EXPLANATORY MEMORANDUM TO

THE RENEWABLES OBLIGATION AND ELECTRICITY CAPACITY (AMENDMENT) (BRITISH INDUSTRIAL COMPETITIVENESS SCHEME EXCLUDED ELECTRICITY) REGULATIONS 2026

2026 No. 1171

1. Introduction

1.1 This Explanatory Memorandum has been prepared by The Department for Business, Innovation, Science and Trade and is laid before Parliament by Command of His Majesty.

2. Declaration

2.1 Blair McDougall, Parliamentary Under-Secretary of State (Minister for Reindustrialisation) jointly in the Department for Business, Innovation, Science and Trade and Department for Energy Security and Net Zero, confirms that this Explanatory Memorandum meets the required standard.

2.2 Andy Shields, Deputy Director for the Industrial Energy Unit for at the Department for Business, Innovation, Science and Trade confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Alice Callanan, at the Department for Business, Innovation, Science and Trade can be contacted by email at the following address with any queries regarding the instrument: bics.correspondence@businessandtrade.gov.uk.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument amends the Renewables Obligation Order 2015 and the Electricity Capacity (Supplier Payment etc.) Regulations 2014 to exempt eligible manufacturing businesses from the indirect costs of the Renewable Obligation (RO) and Capacity Market (CM) schemes.

4.2 This instrument also amends the Renewables Obligation Order 2015 to give the Secretary of State the ability to revise the level for the Renewables Obligation 2027/28 obligation period after it is published on 1 October 2026.

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) has the same extent as the instruments it is amending.

4.4 Part 1 (introduction) extends to England and Wales, Scotland and Northern Ireland, but the interpretation provisions in regulation 2 and 3 extend to (a) England and Wales and Scotland in so far as they relate to CM legislation; and (b) England and Wales in so far as they relate to RO legislation.

4.5 Part 2 (BICS excluded electricity) extends to (a) England and Wales and Scotland in so far as it relates to CM legislation; and (b) England and Wales in so far as it relates to RO legislation.

4.6 Parts 3 and 6 (amendment of the Supplier Payment Regulations, etc) extend to England and Wales and Scotland).

4.7 Part 4 (amendment of the Electricity Supplier Obligations (Amendment & Excluded Electricity) Regulations 2015) extends to England and Wales and Scotland.

4.8 Part 5 (amendment of the Renewables Obligation Order 2015) extends to England and Wales.

4.9 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England and Wales and Scotland, except for the Parts which extend to England and Wales only.

4.10 An Order making equivalent provision to Part 5, in relation to the RO in Scotland, is expected to be laid before the Scottish Parliament in parallel to this instrument. There is a legal obligation on Scottish Ministers to set the obligation level for the Renewables Obligation Scotland (ROS), which is calculated the same way as the Renewables Obligation for England and Wales. The revision of the level for the 2027/28 obligation period would apply to England and Wales and Scotland.

5. Policy Context

What was the previous policy, how is this different?

5.1 The RO was introduced in 2002 to incentivise the deployment of large-scale renewable electricity generation. The CM was introduced in 2014 to maintain a secure and reliable electricity system, with sufficient capacity to deliver secure supplies of electricity to power homes, businesses, and public services. Both schemes are funded by imposing a charge on electricity suppliers, who recover these costs from their domestic and non-domestic customers via electricity bills.

5.2 In 2017, eligible Energy Intensive Industries (EIIs) were exempted from a proportion of the indirect policy costs imposed from the RO, passed onto them by electricity suppliers. In 2024, the scheme was expanded to become the 'British Industry Supercharger', a set of measures to make EIIs more competitive and reduce carbon leakage. The expansion of the scheme included increasing the RO exemption for eligible EIIs from 85% to 100%, and introducing an exemption for eligible EIIs from the indirect policy costs of funding the CM.

What is being done and why?

5.3 British manufacturing businesses face higher electricity costs than their international competitors due to a combination of structural factors and policy costs. These costs fund policies to support the development of renewable energy, in the case of the RO and Feed-in Tariffs (FIT), and protect the security of electricity supply in the case of the CM. These costs are levied on electricity suppliers, who typically pass them on to domestic and non-domestic consumers via their electricity bills.

5.4 The British Industrial Competitiveness scheme (BICS) was announced as part of the government's Modern Industrial Strategy in 2025, and its main objective is to increase the international competitiveness of British manufacturing. It will do this by reducing electricity costs for manufacturing industries with high-growth potential and that supply essential materials and inputs. The scheme will exempt eligible manufacturing

businesses from paying the indirect costs of the RO, FIT and the CM. This instrument implements the RO and CM exemptions by making the necessary legislative amendments.

5.5 This instrument will introduce an exemption for eligible manufacturing businesses from the indirect costs of the RO and CM, passed on to them by electricity suppliers. BICS is designed to support eligible manufacturing businesses in frontier and foundational sectors as set out in the Modern Industrial Strategy with high electricity costs. The scheme aims to support eligible manufacturing businesses be more internationally competitive and drive investment and economic growth across Great Britian. An instrument to exempt eligible businesses from the indirect costs of the FIT will also be made.

6. Legislative and Legal Context

How has the law changed?

6.1 The implementation of BICS requires amendments to the secondary legislation giving effect to the RO, CM and FIT schemes. This SI amends the CM and RO legislation and is made using powers conferred by sections 27, 28, 30, 32, 33 and 40(1) of the Energy Act 2013 and sections 32, 32A, 32J, 32K and 60(3) of the Electricity Act 1989 ("the 1989 Act").

Why was this approach taken to change the law?

6.2 This is the only possible approach to implement exemptions from the RO and CM costs.

7. Consultation

Summary of consultation outcome and methodology

7.1 On 24th November 2025, the Department launched a consultation to seek views on exempting eligible manufacturing businesses from the indirect costs of the RO, FIT and CM. This consultation sought views on how businesses eligible for the scheme should be selected. Through the consultation, the department sought views from a wide range of audiences, including manufacturing businesses (irrespective of whether they are likely to be eligible), other electricity consumers (including households and non-manufacturing businesses), trade bodies, consumer associations, energy suppliers, the devolved governments and other interested parties.

7.2 The consultation sought views on:

- the impact of the scheme on stakeholders in the British energy system
- proposals for identifying eligible businesses for the scheme
- how suppliers might implement the exemptions

7.3 The consultation was available on GOV.UK and was emailed directly to a number of stakeholders who had previously expressed an interest in this issue or could be perceived as an interested party.

7.4 The consultation ran for twelve weeks and closed on 19th January 2026. A total of 288 responses were received from stakeholders, including business representative organisations, trade associations, energy suppliers and others.

7.5 Respondents were broadly supportive of the scheme and agreed it will have a positive impact, highlighting its potential benefits to competitiveness, investment and growth.

The majority of respondents agreed with the proposed eligibility approach outlined in the consultation.

7.6 A link to the full consultation response can be found: https://www.gov.uk/government/consultations/british-industrial-competitiveness-scheme-consultation-on-scheme-eligibility-and-approach

7.7 On 16th April 2026, the Department launched a second consultation to seek views on the proposed regulatory changes and scheme delivery for exempting eligible manufacturing businesses from the indirect costs of the RO, FIT and CM. Through the consultation, the department sought views from a wide range of audiences including Ofgem, electricity suppliers, Citizens Advice, Consumer Scotland, consumer groups, generators and any bodies who represent them, other electricity consumers (including households), businesses and other interested parties.

7.8 The consultation sought views on:

- Regulatory changes required to implement BICS
- Scheme delivery

7.9 The consultation was available on GOV.UK and ran for four weeks, closing on 14th May 2026. A total of 77 responses were received from stakeholders, including businesses, business representative organisations, electricity suppliers and others

7.10 Respondents were broadly supportive of the regulatory changes proposed and scheme design. The majority of respondents agreed with the proposed regulatory changes outlined in the consultation.

7.11 A link to the full consultation response can be found: https://www.gov.uk/government/consultations/british-industrial-competitiveness-scheme-consultation-on-regulatory-changes-and-scheme-delivery

7.12 These consultations satisfied the statutory obligations in section 32L of the Electricity Act 1989 and section 40(2) of the Energy Act 2013 for the department to consult before amending the CM and RO legislation.

8. Applicable Guidance

8.1 Guidance on how to apply to the scheme was published on 10 August 2026.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment is submitted with this memorandum and published alongside the Explanatory Memorandum on the legislation.gov.uk website.

9.2 This measure is out of scope of the Better Regulation Framework.

Impact on businesses, charities and voluntary bodies

9.3 The impact on business, charities, or voluntary bodies is expected to be positive for eligible businesses, and limited for non-eligible businesses, charities, or voluntary bodies. By reducing electricity costs for eligible businesses, BICS is expected to improve the international cost competitiveness of eligible firms relative to overseas competitors. Lower input costs can improve profitability, strengthen business confidence and increase the attractiveness of investing and producing in Great Britain. Eligible businesses may respond to reduced electricity costs through increased investment, output, employment, innovation and retention of economic activity within

the UK. BICS is funded by a combination of savings in the energy system and exchequer funding. Taken together, these measures will ensure there will be no increase in energy bills for non-eligible users.

9.4 The legislation does impact small or micro businesses. Small and micro businesses which meet eligibility criteria (including minimum electricity consumption) will benefit from support with electricity costs.

9.5 The impact on the public sector is expected to be limited and primarily relates to the administration and oversight of the scheme. Funding for the scheme will be partially provided through the Exchequer and partially through savings identified within the energy system. BIST will lead policy development and engagement with eligible sectors, working closely with DESNZ on electricity market and energy policy considerations, and with HM Treasury on funding and fiscal oversight. Public sector organisations are not expected to experience changes in their electricity bills as a result of the scheme.

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 and, in line with the requirements of the Small Business, Enterprise and Employment Act 2015, the Minister has made the following statement: A statutory review clause is not included in the instrument as there is no statutory requirement to do so, however, BIST plans to undertake an evaluation and review of the BICS scheme in 2030 to assess whether the scheme continues to achieve the policy objective of supporting the competitiveness of manufacturing industries. This review will take account of market conditions, industrial electricity prices, effectiveness of the scheme for the first three years and any wider policies which will have been implemented which may have a material impact.

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 Parliamentary Under-Secretary of State (Minister for Reindustrialisation) has made the following statement regarding Human Rights: "In my view the provisions of The Renewables Obligation and Electricity Capacity (Amendment) (British Industrial Competitiveness Scheme Excluded Electricity) 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").