why contract allocation needs to incorporate an element of bilateral negotiation, as outlined in Q14.

For projects where feedstock costs are a major part of plant economics and are variable (e.g., for HEFA, should that be included, and / or feedstocks whose costs may rise due to competition), a GSP could lead to a perverse situation where a plant is required to pay the Government counterparty, yet due to rising input costs will be placed into a loss-making situation. The GSP needs to be structured in such a way as to recognise this risk and mitigate it.

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

Incentivising achieving the best sales price is clearly desirable, as without it, neither the producer nor the off-taker has the inclination to secure the best price.

The length of the contracts, and the length of time that the contracts are available for, need to be considered. There may come a time in the future when they are no longer required in which case the scheme can cease accepting new entrants early, but this will depend on how the market develops. It will be far

better to allow room for future flexibility than to set legislation that makes future changes difficult. It would be helpful for there to be a published timetable of when the contracts are available from and for how long, with a regular pattern of when the "contract window" is open, to allow projects to plan.

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

Please see response to Q12.

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

There are several important considerations that should govern the choice of method, including:

- Speed. Given that the RCM is coming into effect after the SAF Mandate has started, it is important that the chosen contract allocation method, (at least for the first round of GSPs) will be implemented quickly
- Selectivity for effective projects. It is essential that contracts are awarded to companies that can actually deliver the promised projects; therefore, the selection cannot be made on cost alone but must take into account screening criteria that measure how far the project has been developed and the extent of remaining risks
- Diversity. It would be undesirable for all projects receiving a contract to use the same technologies, therefore there needs to be a portfolio approach.

15. Do you agree or disagree that this is the most appropriate way to administer a revenue certainty mechanism? If not, what alternatives do you suggest?

It is essential that LCCC administers the GSPs. They have the experience necessary as the counterparty to a number of other similar Government low carbon contract schemes.

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

See Q 15. The LCCC is by far the most appropriate counterparty, due to its experience with these types of contracts. RTFA have been engaging with LCCC to understand how they might provide the required services, and this has been positive. The LCCC has offered an in-depth workshop with RTFA members to further develop our joint understanding.

Annex B – Comments on some aspects of the GSP that need consideration

A key element to the bankability of a GSP is investor confidence that the counterparty will have sufficient funds to honour the contract. We have taken the view that this is best progressed by other parties but we are happy to be involved if requested.

We will provide more information as our discussions continue, but two points we want to mention now are;

1. Contract allocation

To address the selectivity point, we favour some form of pre-qualification, so that contracting efforts are focused on projects that are likely to be selected and to deliver, but the criteria should not be too onerous either for the bidders or for the bid evaluator. Potential criteria suitable for the first few awards could include:

- Technology Readiness Level (6 minimum)
- Cost estimate at a sufficiently well-defined class (to be determined)
- Engaged EPC contractor with heads of terms
- Independent Engineer's report covering technology, execution plan and economics
- Contracts in place for x% of feedstock
- Project demonstrates line of sight to FID and ability to commence construction within [6] months of entering into contract

We recognise that these criteria are appropriate for projects that have been striving to meet the Government's objective of having 5 plants in construction by 2025. The grant support received to date has helped them progress to this stage, and it is essential that the RCM is flexed to deliver a number of contracts as soon as possible once the relevant legislation is in place. The delay in bringing forward the RCM has had a greater impact on these projects as the ongoing costs of sustaining them is higher the further developed they are.

Projects at an earlier stage of development may need further support (equivalent to the AFF), and/or confidence in the RCM policy in order to develop to the point of meeting the criteria above. All CfD contract schemes to date have evolved between allocation rounds for a variety of reasons, and that is likely to be the case with GSPs for SAF.

In terms of the actual allocation method, our members are concerned that an auction would not be effective in the early years of the scheme, because actual data to validate cost estimates and therefore the necessary strike prices is not available. In addition, as mentioned in Q11, some operating costs are subject to

considerable variation for reasons beyond a project's control. We therefore believe that bilateral negotiation must inevitably play a part in the process of letting GSP contracts, at least in the early years of the scheme.

At the same time, we recognise the Government's need to demonstrate value for money and open competition. A possible approach is a hybrid whereby projects meeting the minimum maturity criteria submit bids, and then a shortlisted set are taken into bilateral negotiations; strike price is taken into account in the selection, but criteria relating to deliverability and overall portfolio diversity (notably including several technology pathways) are at least as important.

2. Exports

One aspect that has to be decided with the GSP is whether the output of the project could be exported or not. SAF will want to sell domestically, but it would be counterproductive to be too restrictive on this, given that there will only be 5 or 6 obligated parties, and most airports have restricted options on who to buy fuel from. This will create a very limited market if export is prevented.

There are four options:

1. The GSP dictates that the SAF ***must*** be sold to a UK fuel supplier – "Exporting not allowed option". SAF producer paid if market price lower than GSP, and pays in if market price is higher.
2. The GSP requires fuel to be supplied domestically, but does allow for exemptions if market circumstances make this very challenging (e.g., as there is a very limited number of aviation fuel suppliers in the UK, and there may be situations where they exercise undue market control).
3. The GSP is **agnostic** to the location of the purchaser and operates all the time, "Exporting agnostic". SAF producer is paid from the pot if market price lower than GSP, and pays into the pot if market price is higher, regardless of where the SAF is sold.
4. The GSP only operates when fuel is sold in the UK. This is option "Exports not covered". SAF producer paid from the pot if market price lower than GSP, and pays into the pot if market price is higher and the fuel is sold in the UK. If the SAF is sold outside the UK, no money is paid into the pot.

Care will also need to be taken around the definition of "UK production". It needs to be defined in such a way as to avoid people importing SAF from abroad and doing small amounts of processing / additive mixing / blending etc. and claiming that it is therefore "produced in the UK".

For all of the above, thought needs to be given on how the market might be gamed in order to minimise companies paying in but getting the maximum out when required.

We will explore which option is most suitable in discussion with the LCCC and DfT.