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Renewables Obligation

The UK and devolved governments' response to the consultation on changes to inflation indexation in the Renewables Obligation scheme

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Introduction

Context

The Renewables Obligation (RO) scheme has incentivised UK renewable electricity generation since 2002 through a system of tradable green certificates called Renewables Obligation Certificates (ROCs). Three separate but complementary Renewables Obligation schemes cover the UK. The RO and the Renewables Obligation Scotland (ROS) were introduced in 2002. The Northern Ireland Renewables Obligation (NIRO) was introduced in 2005. The UK government is responsible for RO legislation in England and Wales. The Scottish Government and the Northern Ireland Executive (devolved governments) are responsible for the legislation of their respective schemes. Ofgem administers all schemes across the UK.

The three schemes closed to most new applications on 31 March 2017, but limited grace periods extended the deadline for certain projects up to 31 March 2019. RO generators will continue to receive payments until they come off the scheme between 2027 and 2037.

The scheme continues to play an important role in powering the country – over 30% of the UK's electricity generation is supported by the RO schemes. Ensuring the three schemes provide stable and consistent support to generators, and the investors that stand behind them, at a fair cost to consumers, remains a priority for the UK government and devolved governments.

In an increasingly unstable world, the only way to permanently protect hardworking people and businesses from increased energy bills caused by volatile global gas markets, is to accelerate our mission to take back control of our energy system through the deployment of homegrown clean energy. The UK government and devolved governments are all committed to lowering consumer energy bills within their respective parliamentary terms. This includes finding efficiencies within the energy system where this offers the potential to improve affordability for consumers.

On 31 October 2025, the UK government published two consultations on the RO and Feed-In Tariffs (FIT) schemes. The consultations proposed changing the way that all four schemes (RO, NIRO, ROS and FIT) are indexed to inflation in order to bring them into line with regulatory best practice as well as reducing overall scheme costs in the future. The RO consultation was held jointly in conjunction with the devolved governments of Northern Ireland and Scotland. This document provides the joint government response to the RO consultation. A government response to the consultation on FIT changes will be published shortly.

Following publication of the consultation, the UK government subsequently announced in November 2025 the decision to move 75% of the domestic share of funding for the RO scheme over to the Exchequer for the Spending Review period, with expected savings passed onto consumers. This is a GB-wide initiative which will come into effect from 1 April 2026. DESNZ will reimburse suppliers for a proportion of the RO, which will be passed on to domestic customers through lower electricity prices. It remains important to pursue these savings, given

the need to improve efficiency across the energy system, reduce costs for businesses, and ease the remaining pressure on domestic bills.

Overview of consultation proposals

The consultation invited views on two proposed options which would adjust the inflation indexation in the scheme in future. These were:

- Option 1 – Change inflation indexation on the scheme from the retail prices index (RPI) to the consumer prices index (CPI). This would come into effect in April 2026 (subject to legislative schedules).
- Option 2 – A temporary freeze of the RO buy-out price at the 2025/26 level (£67.06 per ROC), taking effect from April 2026 (subject to legislative schedules) and a gradual realignment with the CPI.

The consultation posed the following questions:

1. Do you agree that the CPI is a fairer and more accurate measure of inflation for adjusting the RO scheme costs than the RPI? If not, why not?
2. Of the two options, which do you think is the best alternative to the current methodology, and why?
3. Do you have any comments on the likely impacts of the proposed change for generators, consumers or investors?
4. Do you think there are alternative approaches that should be considered, and if so, what are these and why?

Engagement with consultation proposals

The consultation was published online and ran from 31 October 2025 to 2 December 2025, including a short extension following requests from consultees for further time to consider impacts. Responses were submitted through an online response tool (Citizen Space) and by email. The consultation received 247 responses, from a mixture of generators, suppliers, investors, consumer groups, trade associations, and private individuals. A total of 51 institutional investors and 13 associated trade bodies responded, comprising a large proportion of these responses and demonstrating the breadth of commercial interests in RO assets beyond traditional renewable developers.

The UK government and devolved governments engaged extensively with generators and investors throughout the consultation period and beyond to hear their views and understand the potential impacts. The UK government and devolved governments are grateful to stakeholders for taking the time to engage with the consultation.

Analysis of responses

In reporting the overall response to each question, the '**majority'** indicates the clear view of more than 50% of respondents in response to that question, and '**minority'** indicates fewer than 50%. The following terms have been used in summarising additional points raised in the responses: '**most respondents'** indicates more than 70% of those answering the particular question; '**a few respondents'** means fewer than 30%; and '**many'** refers to the range in between 30% and 70%.

Summary of responses

Question 1: Accuracy of CPI compared to RPI

Question 1 sought views on whether the CPI would be a fairer or more accurate measure of inflation for the purpose of indexing the RO buy-out price. The majority of respondents disagreed that the use of the CPI would be either more accurate or fair, while a minority agreed.

Among respondents who disagreed, most argued that the RPI better reflects material generator cost bases faced by these assets, including (but not limited to) debt repayments, transmission charges, contractor costs, land lease payments and long-term operations and maintenance contracts, though with very limited evidence to support. Many noted that indexing RO costs to CPI in future would therefore create an immediate and permanent revenue/cost mismatch which in turn would compress margins and undermine the financial resilience of these assets, though respondents did not provide evidence to suggest that changes would cause projects to shut down or cease generation prematurely.

Many stakeholders – in consultation responses and in direct discussions with the Department - raised concerns about the wide-reaching, longer-term impacts that these changes could have on investor confidence and regulatory stability. It was clear that investors and generators almost unanimously view any change to existing indexation as retrospective in nature, citing risks to policy predictability and trust. Many argued that this would raise risk premia, depress valuations, and would likely increase the cost of capital on new investments which they claimed would deter future investment and ultimately impact consumers and the government's ability to achieve the Clean Energy Mission including Clean Power 2030. Most also suggested that in their view, both options would represent a breach of legitimate expectations based on prior commitments from the government, and some believed that proposals would likely attract legal challenge.

Stakeholders representing a range of renewable technologies noted that assets were developed and built, and secondary transactions undertaken on the presumption of a stable policy framework, and that retrospective changes to the terms on which investments were made would introduce additional policy risk for investors. However, many cited the challenges in quantifying the precise impact of reduced investor confidence.

At the same time, many highlighted that the estimated consumer bill savings from switching to the CPI would be modest or otherwise offset elsewhere by increases to the cost of capital of future projects. Several respondents drew parallels between these changes and proposals related to zonal pricing, arguing that increases in the cost of capital could spill over to future Contracts for Difference (CfD) auctions. There was no consensus provided in responses over the scale of potential increases to cost of capital in future.

Few noted that whilst CPI is more statistically robust and accurate, it is not fairer because it would ultimately impact pension investors by reducing their asset values. They emphasised a preference for retaining RPI to avoid potential revenue-cost mismatches.

Few agreed that a switch to the CPI is necessary at all, noting that the RPI will naturally align to the Consumer Prices Index including owner occupiers' housing costs (CPIH) by 2030 as confirmed by the UK Statistics Authority.

Among respondents who agreed with proposals to move away from RPI to CPI, many highlighted the CPI's methodological robustness or supported the use of the CPI for improving consumer affordability and reducing levy costs. Many also emphasised how a switch to the CPI would align with other regimes that are already indexed to the CPI such as Contracts for Difference, Capacity Market, and the RIIO (Revenue = Incentives + Innovation + Outputs) price control framework. Many also supported a switch to the CPI on the basis of the UK Statistics Authority's inevitable alignment with the CPIH by 2030 which effectively phases out the RPI methodology. Few noted that a switch to CPI would address the current inconsistency in indexation rules across support schemes which currently create regulatory confusion.

While agreeing with the switch in principle, a few acknowledged transitional issues for existing RPI-linked obligations, for example for generators arising from cost bases not instantly being switchable from the RPI such as transmission charges, land lease payments, operations and maintenance contracts, which are generally indexed to the RPI – potentially raising a temporary revenue-cost mismatch upon a swift switch to the CPI. Few also expressed reservations around the potential impact on material revenue reductions, and implications for the government's ability to achieve Net Zero targets including potential negative cumulative policy impacts.

Question 2: Preferred approach

Question 2 asked respondents to indicate which of the proposed options they preferred. Almost half of respondents (48%) expressed a preference not to go ahead with either option – with a preference to retain the status quo. Of those whose preference was neither option, the majority considered Option 1 (immediate switch to CPI indexation) as least disruptive, expressing a preference for retaining RPI indexation until the already signalled CPIH alignment by 2030, which they claimed would meet existing investor expectations and ensure a smooth transition.

Only a small minority of respondents supported Option 2 (temporary freeze and gradual realignment with CPI), typically on the grounds that this would provide greater bill relief for electricity consumers – though, this later point was disputed by those who disagreed with proposals altogether.

Many argued that whilst they do not prefer either option, Option 1 was perceived as less harmful to investors and generators, providing greater clarity on returns, and avoiding prolonged uncertainty. Several framed Option 1 as simply the "least damaging" compared with

Option 2's freeze. Many respondents argued that Option 2 would be far more damaging and impose far greater financial stress on RO assets because it could see the RO buy-out price effectively frozen for a prolonged and uncertain period of time, and leave assets exposed without inflation protection whilst project costs could continue to rise. Some owners and operators of assets reflected that ultimately, this could jeopardise their financial viability though in most cases respondents were not able to provide evidence to support this.

Many also claimed that Option 1 would be simpler to administer in comparison to Option 2, ultimately applying less burden on generators – a view shared by the Delivery Body, Ofgem.

While many raised concerns over Option 2 due to potential impacts on investor confidence and perceptions that it would be more exposed to legal challenge, a small number of respondents (largely those representing domestic or non-domestic energy consumers) expressed a preference for Option 2. This was largely down to greater potential in reducing consumer bills and effectiveness in tackling a perceived historic overcompensation under the RPI-based indexation. There were a number of representations from private individuals and/or consumers who supported Option 2 as it offers a way of correcting perceived windfall gains that generators have benefitted from during periods of high inflation.

Many acknowledged the challenge of this switch for aligning prior RPI-linked obligations but argued Option 2's correction was still warranted or could be carefully managed with sufficient lead-in time.

Many claimed that Option 2 offers a more robust, structured pathway, but recognised that it would be more complex to administer.

Question 3: Stakeholder impact

Question 3 sought views on impacts of the switch from the RPI to the CPI on generators, consumers and investors.

Generators: Most reported that both options, but especially Option 2, would reduce annual ROC-related revenue, alter lifetime project economics, and undermine financial models underpinning RO assets. Most also suggested that a switch to the CPI would result in a growing structural mismatch between project costs and revenues because of existing RPI-linked costs such as transmission charges, contractor costs, land lease payments, long-term operations and maintenance contracts. Many noted a risk of covenant breaches and refinancing difficulties, which would make refinancing projects more expensive or altogether impossible, particularly for smaller or single-asset Special Purpose Vehicles.

Fuelled assets (including anaerobic digestion and biomass) and hydro sites claimed in particular that the impact of lower revenue would undermine their ability to undertake mid-life refurbishments such as turbine overhauls, hydro civil works, or equipment replacement, which would threaten their reliability and lifetime generation. They also raised concern that a shift to the CPI does not address the misalignment of the RPI for anaerobic digestion and hydro power generators who face sector-specific inflation, for example for feedstock, haulage, maintenance,

and compliance, which often exceeds the RPI. Few, particularly hydro, anaerobic digestion, and solar power generators, noted that increased financial pressures could lead to early decommissioning or reduced post-RO lifetime extensions because of potential cashflow deficits, though respondents did not provide explicit evidence to support this.

Several community-energy stakeholders raised concern around the potential reduction in revenue uplifts for community projects, which could shrink the funds available for local consumer support programmes such as for schools and help for fuel poverty.

Many, particular solar power generators, claimed that the increased financial pressures would reduce their headroom for reinvestment into community energy projects.

Consumers: Many of the respondents who did not support any change noted uncertain or modest bill savings, speculating that any benefits realised could be outweighed by higher long-term costs stemming from reduced investor confidence and increased cost of capital, feeding through into higher costs of future CfD rounds. Many also speculated that this could impact investment in renewables and therefore the government's ability to meet its Clean Power 2030 goal.

While many raised concerns over Option 2 due to potential impact on investor confidence, a few expressed a preference for Option 2 because it would maximise consumer savings by addressing perceived historical over-compensation, reducing the burden on households.

Investors: Most investors were unanimous in their view that any change to RPI indexation before 2030 (Options 1 or 2) would be unwelcome, with many sharing the opinion that it would constitute a retrospective adjustment to the policy. Respondents viewed both options as disregarding the 'grandfathering principle'[1] which in turn had the potential to erode trust in the UK's reputation for policy stability.

Investors emphasised that original investment decisions linked to RO assets assumed RPI-linked returns for the full accreditation period, and that these had been embedded in financial models, debt structures, and valuations. They stated that any shift to the CPI would reduce value and undermine confidence – representing a fundamental change to the economics of projects financed under different expectations.

Both options were seen as significantly impacting future revenues, but Option 2 was considered more damaging. Some warned that the changes could trigger dividend reductions, covenant breaches, and lender renegotiations.

Some respondents provided detailed examples showing that Option 2 could severely impair projects' ability to service debt. Impacts translated into significant stress in later years—reducing debt-paying capacity and pushing debt service coverage ratio to default levels. Under such scenarios they stated that restructuring could be required, with potential consequences

[1] Grandfathering is the policy intention that, once accredited, a generator receives a set level of support over its period of eligibility for the RO.

for jobs and UK generating capacity. Option 1 also reduced cash flow buffers, leaving projects more exposed to volatility in generation and operating costs.

Several respondents to the consultation highlighted its immediate impact on the six largest UK listed renewable funds, which saw their combined market capitalisation fall by about £400m shortly after the consultation was published. Several shared the view that this drop in valuations alone is evidence that the proposals will have a damaging effect on investor confidence in the long-term. Respondents also warned that any decision, particularly Option 2 could drive further declines in value for these funds, amplifying the negative effect on investors and pension savers.

Many respondents highlighted that pension funds invested in renewables assets rely on RPI-linked cashflows to match liabilities; removing the RPI could reduce matching quality and risk-adjusted portfolio performance.

Most respondents warned that the proposals would likely increase the cost of capital (some providing estimated quantifications), weaken liquidity, and diminish investor appetite for future investment in UK renewables, which could make it harder to refinance existing assets, reduce the availability of investment for future secondary market transactions as well as undermining intended consumer savings.

Conversely, a minority of respondents suggested that a switch to the CPI could reduce long-term methodological uncertainty and support investment stability over the long run. However, a minority also cautioned that a switch could also undermine the government's policy objectives such as the Industrial Strategy and National Wealth Fund, by increasing risk, reducing investor confidence, and raising the cost of capital, which they claimed would potentially offset the intended benefits of attracting private investment at lower cost.

Question 4: Alternative approaches

Question 4 sought views on alternative approaches to indexation. Several suggested applying differentiated indexation for high-OPEX, fuelled, and/or civil-intensive technologies to reflect non-CPI related costs including feedstock, haulage, compliance, and heavy civil works. They claimed that this would prevent a revenue-cost mismatch (between the pre-alignment of cost bases with the RPI), covenant stress, and viability risks for sectors whose costs inflate faster than the CPI, particularly anaerobic digestion/biogas, biomass, and hydro power.

Many suggested phasing the change in gradually up until 2030, using a mix of RPI and CPI each year (e.g., 80% RPI / 20% CPI in the first year, then 60% RPI / 40% CPI the next year, and so on). They argued that this would give banks and contract partners enough time to update their agreements and ensure projects can still comfortably meet their loan-repayment requirements.

Many suggested a 12-36 months' notice period to enable stakeholders to renegotiate RPI-linked operations and maintenance costs, leasing contracts, Power Purchase Agreements, and

to update financing models. This was premised on the basis that it would reduce covenant breaches, mitigate refinancing risks, and more general wider mid-scheme disruption.

Many also supported maintaining the RPI until the planned adoption of the CPIH in 2030 in line with already signalled reform, on the basis that this would best respect the legitimate expectations of stakeholders, preserve policy stability, and keep approaches consistent with the overarching timeline to switch to the CPIH.

Many noted a preference for preserving RPI indexation for all existing RO projects and applying the CPI or the CPIH to new investment only, on the basis that this would preserve investor confidence whilst delivering consistency for future support – though without noting that this is already the case.

Few respondents suggested introducing a cap on annual indexation increases, or floors to avoid under-indexation in high-inflation years. They claimed that this would represent a more risk-managed transition. A small number of respondents supported reshaping the support structure, for example, introducing lower annual indexation combined with a longer duration of support, to keep the Net Present Value broadly neutral while reducing immediate bill impacts. They argued this approach would preserve contracted value while redistributing policy costs over time.

Many supported the introduction of targeted mitigations for projects that can evidence hardship (e.g., community energy, schools and charities, or projects with heavy RPI-linked debt). Methods of doing so included suggestions of transitional top-ups, time-limited support funds, or a hardship window to remain on the RPI.

Many respondents suggested alternatives for reducing the costs of the RO for electricity consumers. Many suggested shifting part or all of the RO costs to the Exchequer, or rebalancing levies to reduce electricity bill pressure and improve fairness, for example by rebasing toward general taxation on the basis that this would address consumer affordability without undermining contracted expectations. Note that the consultation predated a subsequent announcement on Exchequer-funding of RO costs. Many also raised the option of offering RO generators a voluntary pathway to a CfD-style arrangement or “Pot Zero”, arguing that this would deliver consumer savings and provide an off-ramp from the RPI for willing projects.

The UK and devolved governments response

The UK government and devolved governments would like to thank all stakeholders – particularly generators, financiers and investors – for their detailed engagement with the consultation, particularly in light of the timeframes involved. We recognise that legacy renewables form an integral part of the UK's generating fleet, and that a stable and predictable policy framework is critical to maintaining investment appetite across the energy sector. The strength of input has been invaluable in shaping our assessment.

The UK government and devolved governments have carefully considered the full range of evidence and views provided. We have heard clearly the concerns from institutional investors that proposals to amend indexation risk sending negative signals about the regulatory stability of the UK. Stakeholders have emphasised how confidence in the long-term policy framework underpins the flow of capital investment into UK energy infrastructure – investment that is essential for delivering lower bills, decarbonisation and energy security.

Having considered the full range of evidence, the governments recognise that both options carry risks for harming investor confidence. We acknowledge that neither option was preferred by the majority of consultees. However, respondents were clear that Option 2 would create materially greater uncertainty and disruption. On balance, we consider Option 1 is the least disruptive approach, avoiding the prolonged uncertainty and more severe impacts associated with a temporary freeze, while still delivering savings to energy consumers to support cost-of-living. It has therefore been jointly agreed to proceed with an immediate switch to CPI-based indexation of the RO buy-out price ahead of the next annual adjustment scheduled in April 2026 (**Option 1**). This will apply across the RO schemes in England and Wales, Scotland and Northern Ireland (subject to respective legislative processes).

We consider that this approach strikes the most appropriate balance between reducing the cost burden on consumers while maintaining strong investor confidence in the UK's renewable energy sector. In reaching this decision, the governments have been guided by three overarching principles:

Reducing the burden on consumers and ensuring the energy system remains fit for future demands

Option 1 could, at its peak in 2030, bring about savings in policy costs directly borne by consumers to the order of £270 million a year. In addition, the November 2025 Budget announcement to move 75% of the domestic share of the cost of the RO to the Exchequer from April 2026 represents a major further contribution to easing pressure on consumers. Though many respondents considered this a marginal saving, taken together, these form part of a wider package of measures aimed at bearing down on the costs of electricity. This

includes wider UK government priorities, including commitments to fund industrial electricity prices relief through reducing levies and energy system costs.

Ensuring long-term stability and confidence for investors.

We fully recognise the importance of regulatory stability for maintaining the UK's attractiveness to global capital. The UK government and devolved governments have carefully weighed the strength of stakeholder sentiment and potential damage to future investment in arriving at a final decision, mindful of the key role that private investors play in delivery of the clean energy mission. We note that many respondents highlighted that Option 2, involving a temporary freeze, presented materially higher confidence and valuation risks. Stakeholders were also clear that prolonged ambiguity could elevate risk premia, raise the cost of capital and potentially depress investment appetite in future energy infrastructure. In proceeding with Option 1, the governments are seeking to minimise further uncertainty for legacy assets and send a clear signal that the UK remains committed to ensuring a stable and transparent regulatory environment. This approach reflects our wider commitment to ensuring that the UK retains its reputation as a safe and predictable investment environment for renewables. The government receives continual feedback on the strength of its different risk sharing mechanisms – including the current Contracts for Difference scheme for renewables, which guarantees 15-20 year fully CPI-indexed private law contracts in order to secure investment.

Alignment with broader energy schemes

Stakeholders emphasised that some projects – particularly those with cost bases linked more strongly to RPI (including O&M and debt costs) – could experience tighter financial headroom as a result of these proposals. We recognise these concerns and have taken them into account during our assessment, though we were provided with limited evidence to suggest that this is a significant or widespread concern. In addition, we note that for assets where a portion of the debt is longer-term, fixed-rate debt, the real value of this debt will have been reduced by the recent period of high inflation. This would have enhanced the return on equity for some assets compared to returns had inflation remained low.

At the same time, CPI is now the standard inflation measure across government and aligning RO scheme indexation with CPI brings consistency with other energy schemes such as the CfD and the Capacity Market. It also aligns with an economy-wide shift away from the use of RPI, supported by the UK Statistics Authority's previous de-designation of RPI as a "National Statistic".

Based on the evidence presented, the UK and devolved governments consider that on average, CPI indexation will continue to offer sufficient inflation protection for RO assets – the original intent of the methodology. This ensures a sustainable long-term balance between the interest of consumers, and of asset owners, operators and investors. We do not consider that there is sufficient rationale or evidence to suggest that, on average, ongoing project costs will rise above the level of inflation as measured by CPI. The UK government and devolved

governments appreciate that this will not be the case for all projects, and that for some technologies they may experience greater inflation. We judge that, while some projects may face financial adjustments, the aggregate sector-wide impact is likely to be modest and manageable.

Consideration of alternative options

Alternative approaches suggested by respondents, included deferring any changes until 2030 or adopting a more transitionary change where RPI would be phased out more gradually. These options were considered but would not deliver the same level of consumer benefit or alignment with wider policy objectives. The UK government and devolved governments remain committed to ensuring generators receive a fair and predictable return, while acting decisively to manage costs for consumers and support priorities such as industrial competitiveness and energy security. The UK government and devolved governments also considered suggestions around the CPIH as an alternative measure of inflation. While CPIH is used in some contexts, respondents provided no substantive evidence to demonstrate why CPIH would be a suitable metric for the RO scheme.

To conclude, the UK government and devolved governments intends to pursue Option 1, which it considers a necessary and proportionate change. The UK government and devolved governments acknowledge that Option 1 – switching to CPI indexation – carries some risk to investor confidence, particularly where financing models and contractual obligations are linked to the RPI. While we note that revenues for some generators may reduce in the near term, change is expected to be modest relative to the wider benefits.

Next steps

To change the inflation indexation metric for the RO scheme for the 2026/27 financial year, the UK government and devolved governments must make affirmative statutory instruments before the 1 April 2026. Once the Statutory Instruments have been made, Ofgem will publish the finalised RO buyout price and mutualisation levels.

Separately, the government intends to consult on a move to a Fixed Price Certificate system later this year, to consider how to ensure the RO scheme remains operable and predictable, delivers value for money and supports UK investor confidence. The consultation will include questions on how headroom arrangements can best reflect these aims as part of the move to Fixed Price Certificates; however, the government does not intend to fully remove the financial headroom currently in place. We will be seeking views on the commercial implications of this on stakeholders.

This publication is available from:
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