



10 February 2026

GREEN LIGHT FOR GREEN FLIGHT: THE UK'S NEW SAF REVENUE CERTAINTY MECHANISM EXPLAINED

Aviation's race to net zero is gaining altitude, powered by Sustainable Aviation Fuel (SAF). Following the 2025 launch of the SAF Mandate, which secures a guaranteed level of demand, the UK is now delivering the final piece of the puzzle - the Revenue Certainty Mechanism (RCM). But how will this new scheme reshape investment, and what does it mean for the future of flight?

INTRODUCTION

SAF plays a central role in reducing fossil fuel emissions during flight, and improving its production and usage is a core target for the current Government. Last year saw the introduction of the SAF Mandate, a key policy mechanism which establishes demand by requiring a certain percentage of SAF to be used for any flight.¹ Furthermore, the SAF Bill, which enters the Report Stage on 4 February 2026 and is expected to receive Royal Assent this year, provides the legislative powers to underpin the RCM and gives further clarity to aircraft operators.

For more information on the efforts surrounding the use of SAF, see our previous article: [The Future of Flight](#).

WHAT IS THE RCM?

The RCM is designed as a novel solution to scale production by facilitating private contracts between producers (**Producer(s)**) and a government counterparty (**Counterparty**). These will be anchored to a pre-agreed 'strike price', funded through a new Aviation Fuel Supplier Levy, which will be financed by the industry and not taxpayers (see below: *practical considerations*).

The RCM operates as a guaranteed strike price mechanism, modelled on the 'contracts for difference.' If a Producer sells SAF for below the strike price, the Counterparty pays the difference (and vice versa) with the hope that this will incentivise Producers to boost production and encourage competitive pricing.



¹ Starting at 2% in 2025, gradually increasing to 10% by 2030 and 22% by 2040.



On 12 January 2026, the Department for Transport (DfT) launched a landmark consultation on:

- (1) **indicative heads of terms** for the private contracts; and
- (2) **a contract allocation approach** on how Producers can bid and be selected for government contracts.

The consultation will close on 3 April 2026. The aim of the government is to have all implementing legislation and the first allocation round finalised by the end of 2026.

INDICATIVE HEADS OF TERMS

The proposed indicative Heads of Terms (iHoTs) comprise three parts:

- (1) “*Front End*”, bespoke terms to be negotiated between parties on an individual basis,
- (2) “*Standard terms and conditions*” (T&Cs) which will apply to all RCM participants, and
- (3) a “*Glossary*” defining key terms under the RCM.

The DfT has proposed these iHoTs at an early stage to provide certainty to the market and encourage appropriate feedback.

The key T&Cs can be summarised as follows:

Key T&C	Description
Term: <i>consistent project length</i>	Fixed 15-year contract term starting from date of commission, or on the final day of the Target Commissioning Window (<i>see below</i>).
Target Commissioning Window: <i>defined timeframe for projects to become operational</i>	A 12-month window during which the parties agree the project is to become operational, with the benefit of an additional 12-month buffer (the Longstop Period) for projects delayed due to delivery risks. If the project is not commissioned by the end of the window, the 15-year term will start but no RCM payments will be made, potentially reducing the total revenue guaranteed.
Evidence checkpoints: <i>structured monitoring of progress to ensure timely delivery</i>	<p><u>Initial Conditions Precedent (ICP):</u> no later than 20 business days from the agreement, Producers must demonstrate they meet certain conditions, such as grid connection or planning approval.</p> <p><u>Milestone Requirement:</u> within 18 months of the agreement, Producers must evidence their commitment to developing a project, e.g. spend to date or fulfilment of specified project indicators. This is to prevent funding being tied up in unrealistic or stagnant projects.</p> <p><u>Operational Conditions Precedent (OCP):</u> by the end of the Longstop Period, for payments to begin under the contract, Producers must show they have commissioned a facility compliant with sustainability and metering criteria. If no evidence can be shown by this date, the contract can be terminated.</p>
Termination: <i>by Counterparty² to minimise unfeasible projects</i>	<p>Failure to satisfy the ICP or OCP, unless the delay is beyond the Producer’s control.</p> <p>Failure to accurately measure SAF produced via a compliant metering system.</p> <p>Changing SAF production technology beyond the scope of the contract.</p>

² The Producer’s right to terminate is still under review.



Key T&C

Description

Difference Price	Payment transferred between Producer and Counterparty to ensure the Producer earns the Strike Price in £ per litre of SAF. This is calculated between the Strike Price and the Reference Price.
Reference Price: <i>reflect a market price for non-HEFA SAF³</i>	It is not currently possible to generate a market price due to limited non-HEFA SAF sales. Three interim options for calculating this, until a reliable market price for non-HEFA SAF is reached: <ul style="list-style-type: none">(A) <u>The higher of the achieved sale price (ASP) and conventional jet fuel (CJF) market price:</u> Uses well-known, stable price as safety net to prevent underpricing.(B) <u>The higher of the ASP and HEFA SAF market price:</u> uses common SAF type as safety net, aiming for closer match to non-HEFA SAF values.(C) <u>CJF price and market price per UK SAF Mandate certificate:</u> uses what producers can actually earn selling SAF in the market for closer match to non-HEFA SAF values.
Price Discovery: <i>reduce market distortion</i>	Mechanism to incentivise Producers to seek the best possible price and support emergence of non-HEFA market price by (i) offering bonuses for selling SAF at higher prices, (ii) exposing higher SAF volumes to market prices, (iii) requiring a proportion of SAF to be sold via public exchange or auction, and/or (iv) requiring SAF to be sold on “commercial arm’s-length terms”. The DfT will evaluate the shortlist using a myriad of criteria, and consultation feedback.
Strike Price	Adjusted to Consumer Price Index inflation and carbon intensity of SAF produced. To be used to determine the difference available to Producers, compared to the Reference Price.
Qualifying Volumes (QV)	These are metered SAF volumes which are sold to qualifying offtakers i.e. not intended for export outside the UK, and sustainable (see below). Only QV will be eligible for difference payments. <u>Low market price i.e. below Strike Price:</u> Producer receives top-up payments only for QV. <u>High market price:</u> Producer pays difference for both QV and non-QV, to avoid the risk that Producers sit on non-QV to avoid paying the difference, and encourage sales. Proposed annual and total sale limits on QV eligible for RCM payments, to ensure steady supply and to support non-qualifying offtakers.
Sustainability	SAF must be low-carbon and eligible for SAF Mandate certificates. Criteria will either be locked in for the full contract term, updated in line with the SAF Mandate, hybrid, or pegged to the SAF Mandate with no contractual requirements. Metering requirements to ensure SAF is measured accurately.
Change in law: <i>a symmetrical “no better, no worse” compensation principle</i>	Protection for Producers if future changes in law or regulation significantly impact project costs or eligibility, such as by varying which fuels qualify under the SAF Mandate. Compensation is designed so that Producers will be left “no better and no worse off” than if the change had not happened; they are compensated for extra costs incurred, while the Counterparty can recover any savings attributable to the change.

³ Hydroprocessed Esters and Fatty Acids (HEFA) SAF is a common SAF production using oils and fats. Due to the finite resources of oil and animal fats, there is a push to diversify SAF production to include non-HEFA alternatives.



ALLOCATION OF CONTRACTS

The second stem of the consultation sets out various methods by which bidders can vie for the contracts, alongside criteria to be considered in allocating the bids. These would apply to the first allocation round (**AR1**), a timeline for which will be set later in 2026, and have been designed to support a diverse range of production technologies and feedstocks to reduce any overreliance.

Having assessed several options—including auctions, independent proposals, and contracts based on a centrally-agreed strike price – the DfT’s proposal is for a tendered bid process. The bid process comprises several stages: an application window, eligibility check and evaluation, shortlisting, due diligence, agreeing an offer (including Best and Final Offer submission), and ultimately, contract award.

The allocation method reflects a shift toward a market-led competitive process. Whilst the DfT wants to ensure the lowest possible strike prices, the introduction of the “deliverability” weighting ensures that support is not awarded to speculative projects that may fail.



ELIGIBILITY CRITERIA

Applications will be screened on a pass/fail basis against pre-defined eligibility criteria. These include commitment requirements as above (e.g. sustainability and proof of grid connection) alongside the projects being based in the UK and utilising non-HEFA technology.

Projects that meet these eligibility requirements will then be evaluated against three weighted criteria:

Criterion	Weighting	Focus
Deliverability	50%	Likelihood of reaching commercial operation within proposed timeframe.
Normalised Strike Price	40%	The requested level of financial support per tonne, prioritising on a cost-effective basis.
Economic Benefits	10%	Contribution to the UK economy, including jobs and investment.

Having evaluated and scored the bids, the government will compile a list of top projects. While evaluation scores remain the primary determinant, it may select lower-scoring projects to address imbalances, namely over concentration in one area, and support strategic objectives, by applying factors such as technology and feedstock diversity, project size, timing or location.

Once successful projects have been shortlisted, they will be subject to comprehensive technical and commercial due diligence to ensure they can deliver at commercial scale, before finally being allocated a contract.

PRACTICAL CONSIDERATIONS

Funding

The RCM will be funded by the Aviation Fuel Supplier Levy. Fuel suppliers will be charged according to the market share of fossil fuels produced, rather than from taxpayers or an increase in Air Passenger Duty.⁴ This price will

⁴ For more information, please see the DfT’s [consultation](#) on a proposed levy design, which ran from 16 October 2025 to 8 January 2026. Any surplus funds may be returned to levy payers.



ultimately be passed on to airlines, who will need to mitigate ticket price increases to remain competitive. For its part, the government must also set the levy at a fair level to minimise the impact on the wider industry.

Market confidence

The consultation offers much-needed certainty and protection to investors and Producers, especially those pursuing innovative SAF pathways. While clear milestones and termination rights ensure funding is only committed to viable projects, investors should ensure that reporting and internal filing systems are effectively set up to track progress, and that financing obligations are clearly linked to successful completion of checkpoints.

Greenwashing risk

With growing scrutiny of misleading environmental claims made by airlines, all marketing efforts must ensure that statements regarding emissions savings are genuine and substantiated. In doing so, they can benefit from the strict metering and low-carbon requirements for RCM producers.

For more information on greenwashing risks for airlines, please read our article [here](#).

Strike price uncertainty

Although the consultation clarifies many aspects of the RCM, it leaves the strike price to be negotiated between parties. Producers may risk being locked into unsuitable prices for the full 15-year term, risking project viability. While the model provides for adjusting the strike price for inflation and emissions savings, future changes in production costs, sustainability criteria or market price may render any set price unsuitable. We await further guidance on whether the government will introduce "reopener" provisions allowing for renegotiation of the strike price, or whether these will need to be negotiated separately. In either case, Producers should be prepared for ongoing negotiation and risk management.

In any event, the purpose of this consultation is to offer the opportunity for those impacted to have their say on how the RCM should be regulated. If you have any thoughts or concerns about the concepts set out in this summary, you can provide feedback on the consultation until 3 April 2026 [here](#).

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