EXPLANATORY MEMORANDUM TO

THE ELECTRICITY SUPPLIER PAYMENTS (AMENDMENT) REGULATIONS 2026

2026 No. 359

1. Introduction

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

2. Declaration

2.1 Michael Shanks, the Minister for Energy at DESNZ confirms that this Explanatory Memorandum meets the required standard.

2.2 Lucy Longstaff, Deputy Director for Renewable Electricity Delivery, at DESNZ confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Ben Springhall at DESNZ can be contacted by email at the following address with any queries regarding the instrument: ben.springhall@energysecurity.gov.uk. Alternatively, he can be contacted by telephone: 0792 0710 417.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 These Regulations amend (a) the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 (S.I. 2014/2014, the "ESO Regulations"), (b) the Electricity Capacity (Supplier Payment etc.) Regulations 2014 (S.I. 2014/3354, the "Supplier Payment Regulations") and (c) the Nuclear Regulated Asset Base Model (Revenue Collection) Regulations 2023 (S.I. 2023/254, the "Revenue Collection Regulations").

4.2 The ESO Regulations impose an obligation on electricity suppliers to pay an "operational cost levy" that funds the operational costs of the Contract for Difference ("CfD") Counterparty. The Supplier Payment Regulations impose an obligation on electricity suppliers to pay a "settlement costs levy" that funds the operational costs of the Settlement Body, which is responsible for financial transactions relating to the Capacity Market. The Revenue Collection Regulations impose an obligation on electricity suppliers to pay an "operational cost levy" that funds the operational costs of the Revenue Collection Counterparty for the Nuclear Regulated Asset Base ("RAB") Model (in accordance with the Nuclear Energy (Financing) Act 2022).

4.3 This instrument makes the following changes:

- regulation 2 sets new rates for the operational costs levy for the CfD Counterparty for the next three financial years in the ESO Regulations;
- regulation 3 sets new settlement cost levy rates for the Capacity Market Settlement Body for the next three financial years in the Supplier Payment Regulations;

- regulation 4 sets new rates for the operational costs levy for the RAB Revenue Collection Counterparty for the next three financial years in the Revenue Collection Regulations; and
- in all three cases, the levy set for the third financial year remains in place until amended.

Where does the legislation extend to, and apply?

4.4 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, except regulations 3 and 4 which extend to England and Wales and Scotland only.

4.5 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England and Wales, Scotland and Northern Ireland, except for regulations 3 and 4 which apply to England and Wales and Scotland only. The CfD scheme does not currently operate in Northern Ireland, so electricity suppliers in Northern Ireland are not subject to make payments to the CfD Counterparty.

5. Policy Context

What is being done and why?

Operational costs levy for the CfD Counterparty

5.1 The CfD Counterparty enters into and manages CfDs with low carbon electricity generators. This includes managing the CfD portfolio to ensure pre-generation contractual milestones are met and compliance and reporting obligations are fulfilled. The CfD Counterparty also sets and collects the levy on electricity suppliers to pay for the cost of low-carbon generation under the CfD scheme. In addition, it contributes to CfD development and manages delivery of revisions to the CfD settlement system to reflect policy changes, to ensure continued correct processing of transactions.

5.2 The CfD Counterparty recovers its operational costs by a separate levy on electricity suppliers, which is set out in the ESO Regulations. These regulations amend regulation 23 of the ESO Regulations to revise the operational cost levy that liable electricity suppliers must pay.

5.3 The operational costs levy rate is calculated by dividing the CfD Counterparty's proposed annual budget by the total forecast electricity demand for the corresponding financial year. If demand is lower than forecast, the CfD Counterparty will not be able to raise enough income from the levy to meet their budgeted costs. Therefore, a robust forecast of electricity demand is needed for each financial year in order to set the CfD Counterparty's levy rate accurately.

5.4 Prior to 2017 there had been an annual process to consult on and amend the operational cost levy for the next financial year set out in the ESO Regulations. To offer stakeholders greater visibility of the estimated operational costs and to reduce the administrative burden on the CfD Counterparty and Parliament, in 2017 the then Department for Business, Energy and Industrial Strategy (BEIS) consulted on the operational budgets and resultant levy rates for the financial years 2018/19, 2019/20 and 2020/21 and corresponding levy rates for these years were set in regulations approved by Parliament in 2018.

5.5 The COVID-19 pandemic prevented BEIS from consulting on amending the operational cost levy for financial years 2021/22, 2022/23 and 2023/24 as originally intended. Instead, a consultation was conducted considering 2021/22 only. BEIS

reverted to a three-year pattern in 2021 when the Department consulted on amending the operational cost levy rates for financial years 2022/23, 2023/24 and 2024/25.

5.6 Uncertainty regarding the timing of the 2024 general election prevented DESNZ from consulting on amending the operational cost levy in that year. Consequently, the levy rate applicable for 2024/25 rolled over into 2025/26.

5.7 In 2025 DESNZ has consulted on and seeks to amend the operational cost levy for the financial years 2026/27, 2027/28 and 2028/29, due to the benefits to stakeholders, the CfD Counterparty and Parliament set out at paragraph 5.4.

5.8 The levy set for 2028/29 would continue to apply until amended. DESNZ intends to consult in advance of any subsequent operational cost period and to adjust the levy rate to ensure that it is set to recover the CfD Counterparty's expected operational costs.

5.9 The CfD Counterparty's operational costs budget reflects the costs of its expected activity during the relevant financial year. The current operational budget for 2025/26 is £29.051m. The proposed budget in 2026/27 is £38.274m, representing an increase of £9.233m, £44.941m in 2027/28, representing a £6.667m increase and for 2028/29 £49.659m, representing a £4.718m increase on the previous year's budget. These budgets increases are due to a number of factors, including a significant increase in the number of CfDs being managed by the Counterparty over the budget period, the impact of the levy rate being held flat between 2024/25 and 2025/26, work relating to DESNZ proposals to potentially support new activities (such as landfill gas generation), and other costs beyond the CfD Counterparty's control, such as inflation.

5.10 In the event that the total amount of levy collected exceeds the CfD Counterparty's actual operational costs, the surplus at year-end will be reimbursed to electricity suppliers.

Settlement costs levy for the Settlement Body

5.11 The Capacity Market aims to incentivise sufficient capacity to ensure security of electricity supply at minimum cost to consumers. Capacity payments made to capacity providers under capacity agreements are funded by electricity suppliers, with payments flowing via the Settlement Body. The Settlement Body is responsible for all financial transactions relating to the Capacity Market, including making capacity payments to capacity providers and managing credit cover for both suppliers and capacity providers. It also contributes to Capacity Market development and manages delivery of revisions to the Capacity Market settlement system to reflect policy and Capacity Market Rules changes, to ensure continued correct processing of transactions.

5.12 The Settlement Body recovers its operational costs by a separate levy on electricity suppliers, which is set out in the Supplier Payment Regulations. This draft instrument amends regulation 9(2) of the Supplier Payment Regulations to revise the total amount of the settlement costs levy that liable electricity suppliers must pay to fund the operational costs budget of the Settlement Body. The amount that suppliers are charged is proportionate to their share of total electricity supplied during the winter 'period of high demand'[1].

[1] For any financial year, the amount suppliers are initially charged is proportionate to their share of total electricity supplied during the previous winter's 'period of high demand' (4pm to 7pm on working days between November and February inclusive). Suppliers' share of the levy are then revised after 16 March to reflect actual supply data relating to the 'period of high demand' for that financial year.

5.13 The Settlement Body's operational costs budget reflects expected activity during the relevant financial year. The current operational budget of the Settlement Body for 2025/26 is £7.734m. The proposed budget in 2026/27 is £9.112m, representing an increase of £1.378m, £10.346m in 2027/28, representing a £1.235m increase and £11.474m in 2028/29, representing a £1.128m increase on the previous year's budget.

5.14 The increase in the Settlement Body's operational cost budget reflects the expected significant growth in the number of meters being managed in the Capacity Market over the budget period. The exact number and nature of capacity providers expected will depend on the development of policy by DESNZ but the Settlement Body expects growth to over 1.2m Capacity Market meters over the budget period, a 450% increase on current meter numbers. In addition, over the same period, change in the design of the Capacity Market is anticipated to adapt to a Net-Zero power sector, which will drive greater change of the Settlement Body.

5.15 The period for which the settlement costs levy can be set is interdependent with the period for which the operational costs levies can be set for the CfD Counterparty and Revenue Collection Counterparty for the Nuclear RAB model because these bodies share resources (e.g. staff) and facilities (e.g. office space and IT systems) and costs are allocated between these bodies accordingly. As DESNZ believes it is prudent to set the operational levies for 2026/27, 2027/28 and 2028/29, the settlement costs levy will also have to be set for the same period.

5.16 In the event that the total amount of levy collected exceeds the Settlement Body's actual operational costs, the surplus at year-end will be reimbursed to electricity suppliers.

Operational costs levy for the Revenue Collection Counterparty for the Nuclear RAB model

5.17 In accordance with the Nuclear Energy (Financing) Act 2022 and the Revenue Collection Regulations (which were closely modelled on the CfD legislation, including the ESO Regulations), the Revenue Collection Counterparty enters into a revenue collection contract with a 'relevant licensee nuclear company'. The Revenue Collection Counterparty's main role is to collect the levy on electricity suppliers to make payments under the revenue collection contracts. In addition, it manages delivery of revisions to the settlement systems used to collect these monies to reflect policy changes, and to ensure continued correct processing of transactions.

5.18 The Revenue Collection Counterparty recovers its operational costs by a separate levy on electricity suppliers, which is set out in the Revenue Collection Regulations. These regulations amend regulation 23 of the Revenue Collection Regulations to revise the operational cost levy that liable electricity suppliers must pay.

5.19 The Revenue Collection Counterparty operates in a similar fashion to the CfD Counterparty. The operational costs levy rate is calculated by dividing the Revenue Collection Counterparty's proposed annual budget by the total forecast electricity demand for the corresponding financial year. If demand is lower than forecast, the Revenue Collection Counterparty will not be able to raise enough income from the levy to meet their budgeted costs. Therefore, a robust forecast of electricity demand is needed for each financial year in order to set the levy rate accurately.

5.20 The operational cost levy rate was last set in 2023 for the financial years 2022/23, 2023/24 and 2024/25. However, this levy was not collected until 4 November 2025, as the Revenue Collection Counterparty had not entered into its first revenue collection contract with a licensed nuclear company until that date.

5.21 Given the similarities between the roles of the Revenue Collection Counterparty and the CfD Counterparty in administering levies on electricity suppliers (under the Revenue Collection Regulations and ESO Regulations) the intention was to consult jointly in 2024 to amend the levy rate for the 2025/26, 2026/27 and 2027/28 financial years. However, uncertainty regarding the timing of the 2024 general election prevented DESNZ from consulting on amending the operational cost levy in that year (as set out in paragraph 5.6). Consequently, the levy rate applicable for 2024/25 rolled over into 2025/26.

5.22 In 2025 DESNZ has consulted on and seeks to amend the operational cost levy for the financial years 2026/27, 2027/28 and 2028/29.

5.23 The levy set for 2028/29 would continue to apply until amended. DESNZ intends to consult in advance of any subsequent operational cost period and to adjust the levy rate to ensure that it is set to recover the Revenue Collection Counterparty's expected operational costs.

5.24 The Revenue Collection Counterparty's operational costs budget reflects the costs of its expected activity during the relevant financial year. The proposed budget in 2026/27 is £1.647m. The proposed budget in 2027/28 is £1.773m, representing an increase of £126,000, and £1.918m in 2028/29, representing a £145,000 increase on the previous year's budget. The budget does not rise significantly over the budget period, reflecting the expected steady state of the Revenue Collection Counterparty's activities during this period and some costs beyond the Counterparty's control, such as inflation.

5.25 In the event that the total amount of levy collected exceeds the Revenue Collection Counterparty's actual operational costs, the surplus at year-end will be reimbursed to electricity suppliers.

What was the previous policy, how is this different?

5.26 The operational cost levy rate currently being collected by the CfD counterparty, and the settlement costs levy rate currently being collected by the Settlement Body, were set in legislation in 2022 for the 2024/25 financial year. The operational cost levy rate currently being collected by the Revenue Collection counterparty was set in 2023 for the 2024/25 financial year. The 2024/25 levy rates rolled over into the 2025/26 financial year and will continue to do so until amended in legislation. The 2024/25 levy rates have been determined as sufficient to allow the CfD Counterparty, Settlements Body and Revenue Collection Counterparty to collect sufficient funds from the levies to cover their 2025/26 budgets.

5.27 However, the 2024/25 levy rates are not sufficient to cover the proposed operational budgets of these three bodies in the financial years 2026/27, 2027/28 and 2028/29. If these bodies are to deliver the schemes entrusted to them by Government, it is imperative that they can recover sufficient funds from the operational cost levies and settlement costs levy to cover their expected operational costs in these financial years.

5.28 This instrument amends the levy rates for these financial years, which will enable these bodies to collect sufficient funds from these levies in these years to cover their expected operational budgets in these years. The levy rates are set in legislation and can only be amended by amending the relevant legislation.

6. Legislative and Legal Context

How has the law changed?

6.1 This instrument makes the following three changes. Firstly, regulation 2 amends the rate for the annual operational costs levy in the ESO Regulations from 1st April 2026, and for the next two operational cost periods and subsequent such periods. Secondly, regulation 3(1) provides an amended figure for the settlement costs levy in regulation 9(2) of the Supplier Payment Regulations from 1st April 2026, for the next two financial years and subsequent financial years. The revised figure does not apply in respect of any financial year before 2026. A financial year for this purpose means a period of one year commencing with 1st April. Thirdly, regulation 4 amends the rate for the annual operational costs levy in the Revenue Collection Regulations from 1st April 2026, and for the next two operational cost periods and subsequent such periods.

Why was this approach taken to change the law?

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

7. Consultation

Summary of consultation outcome and methodology

7.1 The levy rate required for the CfD Counterparty, Settlement Body and Revenue Collection Counterparty to recover their operational costs for the next three financial years have been subject to a 37-calendar-day consultation.[2] With prior consultations, a four-week consultation period was considered appropriate due to the limited and focussed nature of the material reviewed. Electricity generators, suppliers, and other stakeholders were consulted. The consultation closed on 2nd January 2026. The Government Response to this consultation was published on 2 February 2026 and is available on GOV.UK.

7.2 The devolved administrations of Scotland, Wales and Northern Ireland were notified of the department's intention to consult on the operational costs of the CfD Counterparty, Settlement Body and Revenue Collection Counterparty in case they wished to provide a response.

7.3 In total, one response to the consultation was received. The respondent was supportive, noting they understood the rationale behind the increase in the operational cost budgets is linked to the increased volume of contracts being managed by the CfD Counterparty during the budget period.

7.4 DESNZ is satisfied the operational cost budgets for the CfD Counterparty, Settlement Body, and Revenue Collection Counterparty should remain as consulted on.

7.5 Consequently, for the CfD Counterparty the budget will be £38.274m for 2026/27, £44.941m for 2027/28 and £49.659m for 2028/29. The forecast gross electricity demand for the 2026/27 financial year is confirmed as 261.55 terawatt hours (TWh), 262.27TWh for 2027/28 and 261.35TWh for 2028/29, resulting in levy rates to be included in regulations of £0.1463 per megawatt hour (MWh) for 2026/27, £0.1714MWh for 2027/28 and £0.1900MWh for 2028/29. For the Settlement Body, the budget to be included in regulations is £9.112m for 2026/27, £10.346m for 2027/28 and £11.474m for 2028/29. For the Revenue Collection Counterparty the budget to be included in the regulations is £1.647m for 2026/27, £1.773m for 2027/28

[2] https://assets.publishing.service.gov.uk/media/69243d7f90a8c154e90261e2/lccc-and-esc-operational-costs-consultation-2026-27-2027-28-2029-30.pdf

and £1.918m for 2028/29. The forecast gross electricity demand to be used for the Revenue Collection Counterparty operational cost levy rate is the same as that used for the CfD Counterparty operational cost levy rate. Consequently, the levy rate to be included in regulations for the Revenue Collection Counterparty are £0.0063MWh for 2026/27, £0.0068MWh for 2027/28 and £0.0073MWh for 2028/29.

8. Applicable Guidance

8.1 Existing electricity suppliers are already aware of their obligation to pay levies to the cover the operational costs of the CfD Counterparty, Settlement Body and Revenue Collection Counterparty. They are provided with notice of change to the levy rates through the consultation exercise and subsequent Government Response. When new levy rates are set in legislation the Settlement Service Provider writes to suppliers to inform them of the rates that will apply for the relevant financial year(s).

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 of the low-level impact on electricity consumers bills as described in paragraphs 9.2 – 9.6.

Impact on businesses, charities and voluntary bodies

9.2 The impact on business, charities or voluntary bodies is limited. The operational costs budgets of the CfD Counterparty, Settlement Body and Revenue Collection Counterparty are levied on electricity suppliers who pass costs through to electricity consumers. The estimated impact on electricity bills is described at paragraph 9.6.

9.3 The legislation impacts small or micro businesses.

9.4 To minimise the impact of the requirements of these Regulations on small or micro businesses (employing up to 50 people), the approach taken is that we consulted with suppliers and other stakeholders on our policy proposals, see paragraphs 7.1 – 7.5, and had due regard to their responses in our policy proposals for these Regulations. The Regulations will not have a disproportionate effect on small or micro businesses as the proposed operational cost levy rates will be charged in relation to the amount of electricity supplied daily by each electricity supplier. The settlement cost levy rate will also be charged to electricity suppliers in proportion to their share of total electricity supplied during the winter 'period of high demand'. The operational cost levies and settlement costs levy are expected to be passed through to electricity consumers rather than be borne directly by the electricity supplier. Electricity suppliers as consumers of electricity will therefore bear costs as outlined in paragraph 9.6.

9.5 The impact on the public sector is limited.

9.6 DESNZ estimates the total impact of the combined operational cost budget of the CfD Counterparty, Settlement Body, and Revenue Collection Counterparty on household electricity bills over the budget period (2026/27 to 2028/29) will be around 50p a year (£, nominal[3]). This equates to less than 0.1% of the annual household electricity bill

[3] The bill impact of the CfD Counterparty, Settlement Body, and the Revenue Collection Counterparty is estimated by assuming that such costs faced by electricity suppliers are spread evenly across electricity sales. This provides a £/MWh cost which is multiplied by estimated average dual fuel household consumption to calculate the bill figure.

over the same period. For businesses the annual impact is expected to be around 0.1% of the average electricity bill, equivalent to c.£50 for small businesses and c.£2,000 for medium sized businesses, using DESNZ electricity consumption estimates of 260MWh and 11,000MWh for small and medium sized businesses.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is to keep the operational budgets of the CfD Counterparty, Settlement Body, and Revenue Collection Counterparty under review over the period concerned. In the event that, due to unforeseen circumstances, the operational costs were found to be higher than expected DESNZ would consider amending the operational cost levy rates and settlement costs levy rate as necessary, following consultation.

10.2 Section 5(4) of the Energy Act 2013 requires the Secretary of State, before 31st December each year, to prepare and lay before Parliament a report setting out how he has carried out his functions under Part 2 of that Act (which includes the functions of the CfD Counterparty). The latest report was released on 17 December 2025.[4]

10.3 In accordance with regulation 84 of the Electricity Capacity Regulations 2014 (as amended) the Settlement Body is required to produce an annual report on the performance of its functions in respect of each capacity year. The annual report must, no later than three months after the end of the capacity year to which it relates, be provided to the Secretary of State and published. The latest report was published on 16 September 2025.[5]

10.4 The Capacity Market Implementing legislation is additionally required to be reviewed every five years by virtue of review requirements in the Electricity Capacity Regulations 2014, S.I. 2014/2043 and the Capacity Market Rules. The first Capacity Market five-year was published in July 2019[6] and the second review was published in December 2024[7]. While the Supplier Payment Regulations do not contain a review requirement, the role and functions of the Settlement Body generally are reviewed through this five-year review process.

10.5 The Revenue Collection Regulations contain provisions allowing the Secretary of State to request certain information from the Revenue Collection Counterparty. There is also provision for the Revenue Collection Counterparty to be able to provide information to the Secretary of State should they consider it necessary for the Secretary of State to carry out its functions. The Secretary of State may also request the advice (as well as information) from the Revenue Collection Counterparty. These provisions will allow the Secretary of State to have some visibility in respect of the Revenue Collection Counterparty's collection of, and to monitor and review its use of, the funds from the operational cost levy.

10.6 The instrument does not include a statutory review clause, and, in line with the requirements of the Small Business, Enterprise and Employment Act 2015 Michael Shanks MP, Minister for Energy, has made the following statement:

[4] https://www.gov.uk/government/publications/contracts-for-difference-and-capacity-market-scheme-update-2025/contracts-for-difference-and-capacity-market-scheme-update-2025-accessible-webpage
[5] https://www.lowcarboncontracts.uk/resources/guidance-and-publications/electricity-settlements-company-annual-report-20242025/
[6] https://assets.publishing.service.gov.uk/media/5d35dfdb40f0b604df1f83c4/cm-five-year-review-report.pdf
[7] https://www.gov.uk/government/publications/capacity-market-10-year-review-2019-to-2024

"Having regard to the Small Business, Enterprise and Employment Act 2015, I have decided that the Act does not apply to this instrument. The power being exercised via the instrument is to vary existing levies on electricity suppliers. Section 28 (3)(a)(i) of the Act states that the duty to review regulatory provisions in secondary legislation does not apply if or to the extent that the power or duty to be exercised is to amend provision varying any levy."

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 Electricity Supplier Payments (Amendment) 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").