Department for Transport

Sustainable Aviation Fuel Revenue Certainty Mechanism

Indicative Heads of Terms and approach to contract allocation

January 2026

Department for Transport
Great Minster House
33 Horseferry Road
London
SW1P 4DR

This publication is also available on our website at www.gov.uk/government/organisations/department-for-transport

Any enquiries regarding this publication should be sent to us at www.gov.uk/government/organisations/department-for-transport

Ministerial foreword

Delivering greener transport is an essential priority for this government and we are implementing a range of measures across the sector to achieve this. The government is committed to decarbonising aviation in support of our missions to kickstart economic growth and make Britain a clean energy superpower, and to achieve our legislated climate targets. Aviation is a hard to abate sector and demand is expected to continue growing. However, we are making significant progress in reducing aviation emissions through a range of measures, including supporting Sustainable Aviation Fuels (SAF), delivering the airspace modernisation programme and providing funding to support the development of low and zero emission aerospace technologies.

Decarbonisation not only supports the Government's climate aims but also contributes to securing aviation's long-term future. This is vital as the aviation sector is important for the whole of the UK economy in terms of connectivity, direct economic activity, trade, investment and jobs. Therefore, we want to preserve the ability of people to fly to meet friends and families. There are clear growth opportunities in the sector through new industries and additional jobs created, whilst helping to meet our net zero target and Carbon Budgets.

SAF plays a key role in both current and future efforts to decarbonise aviation. The UK has already introduced the world leading SAF Mandate to help build demand for SAF and now is set to deliver a Revenue Certainty Mechanism (RCM) to support UK SAF production. In May 2025, the government laid the SAF Bill in Parliament to establish powers to implement the RCM. The RCM will help producers secure the investment they need to ramp up the production of SAF in the UK. A UK SAF industry will support emissions reductions through the SAF Mandate, help drive economic growth and create good green jobs across the whole of the UK.

This consultation seeks further engagement on how the RCM will be implemented, such as future contract design and contract allocation. We welcome the insights offered by stakeholders on the areas covered in this publication. The government remains fully committed to working with industry on the design and implementation of the RCM.

The RCM will complement a wider suite of policy measures to help decarbonise aviation, such as:

- The UK SAF Mandate – securing demand for SAF in the UK and delivering greenhouse gas savings (GHGs) through ambitious targets

- Airspace modernisation – enabling quicker, cleaner and quieter journeys

- Low and zero emission aircraft – with up to £2.3 billion funding over ten years to extend the Aerospace Technology Institute (ATI), announced in the Modern Industrial Strategy in June to help spur green aerospace innovation

- Carbon pricing – reducing aviation emissions through schemes such as the UK Emissions Trading Scheme and CORSIA – the global offsetting scheme for aviation

- Addressing the non-CO2 impacts of aviation – the government is funding a multi-year, multi-million pound research programme to better understand and mitigate the impacts of non-CO2 emissions, collaborating with the sector on this issue through the Jet Zero Taskforce

- The third window of the Advanced Fuels Fund, where 17 UK SAF projects have been awarded a share of £63 million

- Grant funding support for the production of SAF in the UK to 2029/30 through the Spending Review 2025

- The DfT-funded Clearing House, providing grants and advice to support testing and certification of SAF

- The SAF Bill, providing the legislative basis for the RCM

The RCM will help build a UK SAF industry, helping to deliver the government's Plan for Change.

Executive summary

This government has introduced the SAF Bill into Parliament to enable the Revenue Certainty Mechanism (RCM), a key measure in delivering greener aviation and securing the sector's long-term future. The RCM aims to support investment confidence by offering revenue certainty for SAF producers, helping scale UK production and deliver greenhouse gas (GHG) savings under the UK SAF Mandate. This will create opportunities for businesses and green jobs across the UK.

This consultation is seeking views on minded to positions relating to two core elements of the RCM, covering:

(1) **An indicative Heads of Terms (iHoTs),** which outlines the proposed contractual framework for RCM contracts. Key indicative provisions cover:

- Contract Term
- Milestone Requirement and Conditions Precedent
- Termination clauses and consequences
- Pricing
- Payments and Billing
- Changes in Law provisions
- Representations, Warranties and Undertakings
- Force Majeure and other provisions.

In addition to setting out minded to positions on some key contractual features, the government is inviting feedback on specific design options under consideration within the iHoTs, such as the approach to defining the reference price, eligible volumes and sustainability criteria which underpin the contracts.

(2) **A Contract Allocation Approach** – The contract allocation approach is the process for bidders to apply for contracts under the RCM, and defines how these bids will be considered. This consultation provides minded to positions for the first SAF allocation round (SAF AR1), including:

- A proposed contract allocation process where applications will be down-selected through eligibility, evaluation, shortlisting and due diligence phases before entering bilateral negotiations on the basis of tendered bids

- Eligibility and evaluation criteria, with projects assessed holistically on deliverability, normalised strike price and economic benefits

- Proposed portfolio factors for shortlisting, based on technology and feedstock diversity, delivery timing, and project size and location

The minded to positions are not final government policy but signal the potential direction the government intends to take with respect to structuring and allocating RCM contracts. Responses to this consultation, along with continuous engagement with the sector and wider stakeholders, are crucial to help inform policy decisions as the RCM progresses towards implementation.

How to respond

The consultation period began on 12 January 2026 and will run until 03 April 2026. Please ensure that your response reaches us before the closing date. If you would like further copies of this consultation document, they can be found at https://www.gov.uk/dft#consultations or you can contact LowCarbonFuel.Consultation@dft.gov.uk if you need alternative formats (Braille, audio CD, etc.).

Our preferred method of receiving responses is via email. If you are unable to respond by email, we invite you to please let us know by asking someone to email on your behalf. If none of the above is possible, then we invite you to provide responses to:

SAF Revenue Certainty Mechanism Team, Low Carbon Fuels Directorate

Great Minster House

33 Horseferry Road

London

SW1P 4DR

When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of a larger organisation, please make it clear who the organisation represents and, where applicable, how the views of members were assembled.

We will be convening meetings with stakeholders throughout the consultation period. If you would be interested in attending these events, please contact: LowCarbonFuel.Consultation@dft.gov.uk

Freedom of Information

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the Freedom of Information Act 2000 (FOIA) or the Environmental Information Regulations 2004.

If you want information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.

In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

Confidentiality and data protection

This consultation is carried out by the Department for Transport, working with other government departments.

In this consultation we are asking for:

- Your name and email, in case we need to ask you follow-up questions about your responses (you do not have to give us this personal information, but if you do provide it, we will use it only for the purpose of asking follow-up questions)

If an organisation we are additionally asking for your organisation's:

- Name, for identification

Your consultation response and the processing of personal data that it entails is necessary for the exercise of our functions as a government department. DfT will, under data protection law, be the controller for this information. DfT's privacy policy has more information about your rights in relation to your personal data, how to complain and how to contact the Data Protection Officer.

As sustainable aviation fuels policy has many interactions with other government policy and work, to ensure we develop effective policy, we may share your responses with other government departments, such as Department for Energy Security and Net Zero (DESNZ) and Department for Environment, Food and Rural Affairs (Defra). We will remove your personal details before we share your response with other government departments.

We will not use your name or other personal details that could identify you when we report the results of the consultation. Any information you provide will be kept securely and destroyed within 12 months of the closing date.

Consultation principles

This consultation is being conducted using the government's consultation principles. If you have any comments about the consultation process, contact:

Consultation Co-ordinator

Department for Transport

Zone 1/29 Great Minster House

London SW1P 4DR

Email: consultation@dft.gov.uk

Further information is available at
https://www.gov.uk/government/publications/consultation-principles-guidance

Glossary

Aviation Fuel: Transport fuel used in all aircraft of end-use, or for use in testing engines for use in such aircraft. It does not include detergents, cetane improvers, lubricity improvers, viscosity improvers, oxidation inhibitors, gum inhibitors, anti-corrosive preparations and similar substances intended for fuel additives.

Aviation Fuel Supplier Levy: A variable levy imposed on suppliers of fossil aviation fuel to fund the revenue certainty mechanism.

Avtur (Aviation Turbine Fuel): A type of aviation fuel used in turbine engines, typically fossil-based.

Billing Period: Period during which Difference Amount has been calculated.

Business Day(s): a day (other than a Saturday or a Sunday) on which banks are open for general business in London.

Collection Period: Timeframe during which Difference Amount is invoiced and collected.

Consumer Price Index (CPI): The all items index of consumer price inflation published each month by the Office for National Statistics.

Counterparty: The designated government-owned entity responsible for administering the RCM, as well as the RCM levy to fund the scheme's costs.

Difference Amount: the calculated difference between the Strike Price and the Reference Price.

Fossil Aviation Fuel: Kerosene-based jet fuel produced from fossil sources (e.g. petroleum hydrocarbons), compliant with specification standards.

Greenhouse Gas (GHG): Any gaseous constituent of the atmosphere, whether natural or anthropogenic, that absorbs and re-emits infrared radiation and contributes to the greenhouse effect.

HEFA (Hydroprocessed Esters and Fatty Acids) SAF: A common SAF production pathway using oils and fats.

Jet A-1: Kerosene-type aviation turbine fuel compliant with specification standards to be suitable for aviation turbine engines.

Price Discovery Mechanism: incentive for producers to seek the highest possible price for their fuel, supporting the emergence of a market price for non-HEFA SAF.

Reference Price: The benchmark price against which the Strike Price is compared to determine the size and direction of the Difference Amount.

RCM (Revenue Certainty Mechanism): UK government scheme to provide financial certainty to SAF producers, encouraging investment in UK SAF production.

RCM contract: Private law agreement between a UK SAF producer and a government-owned counterparty which defines the terms of the scheme, including bespoke provisions for the specific project.

Sustainable Aviation Fuel (SAF): A low carbon alternative to conventional jet fuel, derived from sustainable feedstocks.

SAF Bill: Legislation enabling the implementation of the RCM and associated levy.

SAF Mandate: UK government regulatory obligation requiring aviation fuel suppliers to supply a minimum proportion of SAF into the UK market.

SAF Mandate certificates: Awarded tradeable certificates with a cash value based on the lifecycle greenhouse gas savings of the supplied SAF under the scheme. These are redeemed to meet the aviation fuel supplier's obligations every year.

Standby Letters of Credit: A bank's guarantee of payment to a third party if its client fails to fulfil a contractual obligation.

Strike Price: The value guaranteed, from the RCM contract, for each litre of SAF sold by producers.

Background

The need for and progression of the RCM

The government has a comprehensive plan in place for SAF. The UK has ambitious targets set by the SAF Mandate, which is the UK's key policy to decarbonise jet fuel. Grant funding has and continues to support investment in a UK SAF industry with the Advanced Fuels Fund allocating £198m over three windows to a total of 21 different projects. The UK SAF Clearing House helps fuel producers navigate testing and qualification, reducing barriers to new fuels coming to market.

Despite these policy measures, first-of-a-kind facilities still face barriers to attracting investment due to uncertainty around revenue forecasts. Examples of uncertainty include:

- The lack of a clear UK or global market price for advanced (non-hydrotreated esters and fatty acids (HEFA)) SAF
- Policy and regulatory uncertainty
- Projects competing for finance with other emerging low carbon technologies

The government has therefore committed to the RCM though a Guaranteed Strike Price model, funded by industry, to address investment risk. The RCM should enable a lower cost of capital and help projects reach final investment decisions (FID) in the UK. The mechanism involves a private law contract between UK SAF producers and a counterparty (wholly owned by government), setting a price ('Strike Price') that a producer will receive for eligible SAF over a fixed period. Where the Reference Price exceeds the Strike Price, the producer pays the difference to the counterparty. Where the Reference Price is below the Strike Price, the producer receives a payment for the difference from the counterparty. Difference payments from the counterparty will be funded via a levy on aviation fuel suppliers.

Key milestones

- **April 2024:** the consultation on RCM design options
- **July 2024:** the King's Speech announced the intention to legislate for the RCM
- **January 2025:** the government response to the April 2024 consultation confirmed that the RCM will be based on a guaranteed strike price mechanism and the first

tranche of signed contracts would be with UK SAF projects using non-HEFA technology and feedstocks

- **March 2025:** the consultation on funding the RCM was published proposing a variable levy on aviation fuel suppliers
- **May 2025:** the government response to the March 2025 consultation confirmed that a variable levy will be placed on aviation fuel suppliers to fund the RCM. The SAF Bill was also introduced in Parliament, keeping the government on track to ensure that all necessary legislation is in place by the end of 2026
- **October 2025**: the consultation on the design of a variable levy to fund the RCM

The first part of this consultation provides the supporting evidence and rationale behind the indicative Heads of Terms, which are published alongside this consultation. It presents minded to policy positions and poses questions to stakeholders. The second part of this consultation covers the contract allocation approach and key design considerations for the first allocation round of the RCM (SAF AR1). Similarly, it presents minded to positions and includes questions to stakeholders.

1. Indicative Heads of Terms

Contractual design principles

1.1. Our approach to developing provisions for the RCM contract has been guided by the following principles:

- **Simplicity** – supports efficient implementation, minimises administrative burden for both government and producers and facilitates compliance
- **Affordability and proportionality** – justifiable risk allocation which stimulates investor confidence while minimises scheme costs, delivering value for money
- **Policy coherence** – aligns with wider government decarbonisation, fuel supply and affordability objectives
- **Market stability** – creates a stable SAF market with market price signals for all participants while minimising distortionary effects
- **Flexibility** – as the aviation fuel market evolves, ensures the RCM is fit for purpose and able to respond to future market developments
- **Compliance** – creates obligations that are not unduly burdensome

Purpose

1.2. The iHoTs provide a framework for the principal terms and conditions that may be included in an RCM contract for at least the first allocation round, helping provide greater certainty to industry and facilitating formal feedback ahead of full contract development. They are preliminary and will be used as a basis for drafting the final RCM contract. The draft terms present some minded to positions. However, these positions do not constitute definitive, final provisions and are subject to change.

1.3. This consultation presents the context surrounding the iHoTs and explains how and why certain provisions were formed. It seeks views and insights from stakeholders to help inform decisions that will shape the RCM contract. It should be read in conjunction with the iHoTs that have been published alongside this consultation.

Structure

1.4. The iHoTs comprises three sections. This consultation focusses on provisions contained within Section B.

Section A - Front End Agreement
- Bespoke provisions agreed with individual producers, such as the target commissioning date

Section B – Standard Terms & Conditions
- Provisions that apply to all producers signing RCM contracts with the counterparty in that allocation round

Section C - Glossary
- Key definitions of terminology covered in the iHoTs

Term, Milestone Requirement and Conditions Precedent

(This section refers to the following parts of the iHoTs: 2.1 – 2.6)

Term and commencement

Summary: *the RCM contract term is proposed to last for 15 years.*

1.5. Section 2.1 of the iHoTs proposes a fixed 15-year contract term for all RCM contracts. The level of revenue certainty is intended to align with the 10 to 15-year period over which loans provided to producers are expected to be serviced and repaid.

1.6. The proposed 15-year contract term for RCM contracts is in line with similar low carbon business models that also use private law contracts to provide revenue certainty. However, it is worthwhile noting that the Department for Energy Security and Net Zero (DESNZ) has recently consulted on the extension of private law contracts beyond 15 years in allocation round 7 (AR7) for the renewable electricity generation Contracts for Difference (CfD) scheme - GOV.UK. The rationale behind an increased term length for AR7 in the CfD scheme is the greater risk protection against volatile electricity prices. This could, in turn, lower the cost of capital, which in turn may unlock a lower strike price. DfT consider 15 years will provide sufficient revenue certainty for SAF projects. Increasing the contract length to 20 years would either increase total scheme costs or limit the volumes that can be supported in the short-medium term.

1.7. Section 2.2 of the iHoTs proposes that the contract term commences on the sooner of the actual commissioning date or the final day of a Target Commissioning Window, but not before the first day of the Target Commissioning Window (see Figure 1 below). The producer and counterparty will mutually agree when the Target Commissioning Window should commence, but its length is fixed at 12 months. Producers will also set the Target Commissioning Date in the Front End Agreement. The Target Commissioning Date sits within the Target Commissioning Window to reflect when the project is expected to be producing SAF. This acknowledges the bespoke complexities for each project. More information on this is provided in the next section of the consultation.

Question:

Q1. Do you agree or disagree with the proposed contract term length of 15 years? Please provide your rationale and suggest an alternative duration if appropriate.

Initial Conditions Precedent, Milestone Requirement, Operating Conditions Precedent and Target Commissioning Window

Summary: *During pre-operational stages, the producer must meet certain conditions related to constructing and commissioning a SAF facility.*

1.8. Following contract award, it is expected that projects will go through the stages set out in Figure 1 below.

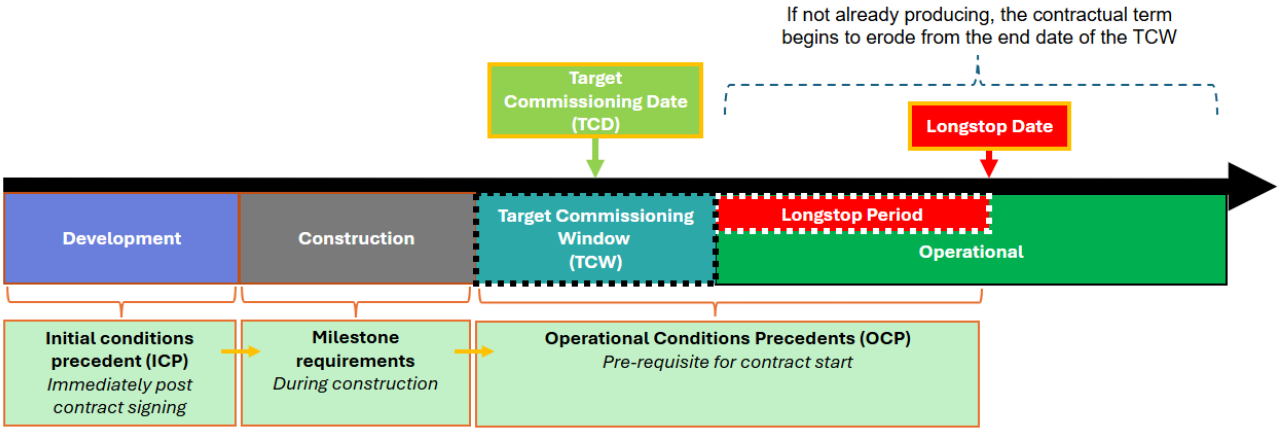


Figure 1*:* a scenario timeline illustrating the phases of pre-operations with contractual checkpoints.

1.9. RCM-supported producers will be required to reach operation and begin producing commercial volumes of SAF within a reasonable timeframe. This ensures the scheme delivers real supply in support of the UK SAF Mandate and prevents contracts remaining idle for projects that fail to progress.

1.10. Sections 2.3 - 2.5 of the iHoTs outline the pre-operational stages proposed for the RCM. Figure 1 sets out an illustrative timeline for a supported project, highlighting how the Initial Conditions Precedent, Milestone Requirement, Operational Conditions Precedent, Target Commissioning Window and Longstop Period are sequenced.

1.11. Throughout the development, construction and commissioning phases, the producer will be subject to three key evidence checkpoints: Initial Conditions Precedent, Milestone Requirement and Operational Conditions Precedent. The iHoTs proposes these checkpoints to:

- Provide structured monitoring of progress towards operations
- Trigger contractual rights and obligations, and ultimately allow the counterparty to withdraw support if progress stalls

- Deter speculative bids from projects unlikely to meet the commissioning timescales set during allocation

1.12. The Initial Conditions Precedent will be designed to ensure that the producer meets certain conditions and requirements immediately following the date of the agreement. This could include evidence of grid connection or land planning approval. The Milestone Requirement will then need to be met to demonstrate that the project is committed to development. It can do this by demonstrating evidence of (a) actual spend of a specified proportion of total project commissioning costs; or (b) fulfilment of specified project commitments.

1.13. In similar agreements such as the Low Carbon Hydrogen Agreement (LCHA), the Initial Conditions Precedent must be satisfied as soon as reasonably practicable and, in any event, no later than 20 business days after the Agreement Date (other than for any Initial Conditions Precedent waived by the LCHA counterparty). The LCHA also requires the Milestone Requirement to be achieved within 18 months of the Agreement Date.

1.14. The Target Commissioning Window defines the timeframe within which the facility must be commissioned and satisfy the Operational Conditions Precedent to benefit from the full term of the contract. The contract cannot start without the producer meeting the Operational Conditions Precedent. The Operational Conditions Precedent will require evidence to be submitted to the counterparty, including a demonstration that the producer has commissioned a specified installed capacity and that the facility is compliant with any sustainability criteria or metering requirements set out in the contract. If the facility fails to commission by the end of the Target Commissioning Window, then the term of the agreement will nonetheless commence, but no payments will be made to the producer until the Operational Conditions Precedent are met.

1.15. The iHoTs also proposes a Longstop Date (following the end of the Target Commissioning Window), which serves as a final deadline for satisfying the Operational Conditions Precedent. Failure to commission before the Longstop Date may result in termination of the agreement by the counterparty (see 1.19). A Longstop Period provides a buffer for projects that do not start producing by the end of the Target Commissioning Window, recognising that there will be a range of delivery risks that will be difficult to quantify when the Target Commissioning Window is agreed. Under these circumstances, the contract term erodes during the Longstop Period.

1.16. Section 2.2 of the iHoTs proposes a Target Commissioning Window (without adjustments) of 12 months, and the Longstop Date lasting 12 months from the final day of the Target Commissioning Window. This aligns with similar DESNZ business models, such as the LCHA.

1.17. Producers will be afforded limited protections (e.g. extension of time) under relief and adjustment provisions for events outside their control (e.g. delays connecting to electricity, gas or water utility networks). These provisions are consistent with those found in contracts used in similar DESNZ business models, and it is important to note that they only apply where the delay arises from factors genuinely beyond the producer’s control.

1.18. The approaches used by other low carbon business models have helped inform the development of some of these proposed requirements. However, the government recognises that SAF facilities differ from other low carbon schemes, and that there may also be differences between SAF production pathways (e.g. some are more nascent technologies than others and some use more novel feedstocks).

Questions:

Q2. Are there any SAF-specific considerations that should inform the design of the Initial Conditions Precedent, Milestone Requirement and Operational Conditions Precedent?

Q3. Do these SAF-specific considerations vary between different SAF technological pathways?

Q4. What timescales should apply for meeting the Initial Conditions Precedent and Milestone Requirement (from contract signing)? Should it vary by technological pathway? If so, how should it vary?

Q5. How long should the Target Commissioning Window and Longstop Period be? Should it vary by technology pathway? If so, how should it vary?

Q6. Do you agree or disagree that as part of the Operational Conditions Precedent, the producer should have to meet a minimum installed capacity as a percentage of the facility's total estimated installed capacity? What percentage installed capacity would be appropriate, and should it vary by technological pathway?

Termination

(This section refers to the following parts of the iHoTs: 3.1 – 3.7)

Summary: *the counterparty may terminate a contract if specific checkpoints are not reached before operations begin or specific requirements are not met during operations.*

1.19. Termination rights are included to provide the counterparty with the right to terminate the agreement under certain circumstances, drawing on the approach used in the LCHA and Low Carbon Electricity Contract for Difference (CfD) scheme.

1.20. Such rights will ensure that funding capacity committed to the RCM is not indefinitely tied to projects that have no realistic prospect of producing SAF at expected levels, and that projects are held accountable for breaches in the contract. This is important to ensure RCM projects help deliver SAF Mandate targets.

1.21. These may include the right (but not the obligation) for the counterparty to terminate an RCM contract prior to the Start Date on a no-liability and no-compensation basis, where:

- the Producer fails to fulfil the Milestone Requirement by the Milestone Delivery Date

- a Producer default event (as detailed in 1.22 below and section 3.3 of the iHoTs (Producer Default Termination)) occurs and is continuing
- the Producer fails to fulfil the Initial Conditions Precedent within the specified time after the date of the RCM contract
- any Directors' Certificate provided is not true, complete or accurate in any material respect or is misleading
- the Producer fails to satisfy the Operational Conditions Precedent by the Longstop Date

1.22. In section 3.3 of the iHoTs, provisions are proposed to cover the risk of producer breaches (producer default events) of the contract, which may include:

- insolvency
- non-payment which is not rectified within a specified cure period
- breach of key obligations relating to ownership of the Facility, restricted share transfers, and fraud
- credit support default
- breach of key obligations relating to metering[1] (see section 6.3 of the iHoTs for considerations on installation, maintenance and operating of metering for SAF, co-products and thermal energy content)
- breach of key obligations in relation to monitoring and reporting, or submission of payment information
- the SAF production technology deployed by the Facility is not or ceases to be the agreed SAF production technology
- loss of, or failure to maintain, binding and enforceable rights of access to essential storage and transport infrastructure required for SAF delivery under the RCM Agreement
- failure to comply with any audit rights within the RCM Agreement
- breaches of any requirements in relation to affiliate offtakers

1.23. The agreement will provide for a producer termination payment in certain cases. Further consideration of the appropriate termination payment calculation is required. The LCHA's default termination payment calculation includes variables such as the (final) installed capacity, operational performance of the plant (assumed load factor) and an inflation factor.

Questions:

Q7. Do you agree or disagree with the type of indicative termination provisions that have been included in the iHoTs? If disagree, please explain why?

Q8. What, if any, additional termination provisions do you think should be considered?

Q9. What principles should govern termination payment calculations?

---

[1] Metering refers to the accurate and verifiable measurement of SAF produced (and any other quantities required for operation of the RCM contract), using a compliant metering system that meets recognised industry standards.

Payments and Billing - Financial provisions

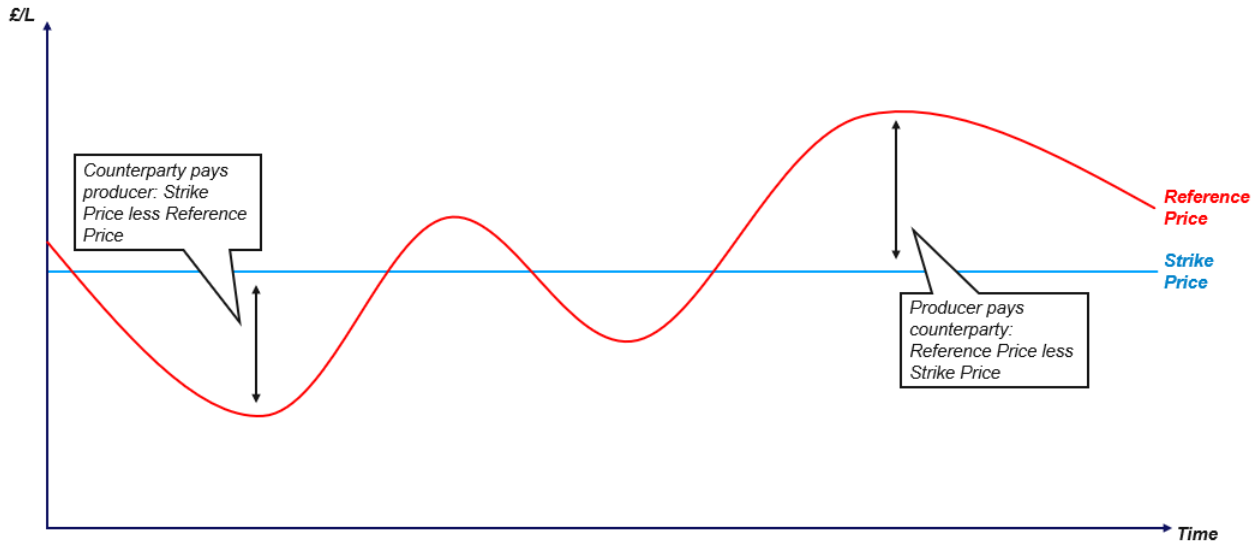
(This section refers to the following parts of the iHoTs: 4.1 – 4.2, 4.4 – 4.9, 4.11 – 4.12, and 4.16)

Difference Amount

Summary: *This section provides an overview of the Difference Amount: the payment transferred between producer and counterparty under the RCM.*

1.24. Section 4.1 of the iHoTs covers the Difference Amount, the amount (in £ per litre) paid from counterparty to producer (or vice versa) to ensure the producer earns the Guaranteed Strike Price for their SAF. The Strike Price will be agreed during the Agreeing an Offer stage of the proposed bid process for SAF Allocation Round 1 (described in paragraphs 2.8-2.22 below). The Difference Amount is calculated as the difference between the Strike Price (section 4.4 of the iHoTs) and the Reference Price (section 4.5). When the Strike Price exceeds the Reference Price, the Difference Amount is payable by the counterparty to the producer. When the Reference Price exceeds the Strike Price, the Difference Amount is payable by the producer to the counterparty.

1.25. The calculation of the Difference Amount is depicted in Figure 2 below:



1.26. This diagram is illustrative only, not to scale, and not based on real-world data. It does not reflect any assumptions regarding future price movements or outcomes.

1.27. UK-supplied SAF earns certificates under the UK SAF Mandate. Certificates are issued in proportion to the verified carbon savings of the SAF and are tradeable. They are used by fuel suppliers to demonstrate compliance with their legal obligation to supply SAF. Therefore, UK-supplied SAF has two value components: the value of the SAF as jet fuel, and the value of the SAF Mandate certificates the fuel would be eligible for. We have heard anecdotally of some instances where these two value components are being sold separately by producers. However, we expect that the RCM strike price will be paid based on both components.

1.28. Section 4.2 of the iHoTs proposes that the Difference Amount is payable on Qualifying Volumes of SAF sold in the relevant Billing Period. Qualifying Volumes are metered SAF volumes produced by the Facility which are purchased by a Qualifying Offtaker and comply with the SAF Sustainability Criteria. They are defined in paragraphs 1.69-1.71 below. The length and frequency of the Billing Period is yet to be determined. DfT's preference is to align this period with the length and frequency of the levy collection period, which is being consulted on as part of the October 2025 Sustainable Aviation Fuel Revenue Certainty Mechanism – Levy Design Consultation. The counterparty will provide a billing statement to the producer for each Billing Period and payments will be due within a specified period after the billing statement is issued (section 4.16 of the iHoTs).

Reference Price and Floor Price

Summary: *The Reference Price should reflect the market price of non-HEFA SAF. The non-HEFA market is nascent and there are not currently frequent enough trades to generate a reliable market price. A key priority for DfT is transitioning to a Reference Price based on a market price as soon as is practicable. In the interim, an alternative proxy is needed for Reference Price. We are considering three options and seeking further views on them. Two of these options subject the Reference Price to a minimum Floor Price.*

1.29. Sections 4.6 – 4.8 of the iHoTs propose one possible option for a Reference Price and Floor Price.

1.30. In CfD schemes like the RCM, the Reference Price typically represents the market price of the product.

1.31. At the time of signing the first RCM contracts, we do not expect there to be a regular, reliable market price for non-HEFA SAF. The non-HEFA SAF market is nascent and there are not yet frequent enough trades to generate such a price. We therefore consider that a proxy for Reference Price is needed for the first RCM contracts. This section covers that proxy. The section below addresses the transition to a market-based Reference Price.

1.32. We have considered several options for a proxy Reference Price for use in the first RCM contracts, in addition to those set out in the April 2024 consultation. We have developed the following shortlist:

- **Option 1:** Higher of Achieved Sales Price and a Jet A-1 Fuel Price Floor (as reflected in sections 4.6 – 4.8 of the iHoTs)
- **Option 2:** Higher of Achieved Sales Price and a HEFA SAF Fuel Price Floor
- **Option 3:** Indicative Market Price (Jet A-1 Fuel Price plus UK SAF Mandate certificate Price (per certificate earnt)[2])

1.33. **Option 1** is the higher of Achieved Sales Price and a Jet A-1 Fuel Price Floor:

[2] UK SAF Mandate certificates and prices are explained in detail below under Option 3.

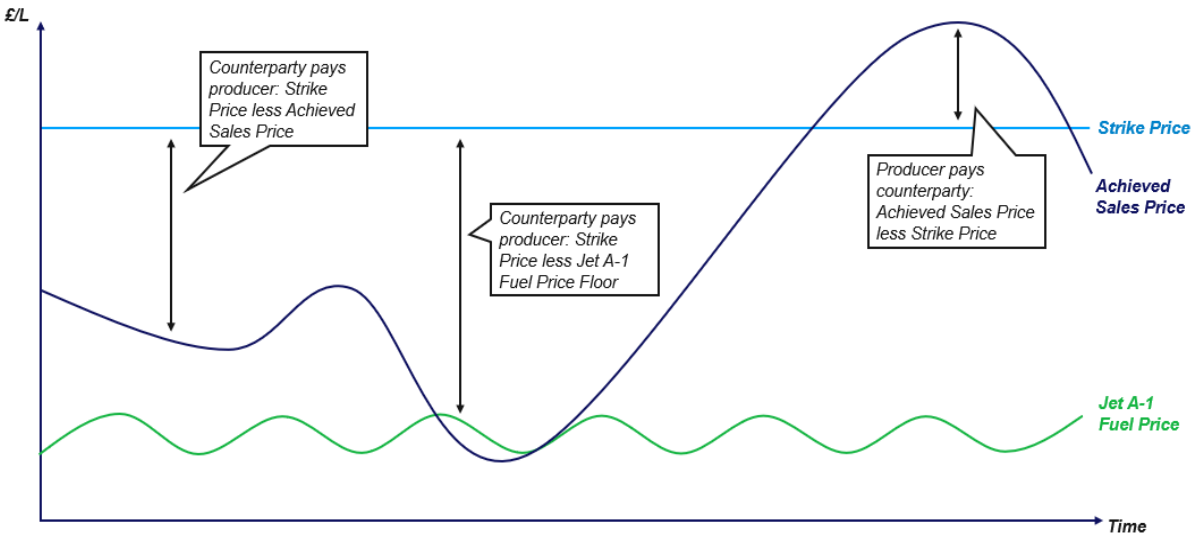
- The Achieved Sales Price is the volume-weighted price each producer receives for their SAF in each billing period (section 4.6 of the iHoTs), which would be calculated using invoices shared by the producer with the counterparty under the terms of the RCM contract.

- The Jet A-1 Fuel Price is the average market price of conventional aviation fuel in each billing period, which would be taken from an existing market price index.

- The Jet A-1 Fuel Price is a floor price because it caps the maximum Difference Amount payable to the producer. The producer will never receive more than the difference between the Strike Price and the Jet A-1 Fuel Price.

- We consider the Jet A-1 Fuel Price to be a feasible option for a floor price as SAF is fungible with conventional aviation fuel and can be considered a close substitute for it. We expect that SAF will usually sell at a premium to Jet A-1 because of its carbon savings. We do not expect it will sell for less than Jet A-1. Imposing a floor price equal to Jet A-1 protects SAF from being sold at low prices until the RCM Reference Price can be based on a market price benchmark.

1.34. Option 1 is depicted by the following diagram (Figure 3):



1.35. This diagram is illustrative only, not to scale, and not based on real-world data. It does not reflect any assumptions regarding future price movements or outcomes.

1.36. This diagram shows how the Difference Amount is calculated under Option 1, and in particular how the Jet A-1 Fuel Price Floor caps the maximum Difference Amount payable to the producer. If the producer achieves a sales price beneath the Jet A-1 Fuel Price Floor, the Difference Amount is calculated as the Strike Price less the Jet A-1 Fuel Price Floor, and the producer therefore does not earn the Strike Price. However, when the producer achieves a sales price above the Jet A-1 Fuel Price Floor, the Difference Amount is calculated as the Strike Price less the Achieved Sales Price, and the producer therefore earns the Strike Price.

1.37. **Option 2** is the higher of Achieved Sales Price and a HEFA SAF Fuel Price Floor:

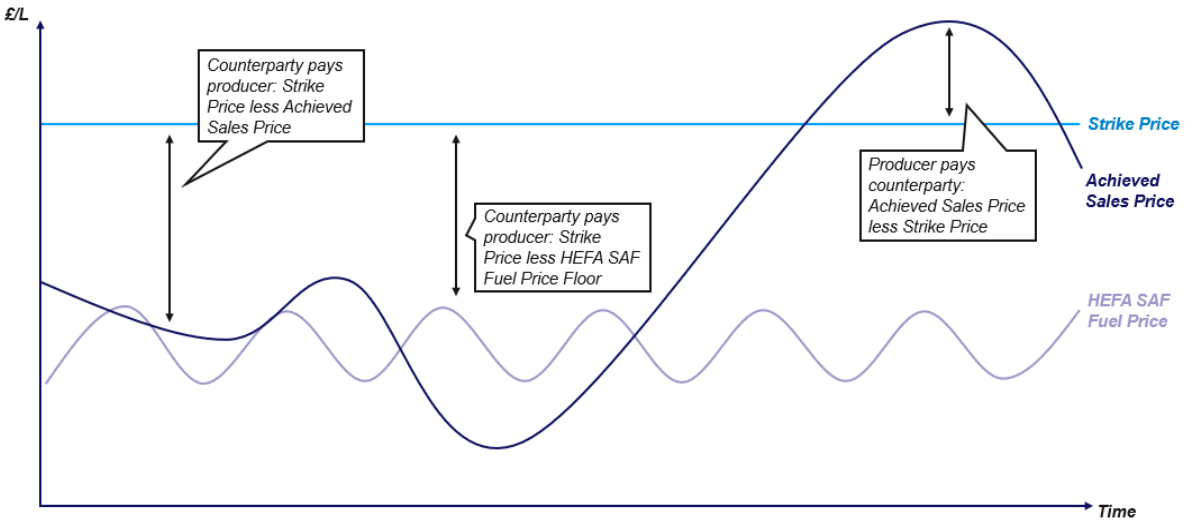
- The Achieved Sales Price is defined above.

- The HEFA SAF Fuel Price is the average market price of HEFA SAF in each billing period, which would be taken from one or more market price indices. There are at least three existing price indices for HEFA SAF.

- The HEFA SAF Fuel Price is a floor price because it caps the maximum Difference Amount payable to the producer. The producer will never receive more than the difference between the Strike Price and the HEFA SAF Fuel Price.

- We consider the HEFA SAF Fuel Price to be a feasible option for a floor price as in many other markets, types of SAF are interchangeable and sold at or near the HEFA SAF commodity price. We expect advanced forms of SAF produced in the UK could be sold into these other markets at or above the commodity price of HEFA SAF. Based on our early understanding of the market, we do not expect advanced forms of SAF to sell for less than this price.

1.38. Option 2 is depicted by the following diagram (Figure 4):



1.39. This diagram is illustrative only, not to scale, and not based on real-world data. It does not reflect any assumptions regarding future price movements or outcomes.

1.40. **Option 3** is the Indicative Market Price: the sum of the Jet A-1 Fuel Price and the UK SAF Mandate certificate Price (per certificate earnt):

- The Jet A-1 Fuel Price is defined above.

- The UK SAF Mandate certificate Price is the average market price of UK SAF Mandate (initially relevant HEFA) certificates. There are three categories of SAF Mandate certificates:

    - ‘Relevant HEFA’ certificates are awarded to renewable fuels made from feedstocks that fall under the definition of ‘segregated oils and fats’

- ‘PtL’ certificates are awarded to power-to-liquid fuels, or fuels where all of the energy of the fuel comes from the input process energy (with no feedstock energy), and all of this process energy is from low carbon sources other than bioenergy

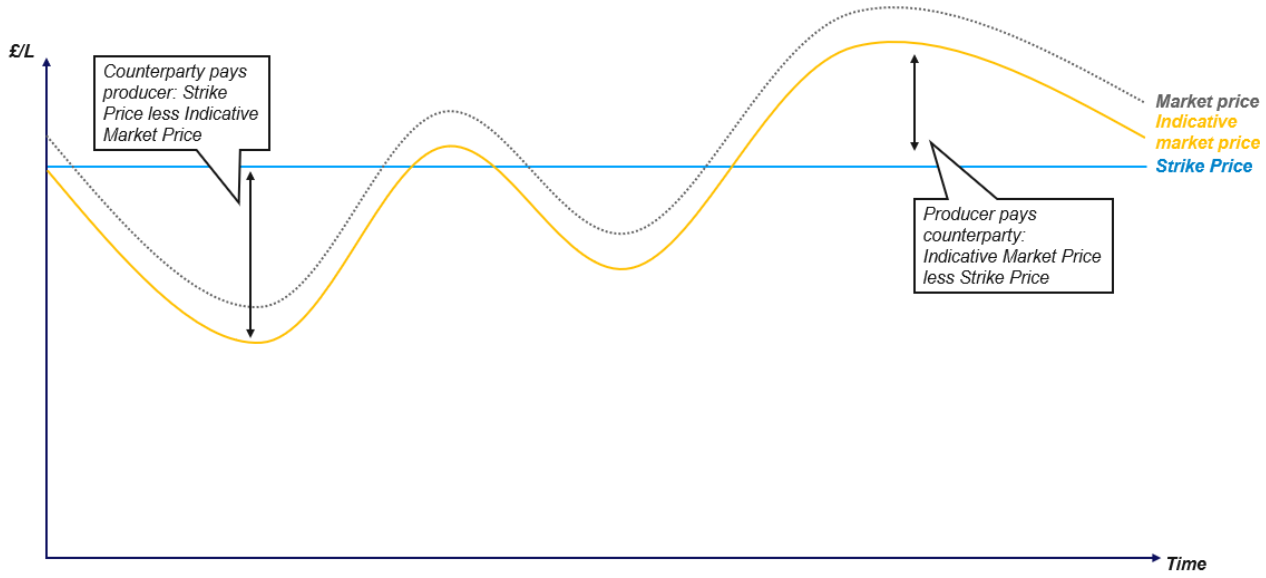
- ‘Main obligation’ certificates are awarded to all other fuels that are not PtL or HEFA

- Prior to December 2025, there was no market price index for SAF Mandate certificates. We are aware that an index has recently been announced for relevant HEFA certificates. At this stage, it is not certain whether additional indices will be announced, and whether indices will be robust and reliable enough for use in the first RCM contracts.

- In the future, when the SAF Mandate Main obligation increases and a HEFA cap and PtL sub-obligation are introduced, it is possible that there will be sufficient liquidity in the market to allow for separate price indices for each SAF Mandate certificate category. If this occurs, we could use different certificate prices for the Reference Price depending on the kind of SAF being produced.

- We consider the Jet A-1 Fuel Price and the UK SAF Mandate certificate Price (per certificate earnt) to be the two main price drivers of non-HEFA SAF. This is because Jet A-1 represents the underlying value of the fuel, while the UK SAF Mandate certificate Price reflects the premium commanded by SAF in the regulated UK market.

1.41. Option 3 is depicted by the following diagram (Figure 5):



1.42. This diagram is illustrative only, not to scale, and not based on real-world data. It does not reflect any assumptions regarding future price movements or outcomes.

1.43. We are evaluating the shortlisted options based on the following criteria (table 1):

Expected accuracy	The option's expected correlation with, and proximity to, the market value of non-HEFA SAF, and therefore its expected accuracy as a proxy for market value.
Value for money and market distortion risk	The extent to which the option enables the sale of SAF at an artificially low price, and the associated risks of greater Difference Amounts and reduced value for money (VFM) for the RCM, and market distortions.
Expected deliverability	Whether the option can be delivered in a timely fashion. Particular consideration is given to the availability and reliability of data.
Expected revenue certainty	The option's expected impact on revenue certainty for producers and investors. Revenue certainty is broken down into price and volume risk. Price risk is the risk the producer does not receive the Strike Price because they fail to sell at the Reference Price. Volume risk is the risk of not selling sufficient SAF to repay principal and interest over the tenor of debt.

1.44. The preliminary high-level evaluation is set out below.

1.45. We expect that **Option 1** for the Reference Price would:

- **Be a somewhat accurate proxy for the market value of non-HEFA SAF.**
    - We expect Option 1 would be well correlated with the market value of non-HEFA SAF. SAF would need to be sold at or above the Jet A-1 Fuel Price Floor. Jet A-1 and SAF prices are historically well correlated. We would expect a continued correlation, because Jet A-1 – which represents the underlying value of the jet fuel – is a key price driver of UK SAF, alongside the UK SAF Mandate certificate Price.
    - However, we consider Option 1 would be less proximate to the market value of non-HEFA SAF than Options 2 and 3. Non-HEFA SAF is expected to sell at a significant premium to Jet A-1 in the UK, due to its expected value on the UK SAF Mandate certificate market.
- **Create high VFM and market distortion risk.** Option 1 would not prevent the sale of SAF at a below-market price, so long as it was sold above the Jet A-1 Fuel Price Floor. This creates a risk of greater Difference Amounts and lower value for money for the RCM overall, as well as market distortions.
- **Be easy to deliver.** The Jet A-1 Fuel Price could be taken directly from an existing market index, while the Achieved Sales Price could be readily calculated using information on invoices shared by the producer with the counterparty under the terms of the RCM contract.
- **Offer strong revenue certainty.** We expect Option 1 could pose less price risk than Options 2 and 3 (i.e. here, price risk is the risk that producers do not manage to sell above the Floor Price (Jet A-1 Fuel Price) and therefore do not receive a

Difference Amount needed to earn overall the Strike Price). This is because producers should be able to benchmark offtake agreements to a Jet A-1 market index. We expect Option 1 could also pose less volume risk than other options (i.e. volume risk is the risk that producers cannot secure long-term offtake agreements that cover volumes needed to be sold to repay principal and interest). If offtake agreements are priced at or near the Jet A-1 Fuel Price floor, they will be more attractive to SAF purchasers. This could increase the likelihood of producers securing long-term offtake agreements.

We expect that **Option 2** for the Reference Price would:

- **Be an accurate proxy for the market value of non-HEFA SAF.**
    - We expect Option 2 would be well correlated with the market value of non-HEFA SAF. In many other markets, types of SAF are interchangeable and sold at or near the HEFA SAF commodity price. We expect advanced forms of SAF produced in the UK could be sold into these markets at or above this commodity price[3].
    - We expect Option 2 would be more proximate to the market value of non-HEFA SAF than Option 1. HEFA SAF is expected to sell at a premium to Jet A-1 and should therefore be closer to the market value of non-HEFA SAF. There is a possibility that the HEFA SAF Fuel Price spikes above the market value of non-HEFA SAF, due to feedstock supply shortages or sudden, high demand for HEFA SAF driven by overseas mandates or policy changes. However, such spikes could be managed by capping the HEFA Fuel Price Floor.
- **Create moderate VFM and market distortion risk.** Like Option 1, Option 2 would create a risk of greater Difference Amounts and lower value for money for the RCM overall, as well as market distortions. However, the effects are expected to be smaller than in Option 1, since the HEFA Fuel Price Floor is expected to exceed its Jet A-1 equivalent.
- **Pose some delivery challenges.** Existing market price indices for HEFA are nascent and have constraints. For example, they only represent the price of HEFA produced with a single feedstock – used cooking oil – and they are based on low volumes of traded SAF relative to Jet A-1. We expect these indices to become more robust and reliable over time, as more SAF is traded, more trades occur on public exchanges, and indices incorporate a greater diversity of HEFA SAF. However,

[3] Furthermore, we consider HEFA and non-HEFA prices to be linked in the UK through the SAF Mandate certificate market. Under the SAF Mandate, 'Relevant HEFA' certificates can be used to meet the SAF Mandate's Main obligation but are subject to the HEFA cap from 2027. However, 'PtL' certificates and 'Main obligation' certificates can be used to meet the SAF Mandate's main obligation but are not subject to the HEFA cap. Therefore, the price of PtL and Main obligation certificates should not fall below the price of HEFA certificates. This means that a logical minimum for the UK non-HEFA SAF price is the HEFA certificate Price per certificate earnt, plus the price of the underlying fuel (Jet A-1). We consider the HEFA Fuel Price (the commodity price(s) of HEFA SAF traded in global markets) could be a reasonable proxy for this minimum, since SAF supplied in the UK to fulfil the SAF Mandate could alternatively be sold into other markets at the HEFA Fuel Price. There is a risk that the HEFA Fuel Price spikes temporarily above the UK non-HEFA price due to feedstock supply shortages or high demand for HEFA SAF from overseas mandates or policy changes. To manage this, the HEFA Fuel Price Floor itself could be capped at the Jet A-1 Fuel Price plus the buyout price for main obligation certificates (per certificate earnt).

there is a degree of uncertainty as to how indices will develop in the future, and this creates risks for the RCM (e.g., the inclusion of feedstocks not compliant with the UK SAF Mandate in HEFA market price indices). Whether indices are sufficiently robust and reliable to be incorporated into the first RCM contracts is still to be determined.

- **Offer moderate revenue certainty.** At present, we expect Option 2 could pose greater price and volume risk to investors than Option 1. This is because investors may be less certain that producers could secure long-term offtake agreements benchmarked to a relatively nascent market price index for HEFA SAF, compared to a long-standing market price index for Jet A-1. This assessment will change over time, as HEFA market price indices become more robust and reliable.

1.46. We expect that **Option 3** for the Reference Price would:

- **Be an accurate proxy for the market value of non-HEFA SAF.** We expect Option 3 would be very well correlated with, and proximate to, the market value of non-HEFA SAF. This is because Option 3 is comprised of the two main price drivers of non-HEFA SAF in the UK: the price of the underlying aviation fuel (Jet A-1 Fuel Price) and the premium attributed to SAF in the UK (SAF Mandate certificate Price).

- **Create little VFM and market distortion risk.** Under Option 3, producers would have to sell their SAF at the Indicative Market Price to receive a Difference Amount sufficient to take home the guaranteed Strike Price. As discussed above, the Indicative Market Price is expected to closely track the market value of non-HEFA SAF. This increases the likelihood of smaller Difference Amounts and better value for money for the RCM overall and reduces the risk of market distortions.

- **Pose some delivery challenges.** Prior to December 2025, there was no market price index for SAF Mandate certificates. An index has recently been announced for relevant HEFA certificates. Given its nascency, it is uncertain whether it – or any other indices that may emerge – will be sufficiently robust and reliable for use in the first RCM contracts.

- **Offer moderately poor revenue certainty.** At present, we expect Option 3 could pose greater price and volume risk than Option 1, and likely also Option 2. This is because investors may be less certain that producers could secure long-term offtake agreements for volumes needed to repay principal and interest at prices benchmarked to a very nascent index. This assessment will change over time, as relevant HEFA certificate indices become more established.

1.47. Note, if Option 1 – Higher of Achieved Sales Price and Jet A-1 Fuel Price Floor – is chosen, we may add a premium to the Jet A-1 Floor Price to reflect the carbon savings from SAF. These savings have an economic value, even without the SAF Mandate, due to the existence of compliance and voluntary carbon/offset markets (e.g., UK Emissions Trading Scheme, CORSIA, etc.). In principle, this value should be included in the minimum price at which SAF is sold, and therefore the Floor Price under Option 1. If we added a premium to the Jet A-1 Floor Price, it could impact the evaluation of Option 1 above. Designing and implementing a premium would be complex, and we would welcome stakeholder views on this.

Questions

Q10. Which Reference Price option should be taken forward for the first RCM contracts? Please explain.

Q11. What potential impacts could each of these Reference Price options have on producers' ability to secure long-term offtake agreements and finance? Please explain.

Q12. If we adopt Option 1 – Higher of Achieved Sales Price and a Jet A-1 Fuel Price Floor – do you agree or disagree with adding a premium to the Jet A-1 Fuel Price Floor to account for the economic value of carbon savings? If you agree, how should this be measured?

Transition to a Market-Based Reference Price

Summary: *Moving to a market-based Reference Price is a key priority for DfT. As soon as practicable, we intend to use this price in RCM contracts. For the first RCM contracts that use a proxy Reference Price, we are assessing whether it is feasible to transition from that proxy to a market-based price part way through the contract.*

1.48. As discussed above, moving to a market-based Reference Price as soon as practicable would reduce market distortions and strengthen the value for money of the RCM. It is a key priority for DfT.

1.49. Once a market price emerges for non-HEFA SAF, and a robust, reliable price index is published, we would look to use this index as the Reference Price in any subsequent RCM contracts. We are considering how to expedite the discovery of a market price. The section below, *Price Discovery Mechanism*, presents options on this.

1.50. We are also assessing the feasibility of switching from a proxy to a market-based Reference Price part way through the first RCM contracts. We are considering the potential impacts of such a transition on producers' ability to secure offtake agreements and finance. The indicative Heads of Terms does not yet include a provision on transitioning from a proxy to a market-based Reference Price.

Question

Q13. What are your views on transitioning from a proxy to a market-based Reference Price part way through the first RCM contracts? Is this feasible? Please explain.

Q14. If it is feasible, how should this transition be implemented? Please explain.

Price Discovery Mechanism

Summary: *We are minded to include an incentive to encourage producers to seek the best possible price for their SAF, and to support the emergence of a non-HEFA SAF market price. This is especially important if the Reference Price is based on Achieved Sales Price; because in that scenario, the producer is incentivised to price below fair market value. This creates risks of market distortion, inhibition of a market price, and reduced value for money for the RCM. We are considering several options for a price discovery incentive, which we term a "Price Discovery Mechanism".*

1.51. DfT is minded to include an incentive(s) to encourage producers to seek the best price for their SAF and to support the emergence of a non-HEFA SAF market price.

1.52. The RCM is intended to be a time-limited intervention to de-risk first-of-a-kind non-HEFA SAF projects and kickstart UK SAF production. However, UK SAF producers will not attract long-term investment (in the absence of revenue support) unless a market price emerges for non-HEFA SAF. Without an effective price discovery mechanism(s), the RCM could slow down the emergence of this market price.

1.53. If the RCM Reference Price is linked to Achieved Sales Price, a higher sales price leads to a corresponding reduction in the Difference Amount paid by the counterparty to the producer (or an increase in the Difference Amount paid by the producer to the counterparty). The producer always earns the guaranteed strike price. There is no direct financial incentive to sell SAF at the highest possible price. Furthermore, there is an opportunity to price below the market to increase the likelihood of securing long-term offtake agreements for SAF volumes. This creates a risk of market distortions, the inhibition of a market price, and reduced value for money for the RCM.

1.54. An incentive(s) would help to overcome this dynamic. Section 4.9 of the iHoTs is a placeholder for that incentive(s), which DfT has called a Price Discovery Mechanism(s).

1.55. DfT is considering a shortlist of options for a Price Discovery Mechanism(s). Each of these options represents a novel intervention in a nascent market, with an uncertain influence on gaming behaviour (i.e., sales of SAF below-market price) and price discovery. Options are not mutually exclusive, and it is possible that a package could be adopted.

1.56. The shortlist of options includes, but is not limited to:

- **Option A: Offer a revenue bonus:** The producer could receive a bonus from the counterparty for selling their SAF for a higher price than a Floor Price. The bonus could be calculated as the difference between the Achieved Sales Price and a Floor Price, multiplied by a bonus percentage. It could be capped or uncapped. It would be a direct, financial incentive to sell SAF at a higher price, supporting the emergence of a market price for non-HEFA SAF.

- **Option B: Limit supported volumes:** The producer could receive a guaranteed strike price for only a proportion of their volumes ("supported volumes"). The remainder ("unsupported volumes") would be exposed to market price movements. The absence of a guaranteed strike price for unsupported volumes would encourage the producer to

seek the best possible price for those volumes, supporting the emergence of a market price for non-HEFA SAF.

- **Option C: Specify how volumes must be sold:** The RCM contract could stipulate how a proportion of the producer's volumes ("specified volumes") were to be sold. For example, it could require specified volumes to be sold on a public exchange, or via a producer-run auction. The remaining volumes ("unspecified volumes") could be sold as the producer pleased. This would ensure that some SAF would be sold via a transparent and price-competitive mechanism, supporting the emergence of a market price for non-HEFA SAF. It would not prevent other controls being placed on the sale of SAF, as described in Option D below.

- **Option D: Require SAF to be sold on commercial, arm's-length terms:** The RCM contract could impose contractual requirements on the producer to seek the best possible price for its SAF. For example, the contract could require the producer to sell SAF on "reasonable, commercial arm's-length terms." The RCM contract could afford the counterparty audit rights, building on those already available, as well as the ability to impose penalties for non-compliance.

1.57. We are evaluating the shortlisted options based on the following criteria (table 2):

Expected impact on gaming and price discovery	The gaming risk associated with the option (i.e., the risk of SAF being sold below-market price to increase the likelihood of securing long-term offtake agreements), and its expected impact on the discovery of a market price for non-HEFA SAF.
Expected deliverability	Whether the option can be delivered in a timely fashion. Our assessment is preliminary and will be refined over time during policy development.
Expected revenue certainty	The option's expected impact on revenue certainty for producers and investors.
Perceived fairness	The perceived fairness of the option. Particular consideration given to the option's transparency and universality.
Expected value for money	The option's expected impact on the value for money of the RCM scheme.

1.58. The preliminary high-level evaluation is set out below.

1.59. We expect that **Option A** (Revenue bonus) for price discovery would:

- **Have a moderate impact on gaming and price discovery**. A bonus is a direct financial incentive to sell SAF at a higher price. If effective, it could deter gaming and support the emergence of a true market price. However, as seen in comparative schemes, bonuses are difficult to design well, especially over a 15-year contract length,

and hard to evaluate. Overall, we anticipate a moderate impact on gaming and price discovery.

- **Be easy to deliver.** Once a formula to calculate the bonus was developed and incorporated into RCM contracts, the bonus could be calculated and paid automatically alongside the Difference Amount. The administrative burden on the counterparty is expected to be low, especially relative to Options C and D.

- **Offer strong revenue certainty.** We expect that the bonus would be considered additional upside for equity investors, presenting no risk to cost recovery or debt repayment. Therefore, it would not impede revenue certainty for debt providers.

- **Be perceived as fair.** The bonus could be transparent, agreed at the outset in RCM contracts, and applied universally to all RCM producers.

- **Offer moderate value for money.** The bonus would add cost to the RCM but could generate far greater savings through higher achieved sales prices, smaller difference payments, and a smaller levy overall. However, the value for money of the bonus depends heavily on its effectiveness.

1.60. We expect that **Option B** (Limit supported volumes) for price discovery would:

- **Have a moderate impact on gaming and price discovery.** The absence of a guaranteed strike price for the unsupported volumes would encourage producers to seek the highest possible price for their SAF. This would reduce gaming risk and support the discovery of a fair market price for non-HEFA SAF. However, the proportion of “unsupported” volumes would likely be small, since we expect that debt providers would require revenue support for all volumes needed to cover interest payments and the repayment of principal over the tenor of debt.

- **Be moderately difficult to deliver.** Designating volumes as “supported” or “unsupported” would add complexity to the RCM contract and could require new reporting. Further work would be required to mitigate gaming risk (i.e., supported and unsupported volumes being sold at different prices). Monitoring and enforcement could be required depending on detailed design decisions.

- **Offer moderate revenue certainty.** Having some unsupported volumes would likely increase price risk for debt providers, i.e., the risk that producers could not secure a sufficient market price for unsupported volumes to make production economical. However, this risk is expected to be manageable if the proportion of “unsupported” volumes was kept small.

- **Be perceived as fair.** The proportion of unsupported volumes would be agreed in the RCM contract from the outset and could be applied universally to all RCM producers.

- **Offer moderately high value for money.** Option B is expected to have a moderate impact on gaming and price discovery, while offering low cost and complexity to government.

1.61. We expect that **Option C** (Specify how volumes must be sold) would:

- **Have a moderate impact on gaming and price discovery.** We expect that requiring producers to sell a proportion of their SAF in a transparent, price-competitive manner (e.g., via a public exchange, or producer-run auctions) would reduce gaming risk and support the emergence of a market price. However, we consider the volumes concerned would likely be small, as debt providers would likely require most volumes to be sold via long-term offtake agreements, to minimise the risk of the producer failing to sell sufficient volumes of SAF to repay principal and interest over the tenor of debt. Overall, the expected impact is moderate.

- **Be moderately difficult to deliver.** While the burden of compliance would fall on the producer, the counterparty would likely be required to monitor and enforce non-compliance.

- **Offer moderate revenue certainty.** Requiring some volumes to be sold into the merchant market via public exchange or auction would likely increase volume and price risk for debt providers (i.e., the risk that producers could not sell enough volumes at a sufficiently high price to repay principal and interest over the tenor of debt). However, this risk is expected to be manageable if the proportion of specified volumes is kept small.

- **Be perceived as fair.** As with Option B above, the proportion of specified volumes would be agreed in the RCM contract at the outset and could be applied universally to all RCM producers.

- **Offer moderately high value for money.** We expect Option C would have a moderate impact on gaming behaviour and price discovery, at moderate cost and complexity to government.

1.62. We expect that **Option D** (Require SAF to be sold on commercial, arm's-length terms) would:

- **Have a moderately small impact on gaming and price discovery.** The focus of this intervention would be on encouraging a fair process, not delivering a particular pricing outcome. We expect that the risk of incurring a penalty could deter gaming behaviour, but this would depend on the likelihood of being audited, the likelihood of non-compliance being enforced, the extent of legal challenge, and the size of the penalty.

- **Be moderately difficult to deliver.** Option D would require new monitoring and enforcement functions to be stood up.

- **Offer moderate revenue certainty.** Contractual obligations are expected to be light touch, but there is a risk that they could be perceived as non-standard by the market.

- **Could be perceived to be fair.** This depends on whether Option D's contractual provisions are viewed as standard or novel. The more standard they appear to the market, the fairer Option D will seem overall.

- **Offer moderate value for money.** We expect Option D would have a moderately small impact on gaming behaviour and price discovery, at moderate cost and complexity to government.

Questions

Q15. Which option(s) for a Price Discovery Mechanism should be taken forward for the first RCM contracts? Please explain.

Q16. What, if any, other options for a Price Discovery Mechanism should we evaluate?

Q17. What potential impacts could each of these Price Discovery Mechanism options have on producers' ability to secure long-term offtake agreements and finance? Please explain.

Q18. What else should we consider when designing and implementing a Price Discovery Mechanism(s)?

Strike Price Indexation

Summary: *We are minded to index the full Strike Price to Consumer Price Index (CPI) inflation.*

1.63. Section 4.11 of the iHoTs proposes our minded to position to index the full Strike Price to Consumer Price Index (CPI) inflation.

1.64. The Strike Price determines how much revenue the producer receives per litre of SAF produced for the duration of the RCM contract. If the Strike Price is fixed (not indexed), but the project's costs increase, the producer's margin will erode.

1.65. We consider that general, CPI-linked protection would safeguard a significant portion of the cost base, and in particular, operational costs that producers cannot easily fix themselves. CPI-linked inflation protection is simple, straightforward, and the standard in many other low carbon business models, such as the Low Carbon Electricity Contracts for Difference, Industrial Carbon Capture Business Model, Dispatchable Power Agreement, and the Hydrogen Production Business Model.

Questions

Q19. Do you agree or disagree that the full Strike Price should be indexed to CPI inflation? Please explain.

Q20. Should anything else be considered when indexing the Strike Price to CPI inflation? Please explain.

Strike Price Adjustment

Summary: *We are minded to adjust the Strike Price based on the carbon savings of SAF to support the efficient delivery of the SAF Mandate.*

1.66. We anticipate significant variations in the carbon savings of SAF produced in the UK. SAF with more carbon savings relative to conventional jet fuel will be eligible for more SAF Mandate certificates and have a higher market value. SAF with less carbon savings will be eligible for fewer certificates and have a lower market value. The carbon savings of SAF within an individual plant could also change over time, due to factors like grid decarbonisation, improvements in operational efficiencies, changes in feedstock sourcing and/or the future installation and use of carbon capture and storage.

1.67. If the RCM guarantees a fixed Strike Price irrespective of the carbon savings of the fuel, producers will lose their incentive to produce the kind of SAF that will deliver the UK SAF Mandate as efficiently as possible, undermining the policy intention of the mandate. We are therefore minded to adjust the Strike Price based on the carbon intensity of SAF.

1.68. If we proceed with an adjustable Strike Price, we plan to engage with industry before final design decisions are made.

Questions

Q21. Do you agree or disagree with adjusting the Strike Price based on carbon intensity? Please explain.

Q22. If you agree, what other factors should we consider when designing and implementing an adjustable Strike Price?

Payments and Billing – Other

*(***This section refers to the following parts of the iHoTs: 4.2 – 4.3, 4.10, 4.13 – 4.14)**

Summary: *The verification of all sold SAF volumes will require metering. Only qualifying volumes sold to qualifying offtakers will be eligible for difference payments. DfT has considered how the LCHA defines and treats non-qualifying offtakers. A total sales cap and annual sales cap are proposed in the iHoTs as a cost control measure and to ensure steady supply. It also contains a Minimum Sales Volume provision to ensure continued production and sale of qualifying volumes.*

Qualifying volumes

1.69. Difference payments are only made when the producer has produced and then sold Qualifying Volumes in the relevant Billing Period

1.70. "Qualifying Volumes" are the metered SAF volumes (expressed in litres) produced by the Facility which:

(a) are purchased by a Qualifying Offtaker (see 1.72 onwards)

(b) comply with the SAF Sustainability Criteria (see 1.90 onwards)

1.71. “Non-Qualifying Volumes” are metered SAF volumes which do not meet the criteria of being “Qualifying Volumes”. Difference Amounts are not payable to the producer for Non-Qualifying Volumes. However, if for Non-Qualifying Volumes the Reference Price exceeds the Strike Price, the producer must pay the Difference Amount to the counterparty in respect of the Non-Qualifying Volumes. This is to avoid the risk that producers choose to sell Non-Qualifying Volumes when the reference price is higher than the Strike Price in order to avoid paying the Difference Amount to the counterparty.

Qualifying offtakers

1.72. A Qualifying Offtaker is an offtaker which is not a Non Qualifying Offtaker. As proposed in 4.13 of the iHoTs, the full contract will specify the classes of parties considered as Non-Qualifying Offtakers for the sales supported under the RCM. This categorisation is necessary to ensure that the scheme directly delivers its policy intent of supporting volumes into the SAF Mandate and represents value for money.

1.73. Section 4.13 of the iHoTs proposes that the list of Non-Qualifying Offtakers may be designed to prevent SAF under the RCM being exported outside the UK. This is in line with the approach taken in the LCHA because if exported volumes are treated as Qualifying under the SAF RCM, the UK could be subsiding SAF that does not contribute to the UK’s SAF Mandate targets and carbon budgets.

1.74. DfT is further considering how the counterparty can ensure that qualifying volumes of SAF are not then sold on to Non-Qualifying Offtakers.

Questions

Q23. Do you agree or disagree with the proposed definition of Qualifying Volumes in the iHoTs? If disagree, what changes would you recommend?

Q24. What types of entities should be classified as a Non-Qualifying Offtaker, and why?

Q25. Are safeguard mechanisms necessary to ensure that Qualifying Volumes are not subsequently sold to Non-Qualifying Offtakers? If so, what safeguards can be used?

Volume determination

1.75. Section 4.3 of the iHoTs proposes a procedure for verifying the amount of Qualifying and Non-Qualifying production and sales. This includes the reporting requirements on sales information (such as price sold, when and what volumes), as well as the compliance with metering for both Qualifying and Non-Qualifying volumes (producer’s metering requirements outlined in 6.3 of the iHoTs).

Question

Q26. What information should the counterparty use to verify volumes?

Contract Sales Cap and Annual Sales Cap

1.76. Section 4.10 of the iHoTs proposes a “Contract Sales Cap” provision which sets the maximum cumulative volume of SAF eligible for RCM support over the contract term, shown in Figure 6. It is based on the facility's forecast production of Qualifying Volumes, as agreed during Front End Agreement negotiations. Defining the scale of potential RCM support via a sales cap ensures the subsidy is not open-ended and the potential costs recovered from industry to fund the scheme are limited.

1.77. The iHoTs proposes a permitted “Annual Sales Cap”. This limits the amount of support that an RCM contract offers a producer each year. Based on precedents, such as the LCHA, the RCM intends to permit an additional percentage of sales in any given year beyond the pro-rata amount (total aggregate sales volume equally divided by the total years of the contract). This gives producers some flexibility to account for operational variability and market fluctuations, providing they meet the minimum level of sales (“Annual Sales Volume Floor”) each year. See section 1.80 for more information.

1.78. Unlike the LCHA, the iHoTs do not propose that sales above the Annual Sales Cap will automatically be classed as Non-Qualifying Volumes. This means producers can benefit from efficiency savings if they are producing and selling above their estimated capacity. Sales above the annual sales cap will not be eligible for difference payments from the counterparty (in order to limit the annual liability) but producers will not be required to make difference payments to the counterparty on these sales. It is also proposed that sales of non-qualifying volumes will not count towards the Contract Sales Cap. The sale of qualifying volumes will be incentivised by the “Annual Sales Volume Floor”, which is discussed further in 1.80 to 1.82.

1.79. As referenced in the financial provisions section above, the government is considering an option where a proportion of a plant’s SAF production is not covered by RCM payments, in order to incentivise price discovery. In this scenario, the Total Aggregate Sales Cap will need to be reassessed.

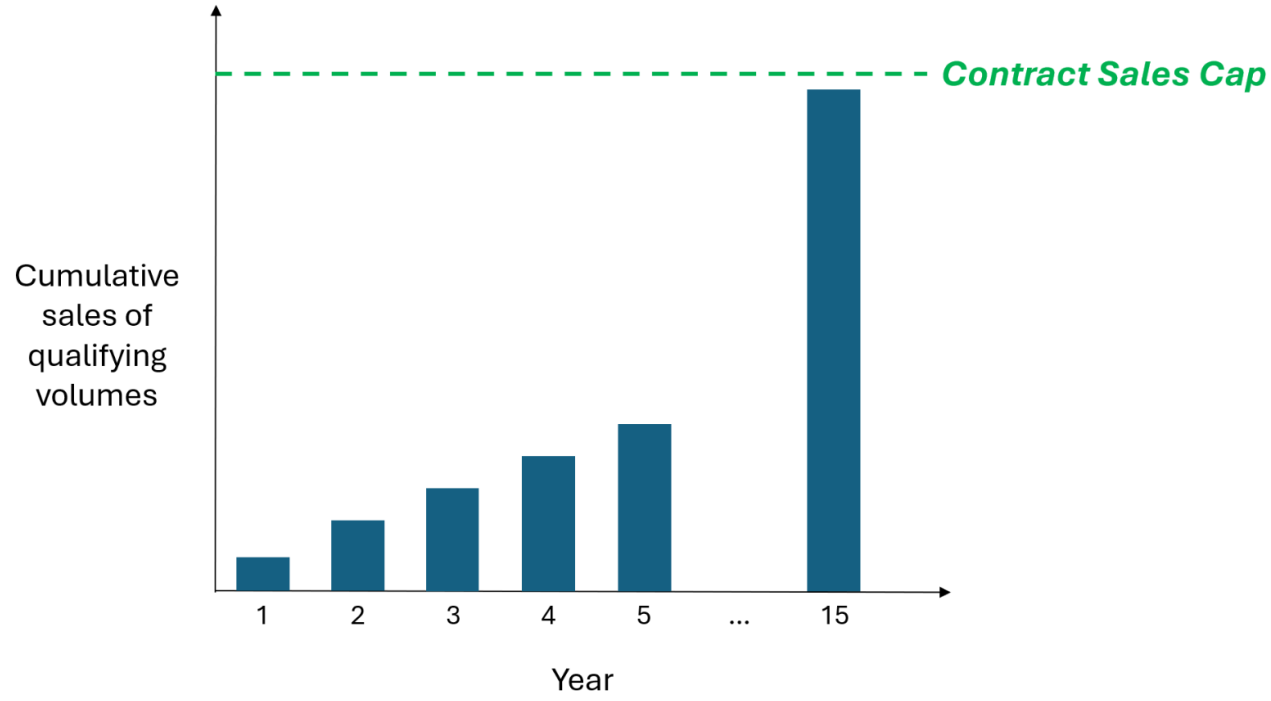


Figure 6: Cumulative sales of qualifying volumes for a SAF project across the term of the RCM contract, illustrating the Contract Sales Cap.

Annual Sales Floor

1.80. Section 4.10 of the iHoTs proposes an "Annual Sales Floor" to address any risk that the producer does not produce and sell regular and substantial Qualifying Volumes into the UK SAF market, shown in Figure 7. A minimum Qualifying Volume of SAF sold each year, will help ensure RCM-supported SAF production contributes to SAF Mandate targets.

1.81. If sales of qualifying volumes are lower than the Annual Sales Floor, the volumes of SAF sold by the facility will be deemed to be equal to the Annual Sales Floor for the purposes of calculating the total aggregate volume against the Total Aggregate Sales Cap. Therefore, the amount of SAF eligible for difference payments over the lifetime of the contract is reduced, acting as a disincentive for failing to meet the Annual Sales Floor.

1.82. DfT is considering further consequences for failing to meet the Annual Sales Floor, including shortfall payments.

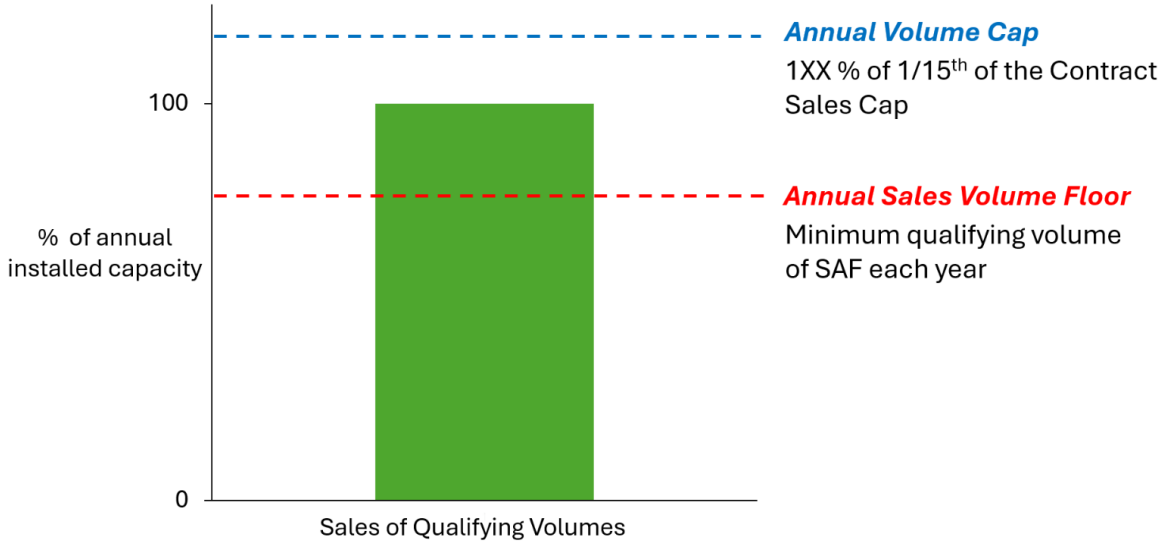


Figure 7: Sales of qualifying volumes for a SAF project, illustrating the annual sales volume floor and the annual volume cap.

Questions

Q27. Do you agree or disagree with the inclusion of a Total Aggregate Sales Cap and an Annual Sales Cap? If disagree, please explain why.

Q28. Should flexibility in the Annual Sales Volume Cap be permitted to account for operational variability and changes in market fluctuations? If so, at what percentage should this be set?

Q29. What else do we need to consider when setting these caps?

Q30. What percentage of installed capacity should the annual sales volume floor be set at?

Q31. What, if any, consequences should apply if the Annual Sales Volume Floor is not met?

Q32. How should the design of the Total Aggregate Sales Cap, Annual Sales Cap and Annual Sales Volume Floor adapt if government were to support only a share of total production to encourage price discovery (see 1.60)?

Change in Law and Representations, Warranties and Undertakings

Qualifying Change in Law

1.83. Future changes in legislation or regulation could have a material financial impact on SAF Projects, for example if future regulatory changes amended the types of fuels that qualified as SAF under the Mandate. Following the approach taken in similar low carbon business models that also use private law contracts, Change in Law

provisions have been included to provide fair and proportionate protections for producers.

1.84. Section 5.1 of the iHoTs proposes the scenarios that would constitute a Qualifying Change in Law (QCiL), covering:

1. Discriminatory Change in Law – a change in law that discriminates against the Producer/a Project/Facility)

2. Specific Change in Law – a change in law that specifically applies to facilities with an RCM contract and/or projects utilising a particular SAF production technology

3. Other Change in Law – a change in law that has an undue and discriminatory effect on a Producer's out-of-pocket costs in comparison with certain UK comparator groups

1.85. In the event of a QCiL, compensation will be based on the general principle that the producer impacted by the QCiL should 'be no better and no worse off' than it would have been had the QCiL not occurred. This mechanism is symmetrical, meaning the producer will be entitled to compensation if the QCiL results in net cost for the producer, and the RCM counterparty will be entitled to compensation if the QCiL results in net savings for the producer. Additionally, if a Change in Law event occurs during construction of a SAF project (after the Initial Conditions Precedent have been met, as per Figure 1), compensation will be available where the event prevents the project from reaching the Start Date, as defined in the Front End Agreement.

1.86. Section 5.4 of the iHoTs proposes that, in an event of a potential Change in Applicable Law scenario (where the existing law would render the RCM contract illegal, invalid or unenforceable), the counterparty will have the ability to propose amendments to the RCM contract, to prevent such outcome.

Question

Q33. Do you agree or disagree with the proposed Change in Laws provisions within the iHoTs? If disagree, please explain why.

Representations, Warranties and Undertakings

1.87. To ensure that a project aligns with the objectives of the RCM, the contract will set out the representations, warranties and undertakings for which the producer will be held accountable. Representations and warranties are statements the producer makes to the counterparty about things that are true at the point the contract is signed (and sometimes also at a later specified point in time). Upon entering the contract, undertakings define the ongoing contractual commitments that a producer must undergo or comply with. Sections 6.1 and 6.2 of the iHoTs propose potential representations, warranties and undertakings, following existing provisions within similar low carbon business models that also use private law contracts.

1.88. There are no metering requirements under the SAF Mandate, other than evidence of electricity consumption. Accurate metering of SAF volumes is important for determining and verifying volumes produced and ensuring accurate payments

between parties. Therefore, section 6.3 of the iHoTs proposes producer metering undertakings. The SAF Mandate requires volumes to be verified by third party verifiers, who issue a volume verification statement. Under the RCM, this requirement will be placed on the SAF producers, as opposed to aviation fuel suppliers, as in the SAF Mandate. To ensure compliance with the agreement, the iHoTs includes provisions for monitoring, reporting and verification undertakings.

1.89. DfT is considering the undertaking provision of collateral requirement from SAF producers as a safeguard in the event of failure to pay the counterparty, in line with similar low carbon business models that also use private law contracts. The SAF RCM levy design consultation proposes that acceptable forms of credit cover to the counterparty would be cash, standby letters of credit or a mix of both.

Questions

Q34. What SAF specific factors need to be considered with regards to representations, warranties and undertakings?

Q35. What challenges, if any, relating to metering SAF production volumes do you think we need to consider?

SAF sustainability

1.90. A key driver of the RCM is incentivising increased production of non-HEFA SAF that will contribute to SAF Mandate targets.

1.91. Section 7.1 of the iHoTs therefore proposes that RCM contracts will be underpinned by the same sustainability criteria as the UK SAF Mandate.

1.92. Compliance with the SAF Mandate allows SAF producers to sell their fuel for a higher price, because it can be rewarded with tradeable certificates, based on its carbon intensity. The higher the price that SAF producers receive for their SAF, the lower the potential cost of the scheme and therefore the greater the value for money. It is therefore important that the RCM is designed coherently with the SAF Mandate. However, the SAF Mandate is a regulatory instrument that can be amended through future legislative changes to reflect new science and evidence, for example. DfT therefore needs to carefully consider how the sustainability criteria in the RCM contract responds to changes in the criteria that underpin the SAF Mandate. As outlined in the government response to the consultation on revenue certainty options[4], private law contracts represent the chosen route to delivering investor confidence as they can provide protections against future legislative changes.

1.93. The core options that are being considered are:

Option A – Grandfathering

---

4 Sustainable aviation fuels revenue certainty mechanism: revenue certainty options - GOV.UK

1.94. In this option, the RCM's sustainability criteria at the time of signing the contract, set based on the SAF Mandate at the time, would remain the same throughout the length of the RCM contract. Any foreseeable updates to the SAF Mandate criteria could also be incorporated into the contract.

1.95. If the sustainability criteria in the SAF Mandate changes in a way that means the SAF being produced according to the grandfathered sustainability criteria in the RCM is no longer eligible under the SAF Mandate, and the SAF producer is not able to comply with the new criteria, the price that a producer achieves for their SAF could dramatically reduce. This could result in higher difference payments for SAF (noting this difference would be limited by the presence of a price floor discussed in 1.29-47) that is not contributing to the UK SAF Mandate targets.

1.96. If the sustainability criteria in the SAF Mandate changes in a way that means the SAF being produced under the RCM remains eligible for SAF Mandate certificates, but the cost of producing non-RCM SAF falls, the market price for SAF will likely fall, and difference payments will increase. If the sustainability criteria were not grandfathered, the RCM producer could also reduce its cost of production, as in 1.100.

1.97. Government is considering whether (if this option were adopted) to include a 'reopener' provision within the contract to account for these scenarios. This would allow for negotiations between the producer and the counterparty to update the sustainability criteria defined in the contract, alongside a revision to the strike price required to meet the new criteria.

1.98. A key objective of the RCM is to provide certainty to projects looking to attract investment. Engagement on this issue has been mixed, but many have indicated that 'grandfathering' offers the greater certainty to investors.

Option B – Dynamic alignment

1.99. The RCM's sustainability criteria would automatically adjust to follow any changes in the SAF Mandate criteria. This means that all SAF supported under the RCM is in line with the most recent SAF Mandate, which may have been updated in accordance with the latest scientific evidence on sustainability.

1.100. If the producer incurs costs or makes cost savings as a result of such a change, the RCM contract could contain a 'Change in Law' provision to leave the producer in a no better no worse position. This would operate on the basis of incremental costs or savings, with a producer only entitled to compensation (if any) where the additional costs are necessarily, directly and only resulting from the relevant SAF Mandate change.

Option C – Hybrid approach

1.101. Another design choice could be to allow for certain SAF Mandate criterion to be 'grandfathered' whilst others are dynamically aligned.

Option D – No sustainability criteria

1.102. Producers would have no contractual obligations to produce and sell SAF of a particular sustainability criteria, so long as the SAF is and remains eligible for the UK's SAF Mandate and therefore aligns with criteria in the mandate. Under this option, there would be no separate testing and verification of the sustainability criteria, relying solely on the SAF Mandate processes. In essence, this has the same effect of dynamic alignment discussed above and also has the option of working alongside a 'Change in Law' provision.

Questions

Q36. Which of these options is most preferrable?

Q37. If there are changes to the sustainability criteria during the contract, which criteria are likely to be most difficult for SAF producers to adjust to? And, does this change by technology pathway?

Q38. What, if any, provisions should be implemented alongside your preferred option?

Q39. What, if any, other options should be considered?

Force Majeure and Other

Force Majeure

1.103. The government intends to follow precedents established by the LCHA by inserting a Force Majeure Relief provision, covered in section 8.1 of iHoTs. Producers may encounter delay risks outside of their control that cannot be reasonably avoided or mitigated, therefore the RCM contract should permit day-to-day extensions of time in the pre-operational phases before the start date.

Reporting

1.104. For the RCM to function and be administered effectively, the producer will be subject to certain reporting requirements to allow for optimal data availability and transparency. Section 9.1 of the iHoTs proposes that the counterparty will need to be informed of progress for pre-operational phases, in addition to offtake agreements and invoices (to determine the achieved sales price), proof of sustainability criteria being met and verification of agreement compliance more widely.

1.105. There is a provision in the iHoTs for producers to report to the counterparty on the economic benefits of their projects and their supply chains at the following stages: 1st report by the Milestone Delivery Date; 2nd report by the 3rd anniversary of the Start Date (i.e. after the Project becomes operational); and 3rd report by the 7th anniversary of the Start Date. A breach of this reporting obligation may result in a fee being levied against the producer, which may be deducted from future payments made to the producer by the counterparty.

Question

Q40. What, if any, specific reporting requirements pre and post start date should be required for SAF producers?

Dispute resolution procedure

1.106. Section 9.3 of the iHoTs proposes that disputes will be escalated to a meeting of senior representatives, followed by final resolution by expert determination or arbitration. DfT views this procedure as a fair means to resolution, which is underpinned by the approaches taken in the LCHA, Carbon Capture Utilisation & Storage (CCUS) and Low Carbon Electricity CfD schemes.

Question

Q41. What, if any, SAF specific considerations to the dispute resolution procedures in other CfD schemes should be required for the SAF RCM?

Change control procedure

1.107. The RCM contract is being designed to provide certainty to producers with a view to enabling them to attract investment; accordingly, it is not beneficial to have easily implemented changes to the agreement. In line with precedent schemes, the counterparty can propose amendments to resolve issues or react to changes in the current climate, which are categorised as material or technical (including general) amendments. Section 9.4 of the iHoTs further sets out the process.

Subsidy control / other incentives

1.108. The RCM contracts will comply with the 2022 Subsidy Control Act and the Windsor Framework. However, in practice, where there is any error leading to additional subsidies being administered that could potentially breach subsidy control provisions, there will be mechanisms to ensure this is resolved (such as repayments).

Boilerplate provisions

1.109. Section 9.6 of the iHoTs proposes miscellaneous provisions that largely follow the LCHA and Low Carbon Electricity CfD. The government consider them to also be relevant to the SAF RCM contracts and important for inclusion.

Questions

Q42. Do you agree or disagree with the proposed provisions in the 'Force Majeure and Other' section (see 1.103 -1.109)?

Q43. What, if any, other provisions should be included in the iHoTs?

2. Contract Allocation Approach

Proposal Introduction

2.1. This consultation outlines our minded to positions for the design of the contract allocation approach for the first SAF allocation round (SAF AR1). These positions reflect lessons learned from comparable allocation approaches implemented in Low Carbon Electricity CfD schemes, CCUS and hydrogen production. Where feasible, this consultation aims to gather views from industry stakeholders and gauge support for the proposed allocation model, eligibility criteria, evaluation criteria and weightings, portfolio considerations for shortlisting, and proposals for an overall allocation strategy publication.

2.2. The design considerations in the following sections present some minded to positions. These minded to positions do not constitute definitive, final design choices and are subject to change.

2.3. Following this consultation, the government intends to publish in 2026 both an indicative timeline for SAF AR1 and an overall strategy for allocating RCM contracts (see 2.45 - 2.48 for the Overall Allocation Strategy section).

Strategic Objectives

Summary: *This section presents the strategic objectives for SAF AR1 contract allocation.*

2.4. The contract allocation approach is a key decision that determines how RCM support will be distributed across producers and over what timeframe. The government has aligned the proposed allocation approach to the following three allocation objectives:

i. Scaling First-Of-A-Kind (FOAK) SAF production to commercial deployment

ii. Value for money

iii. Speed of deployment

2.5. **Scaling FOAK SAF production to commercial deployment** - There are a diverse range of production technologies and feedstocks that can be used to produce SAF, each with distinct opportunities and risks. The government recognises value in supporting different technologies and feedstocks in the nascent phases of the market, to avoid over-reliance on any single pathway and reduce overall delivery risk for the RCM scheme. The proposed allocation approach is intended to mitigate these risks by enabling support for different project types. Robust technical and commercial due diligence will be carried out on projects to ensure deliverability at a commercial scale.

2.6. **Value for money -** A key objective of the allocation approach is to ensure that SAF is supported through SAF AR1 at a competitive price, minimising the impact of the scheme on the fuel and aviation sectors.

2.7. **Speed of deployment** - As a demand-side measure, the SAF Mandate sets targets for SAF uptake through to 2040, including 10% of fossil jet fuel supply by 2030. The government recognises the importance of delivering volumes at pace through SAF AR1 to support these targets.

Proposed Allocation Model

Summary: *This section outlines the proposed allocation approach for SAF AR1, provides justification as to why this model was selected over alternatives, and invites stakeholder views.*

2.8. The government assessed the feasibility of several allocation options for SAF AR1, including:

- **Market led proposals** – projects independently propose terms and pricing once they are ready to take FID.
- **Standardised pricing** – the government administratively sets a strike price, with projects agreeing contracts based on this pricing.
- **Auctions** – several options exist, including sealed bid auctions, where contracts are awarded to the lowest priced projects until a budget, volume or Administrative Strike Price cap is reached. Auctions may be divided into “technology pots”, where projects using similar SAF production technologies compete directly. With a large enough pool of eligible bidders, this helps to ensure that a range of production pathways can effectively compete for support.
- **Tendered bids with bilateral negotiations** - eligible SAF projects are invited to submit competitive proposals that are assessed against pre-defined evaluation criteria. Following this, shortlisted projects undergo robust due diligence and enter bilateral negotiations with the government to agree final contract terms.

2.9. Following stakeholder engagement and an assessment of allocation options against the strategic objectives, market-led proposals and standardised pricing were excluded from consideration. These approaches would not drive competitive tension and could result in poor value for money in the first allocation round, locking in high

prices for the duration of the contracts. Standardised pricing also allocates significant burden on the government to set strike prices correctly, with a high probability of poor engagement with the round if these prices are misaligned to market conditions.

2.10. While price-based allocation options, such as sealed bid auctions, may be feasible in the future, they are considered to present high levels of risk for an initial allocation round. With an expected limited pool of eligible bidders, auction allocation could struggle to support a range of technologies while maintaining competitive tension within each technology pot, placing an onus on DfT to design an auction framework and parameters that accurately reflect market conditions which are currently highly uncertain. In addition, setting appropriate Administrative Strike Prices, which act as auction strike price caps, would be challenging given current cost uncertainty, increasing the risk of allocation round failure.

2.11. The government is accordingly minded to implement a tendered bid process with bilateral negotiations for SAF AR1. It is considered that this option will best support complex FOAK SAF projects in the nascent phases of the market, providing greater certainty to producers and investors seeking bespoke risk mitigation to unlock FIDs. This option could also enable the government to provide support to different technologies and feedstocks. Robust eligibility, evaluation and due diligence phases would drive competitive tension and ensure deliverability of those projects awarded an RCM contract. This must be balanced against the need to keep the process as simple as possible for bidders and to avoid placing unnecessary burden on applicants. Views are welcomed on whether this process, outlined in sections below, achieves this balance.

2.12. The proposed bid process for SAF AR1 is outlined in Figure 8, with detail on each process step explored in subsequent sections.

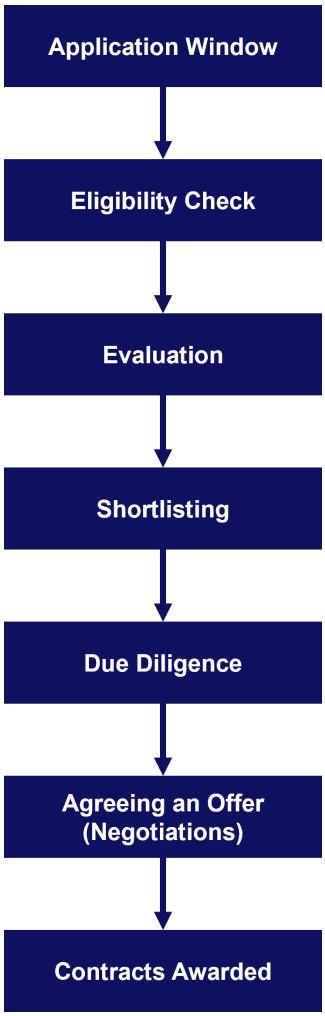


Figure 8: A flowchart depicting the proposed tendered bid process structure for SAF AR1

Application Window

2.13. Applicants can submit bids at any time during the application window period, with the opportunity to submit clarification questions to the DfT and its delivery partner(s). Details on the exact length of the application window, how to submit bids and what documentation to include will be provided in the SAF AR1 applicant guidance.

Eligibility Check

2.14. The assessors will confirm that the application meets the defined eligibility criteria (see 2.23 - 2.26 for the Eligibility Criteria section). Those projects that are considered to meet the eligibility criteria will proceed directly to the evaluation phase.

Evaluation

2.15. The assessors will evaluate the projects against the weighted evaluation criteria (see 2.27 - 2.40 for the Evaluation Criteria section). This is a holistic assessment focusing on deliverability, strike price, GHG emissions savings and economic benefits. The assessors will reserve the right to request clarifications on submitted evidence in both the eligibility and evaluation phase.

Shortlisting

2.16. Following evaluation, the government will publish a shortlist of projects that are considered deliverable and capable of delivering cost effective GHG emissions reductions. This shortlist will be formed based on evaluation scores and the application of portfolio factors (see 2.41 -2.44 for the Shortlisting and Portfolio Considerations section) where appropriate. The government reserves the right to limit the number of shortlisted projects in the event that SAF AR1 is oversubscribed.

Due Diligence

2.17. Applications that are shortlisted will be invited to progress directly into an open book due diligence assessment to verify key technical and commercial assumptions. This will include detailed cost assessment and assurance, further detailed compliance checks to assess the lifecycle carbon intensity of the SAF to be produced, as well as Know Your Customer (KYC) and integrity checks to ensure bidder compliance with relevant financial, legal and reputational standards.

Agreeing an Offer

2.18. Following due diligence, shortlisted applicants will engage directly with the government to agree an offer of RCM support. This will include agreeing strike prices and specific contract terms in the Front-End Agreement if required, such as the Target Commissioning Date (see 1.14 -1.16 for the Term, Milestone Requirement and Conditions Precedent section).

2.19. As referenced in the Payments and Billing – Financial Provisions section (see 1.24 - 1.68), DfT is considering limiting supported volumes to drive price discovery. Subject to stakeholder views, the level of supported volumes may also form part of the agreeing an offer stage.

2.20. Following this engagement, applicants will then submit a Best and Final Offer (BAFO).

Contracts Awarded

2.21. Following the submission of the BAFO, successful projects will be awarded RCM contracts with the agreed terms and strike prices. The government will reserve the right to limit the number of shortlisted projects awarded a contract.

2.22. Further information on the process is provided in following sections, with further detail to be published in the SAF AR1 applicant guidance.

Questions:

Q44. Do you agree or disagree with the proposed allocation approach of a tendered bid process with bilateral negotiations for SAF AR1? If disagree, please explain why.

Q45. Do you agree or disagree with the proposed bid process structure for SAF AR1? If disagree, please explain why.

Q46. Should bidders be permitted to submit more than one application, and if so, how many? This refers to both distinct projects and variations of the same project. Please explain your answer.

Q47. Do you agree or disagree that supported volumes under a contract should be agreed upon in the Agreeing an Offer stage to support price discovery? If disagree, please explain why.

Q48. What, if any, additional considerations would you like to raise on the proposed allocation approach?

Eligibility Criteria

Summary: *This section outlines the proposed eligibility criteria that projects must meet to be able to apply for SAF AR1, and invites stakeholder views.*

2.23. Applications will first be assessed on a pass/fail basis against pre-defined eligibility criteria to confirm whether they will proceed to the evaluation phase.

2.24. When setting the eligibility criteria, the government has considered the maturity of the UK SAF production landscape, technology/feedstock diversity and commercial readiness, policy on the SAF mandate and the Advanced Fuels Fund (AFF), and the National Energy System Operator's (NESO) ongoing grid connections reform process. The proposed eligibility criteria have been designed to:

- minimise speculative applications and ensure only deliverable projects pass through to the evaluation phase, minimising administrative burden on DfT and its delivery partner(s), and speeding up the process for highly deliverable projects
- support different production technologies
- ensure that SAF produced is eligible for SAF Mandate certificates
- maintain sufficient competitive tension in the round to drive value for money

2.25. The government is minded to implement the following eligibility criteria for SAF AR1 (table 3), subject to stakeholder views:

Eligibility Criteria	Summary of Requirement
Project Location	The SAF production plant is to be located in the UK and the applicant a UK-registered company or charity.
Delivery Years	Projects will need to demonstrate delivery within a set delivery year. These delivery years are subject to ongoing work on defining SAF AR1 timelines, and will be provided in the future publication on timelines referenced previously.

	Applicants will be expected to support their selected delivery year with evidence that it best fits their plans for operation and deployment. This allows the government to allocate support within budgetary limits, with consideration given to when projects could support SAF Mandate targets. The Target Commissioning Date and Target Commissioning Window will govern the real contractual milestones. Projects will be expected to deliver on the information provided at the eligibility stage.
Technology Certification	Projects must demonstrate that the technologies used to produce SAF can meet the relevant international standards for aviation use, whether the fuel is used on its own or blended with fossil aviation fuel. These standards are the ASTM International standard D1655/D7566, the Ministry of Defence standard 91-091 or an equivalent standard, aligned to SAF Mandate requirements.
Technology Type	All non-HEFA technologies that can meet relevant international standards for aviation use are eligible.
Minimum Installed Capacity	Eligible projects must have a minimum installed production capacity of 20 kilotonnes per annum (ktpa), ensuring support is focused on commercial-scale projects.
New-Build Production Facility	Only new-build SAF production facilities will be supported. This includes new capacity developed at existing sites where at least 20 ktpa of additional SAF production is constructed, as well as the co-processing of non-HEFA SAF within conventional petroleum refineries.
SAF Mandate Compliance	Projects must demonstrate that SAF produced will comply with all SAF Mandate requirements and be eligible for certificates. This includes minimum lifecycle Greenhouse Gas (GHG) emissions reductions, other sustainability criteria and eligible feedstock criteria. The GHG emissions intensity methodology set out in the RTFO and SAF Mandate technical guidance should be followed, with evidence provided to support any claims along the bidder's supply chain. This is expected to be assessed again in the evaluation and due diligence phases as the project develops.
Feedstock Supply	Projects must be able to evidence engagement with feedstock providers to supply feedstock over the project lifetime, including but not limited to written agreements such as Memorandums of Understanding (MoUs). This should include detailed sourcing arrangements and sustainability assurances.
Power Supply & Grid Connection	Evidence of a grid connection offer, or other written evidence that the project will have access to power supply by the Target Commissioning Date.

Engineering Design Phase	Applicant to have completed at a minimum a Front-End Loading (FEL) - 1 feasibility study. This must include an initial technical and economic assessment of the proposed plant, defining: the production concept, key technology options, regulatory and planning considerations, land options, indicative site layout, feedstock and utility requirements, offtake and routes to market including plans for SAF transport, storage and blending, and preliminary cost and schedule estimates to determine overall project viability.
Access to Finance	Evidence of finance, including letters of support from equity and debt providers, and/or confirmation of ability to fund from existing resources.

2.26. Further details on eligibility criteria and the format of documentation required will be provided in the applicant guidance.

Questions:

Q49. Do you agree or disagree with the proposed eligibility criteria for SAF AR1? If disagree, please explain which criteria you disagree with and why.

Q50. Should technologies that do not yet have ASTM Certification, but are currently engaged with the ASTM D4054 evaluation process, be considered as eligible technologies for SAF AR1? Please explain why.

Q51. Do you agree or disagree that projects should require a grid connection offer, or equivalent evidence to demonstrate access to power supply by the Target Commissioning Date, to be eligible for SAF AR1? If disagree, please explain why.

Q52. What, if any, additional considerations would you like to raise on the proposed eligibility criteria?

Evaluation Criteria

Summary: *This section outlines the proposed evaluation criteria and weightings that will be used to assess applications that pass eligibility checks, as well as suggested deliverability evidence. Stakeholder views are invited.*

2.27. Applications that pass eligibility checks will immediately proceed to the evaluation phase, in which they will be assessed holistically on deliverability, normalised strike price and economic benefits. The normalised strike price criterion seeks to account for expected variation in SAF production costs and GHG emissions reductions of SAF produced.

2.28. Each of the proposed SAF AR1 evaluation criteria have been assigned a weighting which aims to reflect the significance of each criterion in relation to the strategic objectives of the RCM at this point in time. The government believes that this will enable a fair and transparent assessment of projects seeking RCM support. The application's total score will be calculated using the final scores for each criterion multiplied by the associated weighting.

2.29. The government is minded to implement the following evaluation criteria and weightings for SAF AR1 (table 4):

Criteria	Weighting	Definition
Deliverability	50%	The project's ability to reach commercial operation within its selected delivery year.
Normalised Strike Price	40%	The project's cost-effectiveness in delivering carbon savings, assessed by normalising the strike price against the GHG emissions savings per tonne of SAF produced (i.e. price of SAF per tonne of CO_2e avoided relative to fossil aviation fuel).
Economic Benefits	10%	The contribution the SAF production plant will make to the UK economy.

Deliverability

2.30. The highest weighting on deliverability reflects the importance of ensuring that projects supported in the early phases of the market have robust fundamentals, appropriate risk mitigation strategies, and a strong likelihood of achieving commercial operation within their proposed delivery year.

2.31. The deliverability criterion will evaluate the applicant's organisational capability, the project's current level of development and the credibility of plans to complete all future development to reach commercial operations within the selected delivery year.

2.32. The following table provides suggested evidence that eligible bidders may submit to demonstrate deliverability. Applicants are free to provide alternative evidence where appropriate; scoring will reflect the clarity and level of definition demonstrated in each metric, with bids scored higher if they can demonstrate greater organisational, project, technical and commercial deliverability. The SAF AR1 applicant guidance will provide further detail on expected evidence and the format of these submissions, as well as the scoring weighting assigned to each deliverability metric.

2.33. Stakeholders are invited to share views on the suggested metrics and evidence outlined below (table 5):

Deliverability Metric	Suggested Evidence
Organisational Capability	Demonstrated experience delivering large capital projects, including but not limited to SAF, fossil fuels, electrolytic hydrogen, CCUS-enabled hydrogen or other low carbon fuels projects. The

	organisation should demonstrate that it has the relevant competence and experience to manage the development and operation of a project of the proposed scale and complexity.
Project Delivery Schedule / Plan	Submission of at least a level 2 schedule showing the project's critical path along with a supporting development narrative, evidencing deliverability by the selected delivery year. Evidence should be provided to demonstrate that key project risks have been identified, assessed, and appropriately reflected in the delivery schedule, with clear contingencies in place where required.
Engineering Design	As per the eligibility criterion, the project must have achieved a minimum design definition of FEL-1 (feasibility study), with a preference for greater project definition where available.
Cost Estimate	Minimum Class 5 estimate based on the Association for the Advancement of Cost Engineering's (AACE) cost estimate classification system, with lower classes scored higher.
Feedstock	Projects should be able to evidence engagement with feedstock providers to supply feedstock over the project lifetime, including but not limited to written agreements such as Memorandums of Understanding. This should include detailed sourcing arrangements and sustainability assurances, and proposed risk mitigation measures in the event of feedstock constraints (e.g. diversity of sourcing).
Power Supply & Grid Connection	As per the eligibility criterion, evidence of a grid connection offer, or other written evidence that the project will have access to power supply by the Target Commissioning Date. Planned electricity inputs should be low carbon in line with SAF Mandate requirements including additionality.
Water & Other Utilities	For utilities, evidence of agreements or engagement to secure sufficient water and other utilities by the Target Commissioning Date.
Offtaker Requirements	Evidence of engagement (e.g. Memorandums of Understanding or Letters Of Intent) or full agreements with qualifying offtakers, demonstrating commitment for offtake of a significant proportion of qualifying volumes with expected timelines.
Planning Permission & Consents	Applicant should demonstrate progress in achieving planning and relevant consents in line with the schedule. The evidence submitted should include the pre-application response, engagement with stakeholders, draft planning documents, or granted permission.
Land Access	Evidence of secured or progressing land rights, such as a signed lease, purchase agreement or Memorandum of Understanding.
Supply Chain	Details of the project's procurement and contracting strategy, with evidence of engagement with key suppliers for all major plant and equipment. This should include a plan for obtaining contracts with core suppliers and services that will be relied upon to enter commercial operations, such as the Engineering, Procurement and Construction (EPC) or Engineering, Procurement and Construction Management (EPCM) contractor.

Future Carbon Reduction Potential	If the bidder plans to further reduce the lifecycle carbon intensity of SAF produced over the contract term, they should demonstrate credible and evidenced plans to do so. This may include, for example, the transition to lower-carbon feedstocks, energy efficiency improvements, or the future installation of carbon capture. Evidence should include indicative timelines, dependencies and supporting analysis. For projects intending to connect to the CO_2 Transport & Storage network, evidence should be provided to demonstrate progress towards connection in line with the proposed schedule.
Access to Finance	Evidence of finance, including letters of support from equity and debt providers, and/or confirmation of ability to fund from existing resources.

Normalised Strike Price

2.34. The normalised strike price criterion is intended to account for the expected variation in SAF production costs and GHG emission reductions of SAF produced from different technologies and feedstocks. As the SAF Mandate will issue certificates proportionally to the lifecycle GHG emission reductions of the SAF produced, producers are already incentivised to minimise the carbon intensity.

2.35. The GHG emissions savings of SAF are calculated by comparing the carbon intensity of the fuel with the fossil fuel comparator, with all relevant methodology published in the RTFO and SAF Mandate technical guidance[5].

2.36. To support delivery of the Mandate's targets, SAF AR1 aims to assess projects on their cost-effectiveness in delivering carbon savings, by normalising the strike price against the GHG emissions savings per tonne of SAF produced, i.e. the price of SAF per tonne of CO_2e avoided relative to fossil aviation fuel. This approach enables projects to be compared quantitatively during evaluation.

2.37. Projects that demonstrate a lower normalised strike price would score higher in this assessment, as they represent greater value for money in achieving GHG emission savings.

2.38. The strike price and GHG emissions savings used for the bid should be those predicted at the Target Commissioning Date, not the potential for future improvements in GHG emissions savings.

2.39. Projects will be expected to submit cost information and their proposed strike price as part of the bid. DfT will validate all cost and pricing information submitted. It is also expected that projects will provide a forecast of their GHG emissions savings over the lifetime of the RCM contract. The format required for all documentation as well as the methodology for calculating the normalised strike price will be specified in the applicant guidance, and is subject to stakeholder views on this criterion.

---

[5] RTFO and SAF Mandate Technical Guidance: https://assets.publishing.service.gov.uk/media/67626f161ca3ec0a49e1908e/rtfo-and-saf-mandate-technical-guidance-2025.pdf

Economic Benefits

2.40. The aim of this criterion is to assess the contribution of a project to the development of the wider UK economy. This could include for example, the number of UK jobs supported and associated economic benefits generated by each project. It is important to consider this during evaluation to reflect the role that the SAF Mandate plays in supporting the UK economy as well as carbon reduction. It is vital that the government's package of SAF policies support the establishment of a long-term UK SAF industry capable of supporting skilled jobs and investments.

Questions:

Q53. Do you agree or disagree with the proposed evaluation criteria and weightings for SAF AR1? If disagree, please explain which criteria you disagree with and why.

Q54. Do you agree or disagree with the proposed deliverability metrics for SAF AR1? If disagree, please explain which metrics you disagree with and why.

Q55. Do you think that any other deliverability metrics should be assessed in SAF AR1? Please explain your answer.

Q56. Do you agree or disagree with the proposed approach to evaluate projects based on normalising the strike price against GHG emission reductions of the SAF produced? If disagree, please explain why.

Q57. What, if any, additional considerations would you like to raise on the proposed evaluation criteria?

Shortlisting & Portfolio Considerations

Summary: *This section outlines the proposed portfolio factors that may be applied to the post-evaluation longlist to address imbalances at the margins and form a shortlist, ensuring shortlisted projects are aligned to the strategic allocation objectives of the RCM.*

2.41. Once evaluation is complete, a longlist will be formed based on bid scores. The government will then assess how the longlisted projects align with the strategic allocation objectives and apply portfolio factors where necessary to address any imbalances, forming the published shortlist. Evaluation scores will remain the primary determinant of which projects are shortlisted; however, in specific circumstances, such as round oversubscription or portfolio imbalances, the government may select a lower-scoring project where this better supports its objectives. It is expected that portfolio factors will only affect decisions at the margins. The government also reserves the right to limit the number of shortlisted projects at its discretion. These considerations may apply at both the shortlisting and agreeing an offer stages.

2.42. Taking a portfolio approach to allocation is key for government in the early phases of the market to reduce over-reliance on a single pathway and ensure different

production technologies and feedstocks are supported. This is one of the primary drivers for implementing a tendered bid approach in SAF AR1.

2.43. The government is minded to use the following portfolio factors:

- **Technology & Feedstock Diversity** – To reduce reliance on any single pathway and mitigate risks associated with feedstock availability or supply chain constraints, the government may consider ensuring support for different production technologies and feedstocks.

- **Delivery Timing** – The government may consider delivery year as a portfolio factor to ensure an appropriate phasing of projects within the government's budget limits, with consideration given to when the project can start supporting SAF Mandate targets.

- **Project Size** – A range of project sizes may be supported to reduce delivery risk and avoid over-reliance on a small number of large plants. If these larger projects were to fail, a significant share of expected SAF capacity would be lost, jeopardising delivery of SAF Mandate targets.

- **Location** – The project location may be considered to ensure that the economic benefits of SAF deployment and associated value chains are distributed across the UK. Consideration may also be given to the project's proximity and access to fuel blending and transportation infrastructure to facilitate supply of SAF to offtakers.

2.44. In line with precedent schemes, DfT intends to appoint a delivery partner to support detailed allocation round design, including the preparation of applicant guidance, management of the process from launch to contract signature, and support with eligibility checks, evaluation, due diligence and agreeing an offer stages. Therefore, the government is currently seeking to retain optionality on some aspects of the detailed design. Further information on the objectives and structure of the due diligence and agreeing an offer stages will be published in or alongside the applicant guidance document.

Questions:

Q58. Do you agree or disagree with the proposed portfolio factors to be used in the shortlisting and agreeing an offer stages? If disagree, please explain why.

Q59. What, if any, additional considerations would you like to raise on the proposed portfolio considerations?

Overall Allocation Strategy

Summary: *This section summarises the government's aim to publish information on overall allocation strategy for RCM contracts, with an overview of what this may cover. Stakeholder views are invited on the direction of the overall allocation strategy for RCM contracts.*

2.45. Informed by stakeholder engagement and industry roundtables, the government recognises the need to provide greater clarity on the long-term allocation strategy to enable bidders to plan effectively. Following this consultation, which provides key design considerations for SAF AR1, the government intends to publish information on an overall allocation strategy outlining our minded to positions. This strategy is expected to include:

- indicative volumes and associated GHG emission reductions to be supported over the lifetime of the RCM scheme
- how these volumes will be distributed across allocation rounds, including an indication of the number of rounds expected
- the potential format that these allocation rounds could take, subject to pre-defined market indicators and parameters being met
- the indicative timeframe over which future RCM support will be allocated
- the approach that will be taken to support different technologies and feedstocks through the RCM (this will reflect a variety of considerations including, amongst other things: long term global supply forecasts, long term price projections, project developments, feedstock availability, opportunities for GHG emission reductions and commercial readiness)

2.46. It is recognised that a market dominated by RCM contracts and fixed offtake agreements may limit price discovery, and therefore limit the ability to establish a clear, transparent market price for different forms of non-HEFA SAF. Establishing these reference prices is essential for the market to be able to operate effectively in the future without RCM contracts. The government is therefore considering the proportion of SAF Mandate targets that should be covered through the RCM and over what timeframe.

2.47. Although the government is minded to implement a tendered bid process with bilateral negotiations for SAF AR1, a transition towards price-based allocation for any future allocation rounds could have benefits. It could drive longer term value for money through the scheme and ensure that GHG emission reductions from SAF are supported at a competitive price. Achieving such a transition would require a greater level of certainty on production CAPEX and OPEX for a range of production pathways, a sufficiently large pool of eligible bidders, as well as an improved understanding of key development, construction and market risks to reduce the need for bespoke risk mitigation via bilateral negotiations.

2.48. It is expected that this overall allocation strategy publication will be published in 2026. Views are welcomed from stakeholders on the questions outlined below.

Questions:

Q60. Do you agree or disagree with the proposed work that the allocation strategy will aim to address? If disagree, please explain why and what else should be covered.

3. Next steps

3.1 The government has introduced the SAF Bill this parliamentary session to take the necessary legislative powers to implement an RCM. The government is expecting that all the required legislation for the RCM is laid by the end of 2026, including subsequent regulations.

- Further engagement with industry and wider stakeholders
- The government remains committed to ensuring that industry have ongoing opportunities to feed into wider designs for the RCM
- Provide further information on the SAF AR1 timeline, and the government's overall strategy for contract allocation.