EXPLANATORY MEMORANDUM TO

THE RENEWABLES OBLIGATION (AMENDMENT) ORDER 2026

2026 No. [XXXX]

1. Introduction

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

2. Declaration

2.1 Michael Shanks, Minister 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 Fergus Bailey at the Department for Energy Security and RO@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 The Renewables Obligation (RO) scheme was introduced in 2002 to encourage generation of electricity from eligible renewable sources in the UK. Electricity generators who joined the scheme receive financial support for 20 or 25 years, depending on when they were accredited. The scheme closed to new generation capacity in 2017 and the scheme will close entirely in 2037.

4.2 The RO operates through a market-based mechanism of tradable green certificates. An obligation is placed annually on UK electricity suppliers to present a specified number of certificates to the scheme administrator, Ofgem, in respect of each megawatt hour of electricity supplied each year. Alternatively, suppliers can make a cash "buy-out" payment to the scheme administrator in lieu of each certificate. Those who are late complying with their obligation make a cash payment into a late payment fund.

4.3 Generators receive certificates free of charge from the scheme administrator in relation to their renewable electricity generation, and they sell them to suppliers or traders. That gives generators additional revenue in addition to the wholesale price of their electricity. After the scheme administrator's administration costs have been deducted, the money from the buy-out and late payment funds is recycled on a pro-rata basis to suppliers who presented certificates. That gives certificates additional value. Many suppliers pass most of the redistributed payments onto the generators that they originally bought certificates from.

4.4 The price of a certificate is not fixed and is a matter for negotiation between the generator and supplier/trader. However, the notional value of a certificate is considered to be the buy-out price, plus the redistributed buy-out and late payment

funds. That represents the maximum value that the generator could have received but they are likely to have actually received less. The cost of the RO to suppliers is passed on to consumers through their electricity bills.

This instrument amends the index by which the buy-out price is adjusted for inflation annually. Previously, the buy-out price has been indexed to the Retail Prices Index (RPI). Following a consultation, the government has taken the decision to change the index used to adjust the buy-out price to the Consumer Price Index (CPI). This switch will be applied to future buy-out price adjustments until the scheme closes in 2037.

Where does the legislation extend to, and apply?

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

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

5. Policy Context

What is being done and why?

5.1 The UK Government has committed to find efficiencies within the energy system in order to improve affordability for consumers whilst ensuring that RO generators continue to receive an appropriate return on their investments.

5.2 Suppliers recover the costs of the RO scheme through consumers' electricity bills. In 2024, the RO accounted for approximately £84 on the average dual-fuel household bill. The buy-out price, set annually by Ofgem, determines the cost to suppliers of meeting their obligation.

5.3 The buy-out price has been indexed to RPI since the RO scheme was first established in 2002. At the time, RPI was widely used across government contracts and financial instruments and was considered the primary measure of general inflation. In recent years, the RPI has been downgraded as the leading measure of inflation and is due to be phased out in 2030. This is because RPI is considered an inaccurate metric for measuring inflation as it tends to overstate inflation compared to more robust indices. This overstatement has contributed to disproportionately high energy bills for consumers, as RO-related costs have been inflated beyond actual market pressures.

5.4 From 2030, the Office for National Statistics will replace RPI with the Consumer Prices Index including owner occupiers' housing costs (CPIH) for inflation indexation. While both RPI and CPIH include housing-related costs such as mortgage interest and private rents, these components are not relevant to the RO scheme, which is designed to support renewable electricity generation. In contrast, CPI excludes these housing costs, making it a more appropriate and accurate measure of the cost pressures faced by scheme participants.

5.5 This statutory instrument introduces changes to how the buy-out price is adjusted for inflation. It replaces RPI with CPI as the index used for annual adjustments. Switching to CPI will slow the rate of increase in the buy-out price, reducing costs for suppliers and, consequently, lowering the amount passed on to consumers through energy bills.

What was the previous policy, how is this different?

5.6 Under the previous policy, Ofgem calculated the annual buy-out price for the RO by adjusting the previous year's buy-out price using the RPI inflation rate, as published

by the Office for National Statistics (ONS). This updated figure was published by Ofgem by 1 April each year.

5.7 This instrument changes Ofgem's calculation so that the annual adjustment is based on CPI instead of RPI. Ahead of the publication in April 2026, Ofgem will adjust the 2025 buy-out price, according to the CPI rate published by the ONS at the time of adjustment.

6. Legislative and Legal Context

How has the law changed?

6.1 The RO scheme in England and Wales is established through the RO Order 2015.

6.2 Section 32G(2)(e) of the Electricity Act 1989 provides for the Secretary of State to adjust the buy-out price from time to time for inflation by a method specified. Article 67(4) of the 2015 Order previously set out that the buy-out price should be adjusted for inflation each year by increasing or decreasing the price from the previous year according to the change in the RPI.

6.3 This instrument provides that, for the 2026/27 obligation period and for all subsequent periods, the buy-out price will be calculated instead by increasing or decreasing the previous year's buy-out price according to the change in the CPI.

6.4 Article 73(5) of the 2015 Order provides for the 'mutualisation cap' to be adjusted using the same method that article 67(4) sets out for the buy-out price (increasing or decreasing the previous year's cap in line with RPI). This instrument implements an equivalent change as set out above for the buy-out price for the mutualisation cap (a shift to CPI as the measure of indexation from 2026/27 onwards).

6.5 The changes preserve the methodology used in previous years and initiates a new methodology from 2026/27 onwards. This means that the 2015 Order reflects the various ways in which the buy-out price and the mutualisation cap have been indexed to inflation since the opening of the RO scheme.

Why was this approach taken to change the law?

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

7. Consultation

Summary of consultation outcome and methodology

7.1 A joint public consultation between the UK Government, Scottish Government and Northern Ireland Executive on changes to the inflation indexation of the RO was published on 31 October 2025 and closed on 2 December 2025. The consultation period was initially 28 days, and then extended to 32 days, following stakeholder feedback. The length of the consultation period was to ensure those affected had sufficient time to respond while enabling this instrument to come into force ahead of FY2026/27. The Secretary of State has reviewed all relevant consultation responses and taken a decision based on the evidence available to them.

7.2 Before making the Order, the Secretary of State carried out a public consultation. The consultation document was available on Renewables Obligation (RO) scheme: indexation changes - GOV.UK[1]

[1] https://www.gov.uk/government/consultations/renewables-obligation-ro-scheme-indexation-changes

7.3 This consultation outlined proposals to change the price index used to annually adjust the RO buy-out price for inflation from RPI to the CPI. It presented two options for this switch:

Option 1: Immediate Switch to CPI Indexation

Option 2: Temporary Freeze and Gradual Realignment with CPI

7.4 In total, 257 responses were received from electricity suppliers, generators, energy industry trade associations, and the scheme administrator Ofgem. Most respondents did not support either option to switch RPI to CPI and indicated a preference for the indexation of the scheme to not be changed. Reasons cited included investor confidence concerns, minimal consumer benefit and a preference for stability and predictability.

7.5 The majority of respondents said that if they had to choose an option, they would prefer Option 1. This was because the option was less extractive than Option 2 and would have less impact on future cost of capital. Additionally a large number of respondents argued that freezing the buy-out price would constitute a retrospective change to government commitments, which would impact investor confidence in the UK renewables industry. On the other hand, consumer groups mostly indicated a preference for Option 2 because it would generate greater savings for UK consumers.

7.6 After careful consideration, the Department decided to proceed with the proposal to immediately switch indexation from RPI to CPI (Option 1). The Department considers that this option best balances consumer savings and impacts on renewables investment in the UK, which is essential to protect consumers against volatile fossil fuel prices. This change has the effect of producing savings to consumers whilst providing generators with a stable and predictable return.

8. Applicable Guidance

8.1 Ofgem will amend their existing guidance on the buy-out price to reflect the changes made by this instrument. This guidance will be made available once this instrument comes into force.

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 the RO scheme has been classified as a notional or imputed tax by the Office for National Statistics and is not a regulatory provision.

Impact on businesses, charities and voluntary bodies

9.2 The legislation impacts renewable electricity generators as their revenue will be curtailed by these changes.

9.3 The legislation impacts small or micro businesses.

9.4 Renewable generators will have their expected RO revenue curtailed by the measures in this instrument. For instance, in FY26/27 the forecast annual impact to RO revenue will be around 1%, increasing to around 5% in FY30/31. Overall, the Department does not expect that there will be a disproportionate effect on small generators. Hydro power, anaerobic digestion, solar PV, and wind generating stations at or below 50kw are not eligible for support under the RO.

9.5 There is no, or no significant, impact on the public sector because this instrument primarily impacts renewable energy generators and suppliers, as well as consumers.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The instrument does not include a statutory review clause. The Department considers that the exception in section 28(3)(a) of the Small Business, Enterprise and Employment Act 2015 applies to this instrument. This is because article 7 of the RO Order imposes a requirement on electricity suppliers to fund the costs of supporting renewable electricity generated under the RO. The cost this imposes on suppliers is passed on to domestic and business electricity users through their electricity bills. Bill payers do not have a choice as to whether they make this payment. On this basis, the RO has been classified as a notional or imputed tax by the Office for National Statistics. As a result, it is subject to the Control for Low Carbon Levies.

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 The Minister for Energy has made the following statement regarding Human Rights: "In my view the provisions of the Renewables Obligation (Amendment) Order 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").