EXPLANATORY MEMORANDUM TO

MODIFICATIONS UNDER SECTION 42(3) OF THE ENERGY ACT 2008 OF THE STANDARD CONDITIONS OF ELECTRICITY SUPPLY LICENCES GRANTED OR TREATED AS GRANTED UNDER SECTION 6(1)(D) OF THE ELECTRICITY ACT 1989

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.

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 Net Zero (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 Feed-in Tariffs scheme (“FIT scheme”) was introduced to encourage the deployment of small-scale low carbon electricity generation in Great Britain. The FIT scheme supports renewable installations of up to 5 megawatts. It is funded through levies on household and business electricity bills. Although the scheme closed to new applicants in 2019, it continues to support over 800,000 installations who will continue to receive support up to 2042.

4.2 Under the scheme, generators can benefit from two sources of income or :

4.3 Generation tariff – a payment for every kilowatt-hour (kWh) of electricity generated, with rates determined by the technology type, installation capacity, and commissioning date.

4.4 Export tariff – an additional payment for each kWh exported to the local electricity network. For installations below 50kW, export volumes are typically estimated rather than metered.

4.5 Generators receive payments according to their tariff rate. Payments are made by electricity suppliers and recovered through consumer electricity bills, with the costs of the scheme shared across all electricity customers, unless otherwise exempt.

4.6 Generators can also benefit via savings on their electricity bills, which are indirectly linked to their involvement in the FIT scheme.

4.7 This instrument amends the index by which the tariff rates are adjusted for inflation annually. Currently, tariffs are indexed to the Retail Prices Index (RPI).

4.8 Following a consultation, the government has taken the decision to change the index used to adjust tariffs to the Consumer Price Index (CPI). This switch will be applied to future tariff adjustments until the end of a FIT generator's support period (10-25 years).

Where does the legislation extend to, and apply?

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

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

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 generators continue to receive an appropriate return on their investments.

5.2 Although the FIT scheme closed to new applicants in 2019, existing generators will continue to receive support until 2042. Suppliers recover the costs of the scheme through consumer electricity bills. FIT costs are currently estimated to add around £20 to average dual fuel household electricity bills, based on the Q1 2026 Default Tariff Cap[1].

5.3 Feed-in tariffs have been indexed to RPI since the scheme was first established in 2010. At the time, RPI was widely used across government contracts and financial instruments and was considered the primary measure of UK 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. RPI is now considered an inaccurate metric for measuring inflation as it tends to overstate inflation compared to more robust indices.

5.4 The Government considers that this overstatement has inflated scheme costs beyond actual market pressures faced by legacy assets.

5.5 From 2030, the Office for National Statistics will replace the 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, the Government does not consider these components relevant to legacy FIT assets. The CPI excludes these costs, which makes it a more accurate inflation metric for the cost pressures faced by FIT scheme participants for their renewable electricity generation.

5.6 The Government has consulted on proposals to change how FIT tariffs are adjusted for inflation – from the RPI to the CPI.

5.7 This change will curtail the future growth in the total cost of the FIT scheme by reducing the rate at which it is adjusted for inflation. In turn this will reduce the future cost burden on electricity consumers, who ultimately bear the costs of the scheme.

[1] Annex-4-policy-cost-allowance-methodology-v1.22.xlsx

What was the previous policy, how is this different?

5.8 Under the current policy, Ofgem calculate annual FIT tariff rates by adjusting the previous year's tariffs using the RPI inflation rate, as published by the Office for National Statistics (ONS). This updated figure is published by Ofgem on 1 February every year, as required by the Feed-in Tariffs Order 2012. Subsequently, the Feed-in Tariffs (Amendment) Order 2026 came into force on 30th January 2026 and delayed the deadline for the 2026 publication of FIT tariff rates. This will allow for the new indexation methodology to be applied starting for the 2026/27 financial year.

5.9 This amendment to the electricity supply license conditions 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 tariff rates according to the CPI rate published by the ONS at the time of adjustment. For following scheme years, Ofgem will revert to publishing adjusted tariff rates by 1 February.

6. Legislative and Legal Context

How has the law changed?

6.1 Section 41(1)(b) of the Energy Act 2008 (the "Act") gives the Secretary of State the power to modify the standard conditions incorporated in licences under section 6(1)(d) of the Electricity Act 1989. Section 41(2)(a) of the Act specifies that the Secretary of State may make such modifications to establish a scheme of financial incentives to encourage small-scale low carbon generation of electricity. Section 41(7)(c) of the Act indicates that this power includes a power to make incidental, supplemental, consequential or transitional modifications.

6.2 Under section 41(3), such modifications can include provision requiring the holder of a supply licence to make a payment to a small-scale low-carbon generator, or to the Authority for onward payment to such a generator, in specified circumstances. The Secretary of State can also make provision specifying how such a payment is to be calculated.

6.3 The powers in section 41-43 of the Act were used to insert Schedule A to standard condition 33 (the "schedule") into the electricity supply licence to set up the FIT scheme. The schedule governs the operation of the FIT scheme and includes provision about the calculation of FIT tariff rates.

6.4 In particular, Annexes 4 and 4A in the schedule broadly provide for the calculation of annual FIT tariff rates for FIT Years from 2013 onwards. Annex 4 provides that FIT generation and export tariff rates for FIT Year 5 (2014-15) and subsequent years should be calculated by increasing or decreasing the previous year's tariff rates according to the change in RPI. Annex 4A likewise provides that, for certain eligible FIT installations, the generation and export tariff rates for FIT Year 8 (2017-18) and subsequent years should be calculated by increasing or decreasing the previous year's tariff rates according to the change in RPI.

6.5 This instrument modifies Annexes 4 and 4A of the schedule so that, for FIT Year 17 (2026-27) and for all subsequent years, all FIT generation and export tariff rates will be calculated instead by increasing or decreasing the previous year's tariff rates according to the change in the CPI.

6.6 The modifications preserve the methodology used in previous years and initiate a new methodology from 2026/27 onwards. This means that Annexes 4 and 4A to the schedule reflect the various ways in which FIT tariff rates have been indexed to inflation since the opening of the FIT scheme.

Why was this approach taken to change the law?

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

7. Consultation

Summary of consultation outcome and methodology

7.1 Before making the modification, the Secretary of State carried out a public consultation. The consultation document and government response is available on Feed-in Tariffs (FiT) scheme: indexation changes - GOV.UK.

7.2 The consultation was published on 31 October 2025 and closed on 12 December 2025. The length of the consultation period was devised to ensure those affected had sufficient time to respond while enabling this instrument to come into force ahead of FY2026/27 to provide immediate reductions in scheme costs. The Secretary of State has reviewed all relevant consultation responses and taken a decision based on the evidence available to them.

7.3 This consultation outlined proposals to change the price index used to annually adjust the FIT scheme tariffs from RPI to the CPI. It presented two options for this switch:

Option 1: An immediate switch to CPI indexation

Option 2: A temporary freeze and gradual realignment with CPI

7.4 In total, around 2800 responses were received from a mixture of individual FIT generators, small-scale and community-owned generators, larger generators and developers, investors, industry bodies, councils and the scheme administrator Ofgem. Most respondents did not support either option 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 of returns.

7.5 Though the majority of respondents disagreed with either consultation proposal, most expressed a preference of Option 1 versus Option 2 on account of this being viewed as less financially extractive. Additionally, several respondents argued that freezing tariff rates would constitute a retrospective change to government commitments, which would negatively impact investor confidence in the UK. On the other hand, consumer groups who engaged with the consultation universally indicated a preference for Option 2 because of the greater opportunity for bill savings for consumers.

7.6 After careful consideration, the Department decided to proceed with the proposal to immediately switch indexation from RPI to CPI (Option 1). This was confirmed in a published government response on 28 January 2026. The Department considers that this option best balances improving affordability for electricity consumer and minimising impacts on renewables investment in the UK.

8. Applicable Guidance

8.1 Ofgem will amend their existing guidance on the tariff rates to reflect the changes made by this amendment. This guidance will be made available once this amendment 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 amendment because the FIT scheme has been classified as a notional or imputed tax by the Office for National Statistics and is not a regulatory provision. An analytical annex was published alongside the government response, which illustrates the impacts of this policy change.

Impact on businesses, charities and voluntary bodies

9.2 The legislation is expected to impact renewable electricity generators who receive, or benefit from, FIT payments as their future revenue will be curtailed by these changes.

9.3 The legislation impacts small or micro businesses.

9.4 FIT generators will have their expected revenue curtailed by the measures in this instrument. For instance, in FY26/27 the forecast annual impact to FIT revenue will be around 1%, increasing to around 4% in FY30/31. Overall, the Department does not expect that there will be a disproportionate effect on small generators.

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 This modification to licence conditions is a product of the ongoing monitoring of the FIT scheme to ensure that delivery of the scheme delivers better value for money for households and businesses that bear the costs of the support, as well as appropriate rates of return for generators and investors.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 Not applicable. This is a licence modification and not a Statutory Instrument.

12. European Convention on Human Rights

12.1 As this is a licence modification and does not amend primary legislation, no statement is required.

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").