EXPLANATORY MEMORANDUM TO

THE CONTRACTS FOR DIFFERENCE (SUSTAINABLE INDUSTRY REWARDS AND CONTRACT BUDGET NOTICE AMENDEMENTS) REGULATIONS 2026

2026 No. XXXX

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department for Energy Security and Net Zero and is laid before Parliament by Command of His Majesty.

2. Declaration

2.1 Minister Shanks, Parliamentary Under-Secretary of State for Energy at the Department for Energy Security and Net Zero confirms that this Explanatory Memorandum meets the required standard.

2.2 Lucy Longstaff, Deputy Director for Renewables Delivery, at the Department for Energy Security and Net Zero confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Jonathan Couturier at the Department for Energy Security and Net Zero can be contacted by email at the following address with any queries regarding the instrument: renewablecibs@energysecurity.gov.uk

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The Clean Industry Bonus (CIB), formerly known as the "Sustainable Industry Rewards", was introduced into the Contracts for Difference (CfD) scheme, the UK's main renewable energy support scheme, in 2024. The CIB currently provides extra CfD revenue support to offshore wind developers who invest in supply chains in the UK's poorest communities, or in cleaner supply chains. Developers submit bids identifying which supplier they may invest in, and the scheme assesses the value for money of doing through a competitive allocation of funding. The scheme is being amended following public consultation, including extending the scheme to onshore wind by 2027, placing additional conditions on an offshore wind developer's approach to fair work before making subsidy available, and improving the processes of the existing policy (not least simplifying the application process, clarifying budgetary powers, force majeure provisions, and the scheme's sunset clause). Many of these reforms require regulatory amendments. The purpose of these amendments is to:

- Allow for the Secretary of State to determine which technologies will require a CIB round (enabling onshore wind to be included);
- Modify the scheme's sunset clause to extend to rounds established before 31 December 2028, to allow the Secretary of State more flexibility in scheduling CfD rounds in this time frame;
- Allow applicants to prepare grouped CIB applications (i.e. for multiple CfD units), rather than individual bids, reducing administrative requirements;

- Allows the Secretary of State to consider the contribution the applicant makes to implementing fair work practices, which will be considered as part of CIB entry requirements ('minimum standards') for offshore wind developers applying, and for the suppliers they wish to nominate in an application;
- Introduce powers for the Secretary of State to provide relief for force majeure events to developers who find themselves unable to deliver their investments through no fault of their own;
- Adjust timeframes relating to the scheme's delivery to improve the operation of the scheme and to allow the CfD to run shortly after the CIB allocation (compared to the longer time lag between CIB and CfD in 2025);
- Formalise powers related to budget mechanisms, including powers to create sub-budgets within the primary budget so that specific technologies can get dedicated funding where necessary in an otherwise common pot.

4.2 This explanatory note focuses on changes made to the regulations themselves. The majority of other non-regulatory reforms to the scheme are outlined in the recently published government response on gov.uk, with full details being contained within the allocation framework and guidance.

Where does the legislation extend to, and apply?

4.3 The territorial extent of amendments to the Contracts for Difference (Allocation) Regulations 2014 (the Allocation Regulations) (that is, the jurisdiction(s) which these provisions of the instrument form part of the law of) is England and Wales and Scotland.

4.4 The territorial extent of substantive amendments made by this instrument to the Electricity Market Reform (General) Regulations 2014 (the EMR Regulations) is England and Wales and Scotland.

4.5 The territorial extent of amendments to the Contracts for Difference (Standard Terms) Regulations (the Standard Terms Regulations) is England and Wales and Scotland and Northern Ireland – except the amendment to regulation 3 which just extends to England and Wales and Scotland.

4.6 The territorial application of this instrument (that is, where the instrument produces a practical effect) is Great Britain.

5. Policy Context

What is being done and why?

5.1 The Clean Industry Bonus was introduced in 2024 to work in conjunction with the Contracts for Difference to incentivise an offshore wind developer to invest in offshore wind supply chains in deprived parts of the UK, and in cleaner supply chains. Those who do so get extra CfD revenue support. The first round was run in 2025 and allocated significant funding to UK and cleaner supply chains. The next round will be run later this year.

5.2 The scheme is being amended to expand it to onshore wind [by 2027 though not for the 2026 round], to add conditions on fair work for applicants to access the subsidy, and to improve some of its processes for applicants.

What was the previous policy, how is this different?

5.3 Compared to the 2025 round, this SI allows government to compress timelines of the CIB and to launch the CfD auction as soon as the CIB process concludes. This will

make sure we can continue to deliver annual CfD rounds. This is done by adjusting the existing statutory timeframe of four months between the opening of the CIB window and the launch of the subsequent CfD round, instead granting the Secretary of State full discretionary powers to open the CfD allocation round as soon as reasonably practicable.

5.4 This SI allows the Secretary of State greater flexibility on when a CIB auction round can be called. This is done by removing the statutory lead in time of three months between the Government notifying stakeholders (including publishing a provision budget notice) and a CIB round opening.

5.5 This SI allows for minor alterations and adjustments to be made to the Allocation Framework (the CIB rule book) closer to the CIB round opening. The previous statutory time period of 30 working days between publishing the Allocation Framework and opening the CIB round is being reduced to 10 working days. This gives more flexibility to amend minor errors should any arise.

5.6 The SI extends the time available to government to set a final budget following receipt of CIB bids, so as to allow the dispute resolution process (if called upon by any developer) to conclude prior to the final budget being agreed to. Previously, if a developer had initiated the disputes process there was a possibility that the final budget would need to be published before that dispute has been resolved. To make sure this cannot happen, the SI increases the statutory length of time between the CIB application window opening and the Secretary of State issuing a revised final budget from 3 weeks to 35 working days.

5.7 This SI also amends the timeframe in the regulations where the Contract Budget Revision Notice is published ahead of CfD results. This has been changed so that the Contract Budget Revision Notice is published alongside the CfD results, removing a needless delay between announcements.

5.8 The SI allows for other technologies to be included by removing language in the regulations which referred to offshore wind specifically and permits the Allocation Framework (i.e. CIB rules) to provide which technologies may be permitted or required to apply for a CIB statement. This will allow the introduction of onshore wind into the scheme in Allocation Round 9 (i.e. in 2027). Onshore wind, when added to the scheme, will face easier requirements than offshore wind given the smaller market size, smaller projects, and less mature supply chains. Further policy details and rationale are laid out in the recently published government response. https://www.gov.uk/government/consultations/contracts-for-difference-reforms-to-the-clean-industry-bonus-allocation-round-8

5.9 The SI changes how the budget is expressed from £millions/Gigawatt to a total in £millions. This is simpler to understand and aligns with other Government communications on CfD budgets (given the CIB is funded from the CfD).

5.10 The regulations previously said that the CIB applies to the seventh, eighth and ninth CfD allocation round. However, this may not be flexible enough to accommodate different CfD round structures the Secretary of State may wish to set (e.g. 'splitting' CfD rounds for different technology 'pots'). To future-proof the policy, the regulation has been amended so that the scheme's sunset clause to extend to any round established by 31 December 2028. This also allows the policy to be reviewed after a few rounds, to determine whether it is still necessary in the wider macro-economic environment.

5.11 In Allocation Round 7, the Secretary of State set a 'sub-budget' for floating offshore wind (FLOW), with details on how this works set out in the Allocation Framework. This enabled FLOW projects to access CIB support without competing with fixed-bottom projects, which is an established technology and therefore cheaper. This was designed to safeguard some investment in a newer technology with higher costs in its exploratory phase and to support investment in the supply chain, including testing and maturing products. This SI enshrines the powers for the Secretary of State to set these sub-budgets into the regulations (i.e. formalises the power). It also introduces additional budgetary powers such as the power to set a minima (minimum spend) or a maxima (maximum spend). These are to ensure Government is able to set appropriate ring-fencing and maximum limits on spending for each technology, in line with the needs of a particular technology in a given round. In other words, each technology can now be subject to a cap and floor if necessary depending on its costs and needs.

5.12 Previously the power for the Secretary of State to deal with force majeure issues (e.g. a developer unable to deliver their investment) was in guidance. This is now being brought into regulation for greater clarity, with a further clarification that allows the Secretary of State to "deem" a commitment has been met – even in the absence of an investment – if the developer can demonstrate that they tried everything in their power to deliver it, but could not do so due to circumstances out of their control.

5.13 A "CfD unit" is the administrative entity that a developer defines in their bids for a CfD. In the case of larger projects, it is not unusual for developers to divide big single projects into smaller CfD units. Previously, each CIB application must correspond to exactly one "CfD unit", which resulted in multiple duplicate CIB applications corresponding to units of a same project. This SI has amended the regulations such that one application may be submitted for more than one CfD unit. This will result in a lighter administrative burden on industry and government. The details for how this will be implemented will be published in the Allocation Framework.

5.14 This SI will introduce commitment to fair work practices as a requirement to participate in the CIB. This will be considered part of the "minimum standards", required by developers at the point of application. The standards on fair work practices that must be met in Allocation Round 8 will be laid out in an Offshore Wind Fair Work Charter agreed between the offshore wind industry and trade unions. An applicant must in effect, commit to adhering to this charter to be eligible for subsidy. The Fair Work Charter has been published alongside the government response, with an updated version - setting out how the Charter will be governed - to follow in due course.

5.15 As there are now requirements in the "minimum standards" which are both financial (the evidence of investments) and not financial (the commitment to fair work practices) the regulations introduce the concept of "financial minimum standards" as a way to delineate between each type of minimum standard. The regulations also state that the Secretary of State cannot issue an implementation statement – that is to deem the agreed investments to be fully or partially met – unless the financial minimum standards are fully met.

6. Legislative and Legal Context

How has the law changed?

6.1 The Regulations will amend three sets of CfD regulations made under the Energy Act 2013, to implement amendments to the existing CIB policy as detailed below.

6.2 This SI amends the Allocation Regulations to:

- Remove the statutory lead-in times the Secretary of State must abide before opening a CIB application window;
- Reduce the time period upon which the Secretary of State may vary the application window for the CIB allocation round;
- Extend the scheme's sunset clause to any round established before 31 December 2028;

6.2.1 Require the Secretary of State to consider the extent to which an applicant is likely to implement fair work practices when considering applications, amongst other requirements;

- Introduce powers for the Secretary of State to set sub-budgets, set minima and maxima spend applicable to sub-budgets, and establish separate budget 'pots', through the Allocation Framework;

6.2.2 Provide that additional technologies may be required or permitted to apply for a CIB statement, as set out in the Allocation Framework;

- Requires the delivery body (NESO) to inform the relevant applicant and the Secretary of State of the CfD unit to which the CfD notification relates, where the relevant applicant submits a grouped bid. It must also inform the Secretary of State when it gives the final CfD notification for an allocation round; and
- Where the applicant has submitted a grouped bid comprising of multiple CfD units, and has been successful in two or more of those CfD units, the regulations will require the applicant to provide a list of each successful CfD unit. The Secretary of State will then provide an updated CIB statement to reflect the successful CfD units.

6.3 This SI also amends the the EMR Regulations to:

- Introduce the concept of 'financial minimum standards', which are minimum standards of financial contribution as outlined in the Allocation Framework;
- Provide that the Secretary of State cannot issue an implementation statement (i.e. release payments) unless financial minimum standards have been met; and

6.4 Permit the Secretary of State to deem that financial minimum standards have been fulfilled where they have not been met due to unforeseen circumstances outside the applicant's reasonable control, following the applicant having taken all reasonable steps to fulfil those obligations.

6.5 These Regulations also make minor technical amendments to the Standard Terms Regulations. Where the applicant has submitted a grouped bid and received an updated CIB statement outlining their obligations for successful CfD units, the regulations now require a CfD contract to be drafted in line with this updated statement. The amendments also require the counterparty to make an offer of a CfD contract. This offer must be made within 10 working days of the later of the date the counterparty receives a CfD notification and the date the Secretary of State gives notice of an updated CIB statement.

Why was this approach taken to change the law?

6.6 This SI takes the approach of amending existing CfD regulations, as opposed to creating a free-standing instrument, as CIBs form part of the existing CfD allocation process. This is considered the most appropriate way to achieve the desired policy outcome of making amendments to the existing CIB policy, as well the most time and resource efficient approach. Where appropriate, the Allocation Framework, which sets

out the rules for CIB allocation, will be used to add detail to the CIB process for the particular round it applies to.

7. Consultation

Summary of consultation outcome and methodology

7.1 The policies reflected in this instrument were subject to a 6-week consultation, from 23 August 2025 to 6 October 2025. Several stakeholder events were held before and during the consultation period to discuss the policy proposals with generators, trade and public bodies and supply chain companies.

7.2 The consultation outlined the policy proposals and desired outcomes, and sought views from industry in response questions focused on improving and expanding the CIB policy. The consultation received responses from 48 stakeholders, including floating offshore and offshore wind developers, onshore wind developers, trade and public bodies, trade unions and supply chain companies.

7.3 Responses were broadly supportive of the aims and purpose of the proposals, though industry were reserved about some proposals, such as the approach to the introduction of a Fair Work Charter, the pace at which onshore wind should be introduced and the best method for mandating skills investments. The government engaged with industry on concerns and took these into account when finalising final policy design.

7.4 In terms of devolved administrations, the Scottish and Welsh governments were formally consulted, and are content with the purpose of the policy. The CfD does not apply in Northern Ireland (though companies in Northern Ireland can still benefit from Clean Industry Bonus investments).

7.5 At the time this memorandum was finalised, a government response has been published be published on gov.uk.

8. Applicable Guidance

8.1 The CIB Allocation Framework sets out the process, eligibility and rules of the schemes allocation methodology. The guidance sets out how the scheme is monitored and covers performance related adjustments. The Allocation Framework and guidance will be published following new regulations being made and ahead of the scheme opening to applications.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment is due to be published alongside the Explanatory Memorandum on the legislation.gov.uk website.

Impact on businesses, charities and voluntary bodies

9.2 The impact on businesses is likely to be beneficial. The proposal seeks to expand access of the CIB to allow further businesses to benefit from the scheme; allow the scheme to run more efficiently for the benefit of all participants; and increase the benefits to those working in the industry through additional fair work commitments. The administrative burden for developers is expected to be small and comparable to BAU procurement processes. While developers will need to submit supply chain documentation, this information aligns with standard procurement activities (e.g.,

financing needs, technical specifications).The administrative burden entailed is comparable to AR7.

9.3 The legislation does not significantly impact small or micro businesses, although different technologies have different size of businesses.

9.4 There is no, or no significant, impact on the public sector because the CIB is only open to companies involved in the renewable electricity industry.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation will entail a review of the effectiveness of legislative changes after every CIB round. This will include reviewing CIB round results to determine if our objective of supporting shorter and more sustainable supply chains has been achieved. The application of the CIB to a CfD round must be determined ahead of each round; and beyond 31 December 2028 (the proposed sunset clause), the application of a CIB round to further CfD rounds would require additional amendments to regulations, subject to parliamentary review.

10.2 The instrument does not include a statutory review clause and, the requirement under section 28(2) of the Small Business, Enterprise and Employment Act 2015 to make provision for review does not apply to this instrument as it falls within an exception in section 28(3) of that Act.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 Minister Shanks has made the following statement regarding Human Rights:
"In my view the provisions of The Contracts for Difference (Sustainable Industry Rewards and Contract Budget Notice Amendments) Regulations are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").