EXPLANATORY MEMORANDUM TO

THE ENERGY PRICES ACT 2022 (EXTENSION OF TIME LIMIT) 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.

1.2 This memorandum contains information for the Secondary Legislation Scrutiny Committee.

2. Declaration

2.1 Martin McCluskey MP, Minister for Energy Consumers at the Department for Energy Security and Net Zero, confirms that this Explanatory Memorandum meets the required standard.

2.2 Ben Pledger, Deputy Director for Energy Bills Delivery at the Department for Energy Security and Net Zero, confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Jack Jenner at the Department for Energy Security and Net Zero, email: LowerBillsTeam@energysecurity.gov.uk, can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument extends a time limit on the exercise of powers in the Energy Prices Act 2022 (EPA)[1]. The powers allow support to be provided for meeting the costs of energy.

4.2 The government is relying on powers in section 13 of the EPA to fund 75% of the cost of the Renewables Obligation (RO) attributable to domestic energy supply from April 2026 in Great Britain. This RO to Exchequer policy was announced [2] in the Autumn Budget 2025. Together with discontinuing the Energy Company Obligation (ECO) scheme, the policy results in an average £150 reduction in the costs on domestic energy bills from April 2026. This instrument extends the time limit on the Secretary of State's power from 25 April 2026 to 25 October 2026, to enable the policy to continue to operate in this period.

[1] https://www.legislation.gov.uk/ukpga/2022/44

[2] https://assets.publishing.service.gov.uk/media/6929b367b3b9afff34e9621c/Final_print_HMT_Budget_2025_TEXT_PRINT_NEW.pdf (paragraph 2.4, page 28)

Where does the legislation extend to, and apply?

4.3 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is England and Wales, Scotland and Northern Ireland.

4.4 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England, Wales, Scotland and Northern Ireland.

5. Policy Context

What is being done and why?

5.1 The RO provides support to renewable electricity generation. It closed to new generators in 2017. Support for some existing generators continues until 2037.

5.2 Under the RO in Great Britain, Ofgem provide relevant renewable electricity generators with Renewables Obligation Certificates (ROCs) in proportion to the amount of electricity they generate from renewable sources. All electricity suppliers are obliged to present a certain number of ROCs back to Ofgem. To meet this obligation, suppliers can either enter into agreements with renewables generators to purchase ROCs at a negotiated price, or they can pay Ofgem directly in lieu of buying ROCs. If choosing the second option, suppliers pay a 'buy-out price' set by Ofgem. This process will not be altered by the RO to Exchequer policy.

5.3 Before the RO to Exchequer policy, suppliers ultimately passed on the costs of meeting their obligations under the RO to consumers via energy bills. Ofgem included these costs when setting the price cap for standard variable tariffs for domestic energy consumers.

5.4 Under the policy, government provides grant funding to electricity suppliers to cover 75% of the cost of their RO obligations attributable to domestic energy supply between 2026 and 2029. The grant funding is provided under section 13 EPA. Ofgem are taking this funding into account when setting the price cap for standard variable tariffs, and a direction requires suppliers to pass savings on to consumers on other tariffs. The intent of the RO to Exchequer policy, together with discontinuing the Energy Company Obligation (ECO) scheme, is to reduce the costs on domestic energy bills by an average of £150 from April 2026, to address continuing elevated energy costs since 2022.

5.5 The section 13 EPA power is currently necessary to deliver the RO to Exchequer policy. This Instrument will extend the time limit on the exercise of the section 13 EPA power by six months. Further such instruments will be required until new or amended primary powers which can be relied upon to deliver the RO to Exchequer policy come into force. The department intends to introduce such primary powers when parliamentary time allows.

5.6 The government is working with the Northern Ireland Executive as they consider developing a comparable offer to the RO to Exchequer policy.

What was the previous policy, how is this different?

5.7 Without this instrument, the government's powers in section 13 of the EPA would have ceased to be exercisable from 25 April 2026. This would not have prevented the government from establishing the RO to Exchequer policy, but would have prevented any payments after 25 April.

5.8 The new policy is different in that the Secretary of State's power will be exercisable until 25 October 2026.

6. Legislative and Legal Context

How has the law changed?

6.1 Schedule 6 to the EPA sets out time periods in which certain powers under that Act are exercisable. Specifically, paragraphs 7(1) and 7(2) of Schedule 6 to the EPA provide that, unless extended, the Secretary of State's powers under section 13 of that Act cease to be exercisable at the end of the period of three years and six months beginning with the day that the Act was passed. This period ends on 25 April 2026.

6.2 Paragraphs 9(1) and 9(2) of Schedule 6 provide that the time periods specified in Schedule 6 may by regulations be extended by up to six months at a time. This instrument extends the time limit on the Secretary of State's section 13 power by six months, so that it ends on 25 October 2026.

Why was this approach taken to change the law?

6.3 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 No consultation was undertaken for this Instrument as it extends a deadline for the government to take action, so does not change policy affecting external stakeholders.

7.2 We are engaging with Ofgem, devolved governments, energy suppliers, and energy consumer representatives on a regular basis regarding the wider RO to Exchequer policy.

8. Applicable Guidance

8.1 This instrument does not require guidance as it extends a deadline for the government to take action, so does not affect external stakeholders. Guidance on the wider RO to Exchequer policy will be published on Gov.uk ahead of 1 April.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because this SI alters time limits on the exercise of powers in the Energy Prices Act 2022

9.2 If the policy achieves its objectives, the transfer of funding from the exchequer to bill payers will result in an equivalent cost and benefit respectively of £6.7bn (nominal) over a three-year period. This would result in a net £0 benefit in an NPV calculation.

9.3 The RO to Exchequer policy is expected to reduce costs on household electricity bills from April 2026 by £87 on average or £66 for the typical dual fuel household. The reduction in consumer bills has been determined to have a significant benefit to those on low incomes and the fuel poor, by addressing persistently high energy prices at a time of wider cost of living pressures. This distributional benefit will be partially offset by other scheme costs, primarily administrative and business costs, whilst there could also be an increase in greenhouse gas emissions through the rebound effect on energy consumption.

9.4 Whilst these impacts haven't been quantified, the final NPV would depend on the valuation of the distributional benefit from supporting those on low incomes. A full

Impact Assessment for the RO to Exchequer policy will be developed ahead of introducing new or amended primary powers for the policy and may have further quantification of the impacts.

Impact on businesses, charities and voluntary bodies

9.5 There is no significant impact on business, charities or voluntary bodies because this SI only impacts grant payments to domestic electricity suppliers. Additional processes for domestic energy suppliers may lead to additional costs such as familiarisation and reporting.

9.6 The legislation does impact small or micro businesses; it will allow government to provide grant funding to electricity suppliers to cover 75% of the cost of their RO obligations attributable to domestic energy supply.

9.7 The impact on the public sector from the RO to Exchequer policy are to DESNZ and Ofgem. In addition to the financial cost of the scheme, it is expected there will be costs to DESNZ from enforcing compliance and administering the scheme. It is expected there will be additional burdens on Ofgem from supplying data and supporting the scheme but these are expected to be relatively small.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 This is a six-month extension of a statutory time limit that applies to government. The department will consider whether a further extension is required ahead of the extended time limit in October 2026.

10.2 The instrument does not include a statutory review clause. 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 does not make regulatory provision.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 The instrument extends the time period in which a power in the Energy Prices Act 2022 can be exercised, specifically the section 13 power in the EPA. This extension is necessary to deliver the RO to Exchequer policy from April 2026. However, we intend to introduce new or amended primary powers when parliamentary time allows, which will replace the section 13 EPA powers to underpin the delivery of the RO to Exchequer policy.

12. European Convention on Human Rights

12.1 The Minister for Energy Consumers at the Department for Energy Security and Net Zero has made the following statement regarding Human Rights:

"In my view the provisions of the Energy Prices Act 2022 (Extension of tine Limit) Regulations 2026 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").