Title: **The Renewables Obligation (Amendment) Order (Northern Ireland) 2026**	**Regulatory Impact Assessment (RIA)**
	Date: 02/01/2026
	Type of measure: Secondary Legislation
Lead department or agency: **Department for the Economy**	**Stage:** Final draft
	Source of intervention: UK
Other departments or agencies: **N/A**	**Contact details:** [redacted]
	Onshore Renewable Electricity Branch
	Email: [redacted]

Summary Intervention and Options

What is the problem under consideration? Why is government intervention necessary? (7 lines maximum)
The NIRO and the two RO schemes in GB use the Retail Prices Index (RPI) to adjust for inflation annually. The Office for National Statistics (ONS) discourage the use of RPI and has stated that any use of RPI should be closely scrutinised as RPI is a very poor measure of inflation, at times greatly overestimating and at other times underestimating changes in prices. This effect was heightened by unexpected inflation surges from 2022, which increased scheme costs beyond original expectations. Intervention will avoid unnecessary costs being passed to consumers and align with the RPI being phased out and discontinued from February 2030, it is therefore prudent to implement this change as soon as possible.

What are the policy objectives and the intended effects? (7 lines maximum)
To amend how the three Renewables Obligation schemes are adjusted for inflation to bring the schemes into line with regulatory best practice, using CPI, the UK's main measure of inflation. It is intended that this will lead to the cost of the three schemes increasing more accurately in line with inflation than is the case with RPI.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) (10 lines maximum)

1. Immediately switching from RPI to CPI from 1st April 2026.
2. Temporarily freezing the buy-out price and gradually realigning with CPI.
3. Do nothing, allowing the schemes to transition to CPIH when RPI is discontinued from February 20230

The Office of National Statistics discourages the use of RPI and recommends that any use of RPI should be closely scrutinised as it is a very poor measure of inflation. It is prudent to implement this change as soon as possible.
The Northern Ireland Renewables Obligation (NIRO) scheme is a complementary scheme with the RO in England & Wales and the ROS in Scotland, with the 3 schemes jointly administered by Ofgem. DESNZ and the Scottish Government intend to bring forward this change now. Making the change concurrently is necessary for the operation and administration of the three schemes.

Will the policy be reviewed? It will not be reviewed	**If applicable, set review date:**

Cost of Preferred (or more likely) Option		
Total outlay cost for business £m	**Total net cost to business per year** £m	**Annual cost for implementation by Regulator** £m
N/A	N/A	N/A

Does Implementation go beyond minimum EU requirements?			**YES** ☐	**NO** ☒
Is this measure likely to impact on trade and investment?			**YES** ☐	**NO** ☒
Are any of these organisations in scope?	**Micro** Yes ☒ No ☐	**Small** Yes ☒ No ☐	**Medium** Yes ☒ No ☐	**Large** Yes ☒ No ☐

The final RIA supporting legislation must be attached to the Explanatory Memorandum and published with it.
Approved by: Date:

Summary: Analysis and Evidence — Policy Option 1

Description: Legislative amendment of The Renewables Obligation Order (Northern Ireland) 2009

ECONOMIC ASSESSMENT (Option 1)

Costs (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Cost (Present Value)
Low	N/A Optional		N/A Optional	N/A Optional
High	N/A Optional		N/A Optional	N/A Optional
Best Estimate	N/A		N/A	N/A

Description and scale of key monetised costs by 'main affected groups' Maximum 5 lines
As the cost of the three RO schemes is spread across the UK consumer base analysis has been carried out by DESNZ on a UK-wide basis. Changing inflation indexation from RPI to CPI is forecast to produce savings for UK consumers of £60m per annum in 2026/27 (24/25 prices), increasing to £270m per annum in 2030/31 (24/25 prices). The savings beyond this point reduce as the total generation falls as the scheme closes in 36/37. Generators income would fall by similar amounts.

Other key non-monetised costs by 'main affected groups' Maximum 5 lines

Benefits (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Benefit (Present Value)
Low	N/A Optional		N/A Optional	N/A Optional
High	N/A Optional		N/A Optional	N/A Optional
Best Estimate	N/A		N/A	N/A

Description and scale of key monetised benefits by 'main affected groups' Maximum 5 lines
As the cost of the three RO schemes is spread across the UK consumer base analysis has been carried out by DESNZ on a UK-wide basis. Changing inflation indexation from RPI to CPI is forecast to produce savings for UK consumers of £60m per annum in 2026/27 (24/25 prices), increasing to £270m per annum in 2030/31 (24/25 prices). The savings beyond this point reduce as the total generation falls as the scheme closes in 36/37.

Other key non-monetised benefits by 'main affected groups' Maximum 5 lines

Key Assumptions, Sensitivities, Risks Maximum 5 lines
Forecasts have been carried out by DESNZ to predict the annual Renewables Obligation figures, along with projections from the Office for Budget Responsibility (OBR) for RPI and CPI through to scheme end in March 2037.

BUSINESS ASSESSMENT (Option 1)

Direct Impact on business (Equivalent Annual) £m				
Costs: N/A	Benefits: N/A	Net: N/A		

Cross Border Issues (Option 2)

How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland) Maximum 3 lines
This action ensures continued alignment across the UK as DESNZ and the Scottish Government are implementing this change concurrently. The main measure of inflation in the European Union is the Harmonised Index of Consumer Prices (HICP). The UK's CPI is equivalent to the HICP for international comparison purposes.

Evidence Base

There is discretion for departments and organisations as to how to set out the evidence base. It is however desirable that the following points are covered:

- Problem under consideration;
- Rationale for intervention;
- Policy objective;
- Description of options considered (including do nothing), with reference to the evidence base to support the option selection;
- Monetised and non-monetised costs and benefits of each option (including administrative burden);
- Rationale and evidence that justify the level of analysis used in the RIA (proportionality approach);
- Risks and assumptions;
- Direct costs and benefits to business;
- Wider impacts (in the context of other Impact Assessments in Policy Toolkit Workbook 4, economic assessment and NIGEAE)

Inserting text for this section:
Text can be pasted from other documents as appropriate.

Background

The Northern Ireland Renewables Obligation (NIRO) has been the primary measure for increasing renewable electricity generation in Northern Ireland. The scheme closed to new applicants in 2017.

The NIRO operates as a separate but complementary scheme with the Renewables Obligation (RO) scheme in England and Wales and the Renewables Obligation Scotland (ROS) scheme, which all operate as part of a UK-wide market for Renewables Obligation Certificates (ROCs).

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. Generators will continue to receive payments for 20 years from their accreditation date or until the scheme closes on 31 March 2037, whichever is earlier.

While the Northern Ireland Authority for Utility Regulation (UR) retains statutory responsibility for the NIRO, Ofgem administers the scheme on its behalf. Ofgem also administer the RO and ROS.

The alignment across the three schemes enables centralised administration through Ofgem and for levy costs to be spread across the UK consumer base.

The scheme places an obligation on licensed electricity suppliers to present a specified number of ROCs for each megawatt hour of electricity supplied to customers. Suppliers who do not present sufficient ROCs can discharge their obligation by making a payment to Ofgem at a set buy-out price.

Although the majority of suppliers meet their obligation by purchasing ROCs rather than paying the buy-out price, the buy-out price is assumed to directly impact on the traded price of ROCs.

Problem Under Consideration

Historically, the buy-out price has been indexed annually in line with the Retail Prices Index (RPI).

The RPI is being phased out as its calculation method does not meet international standards. The UK Statistics Authority removed RPI's designation as a National Statistic in 2013 and it will be discontinued from February 2030.

It is prudent to implement this change as soon as possible.

Rationale for Intervention

The Office for National Statistics (ONS) has been vocal on the shortcomings of RPI as a measure of inflation, stating that it is a very poor measure of general inflation, that they discourage its use and that any use of RPI over superior alternatives should be closely scrutinised.

The change from RPI to CPI is being implemented concurrently, UK-wide, across the three Renewables Obligation schemes. Northern Ireland needs to make this change to maintain regulatory parity across the three schemes.

Policy Objective

The objective of the regulation is to update the index used for inflationary increases under the Northern Ireland Renewables Obligation scheme, changing from using the soon to be discontinued Retail Prices Index (RPI) to using the Consumer Prices Index (CPI), the UK's primary measure of inflation.

Description of Options Considered

Option 1 (Preferred Option) – Immediate Switch to CPI Indexation

The first of the two options consulted on would involve a simple switch in the price index used to adjust the buy-out price from the RPI to the CPI. This approach would ensure generators continue to receive a stable and predictable return that maintains its value, whilst making savings in the energy system.

Option 2 – Temporary Freeze and Gradual Realignment with CPI

The second of the two options consulted on would involve freezing the buy-out price at the 2025/26 level. This option goes further than Option 1 and would not only prevent further overcompensation in future but gradually realign scheme costs after presumed historical overcompensation caused by RPI's tendency to overstate inflation

Option 3 – Do Nothing

This option would see RPI continued to be used until February 2030. At this point changes to indexation will automatically take effect in line with the Office for National Statistics decision to realign RPI to CPIH

Monetised and Non-Monetised Costs and Benefits

Suppliers can purchase ROCs from generators or traders (with the precise value of a ROC a matter for negotiation) or can meet their annual obligation (in part or in full) by paying into a buy-out fund. The prices of ROCs sold through the buy-out fund is set by DESNZ, with the price indexed each year in line with inflation.

Although the majority of suppliers meet their obligation by purchasing ROCs rather than paying the buyout price, the predefined buyout price is assumed to directly impact on the traded price of ROCs. Any adjustment to the rate of indexation will therefore directly impact on the total spend required by suppliers and the total revenue received by generators.

DESNZ have provided an initial analysis of the predicted costs of the three schemes (in billions) and the potential savings (in millions) for both Options 1 and 2 as shown in Table 1.

	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35	35/36	36/37
RO scheme cost (£bn, 24/25 prices)												
RPI	£7.9	£7.8	£6.0	£6.0	£5.7	£5.5	£5.0	£4.2	£3.5	£2.6	£2.0	£1.6
Option 1 -CPI	£7.9	£7.7	£5.9	£5.8	£5.5	£5.2	£4.8	£4.0	£3.3	£2.5	£1.9	£1.5
Option 2	£7.9	£7.5	£5.6	£5.3	£5.0	£4.7	£4.2	£3.4	£2.7	£2.0	£1.5	£1.2
Option 2a	£7.9	£7.5	£5.6	£5.3	£5.0	£4.7	£4.2	£3.5	£2.9	£2.2	£1.7	£1.3
Savings (£m, 24/25 prices)												
RPI	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Option 1 -CPI	£0	£60	£120	£180	£230	£270	£250	£230	£200	£160	£130	£110
Option 2	£0	£320	£460	£620	£730	£840	£860	£810	£720	£600	£480	£380
Option 2a	£0	£320	£460	£620	£730	£840	£800	£690	£570	£450	£350	£280

Table 1. Impact of changing the indexation of the RO schemes

Rationale and Evidence that Justify the Level of Analysis Used in the RIA

Forecasts have been made using projections from the Office for Budget Responsibility (OBR) for RPI and CPI through to scheme end in March 2037. In addition, DESNZ, who complete the annual obligation calculation for all three schemes, have carried out a forecast to predict the annual Renewables Obligation figures.

Officials reviewed data and analysis for each of the options, provided by the UK Government. This provided assurance to officials on the methods used to calculate the anticipated impacts of the policy options.

Risks and Assumptions

The projections for scheme costs and consumer savings rely on inflation forecasts from the OBR. Any deviation in actual inflation rates—whether RPI or CPI—from these forecasts would alter the realised costs and savings for both consumers and generators. Unexpected macroeconomic shocks or changes in monetary policy could therefore materially impact the effectiveness of the proposed indexation changes.

Future government decisions, such as further interventions in energy markets or adjustments to the RO scheme, could affect the distribution and scale of savings. For example, the Government's commitment to cover 75% of RO costs on household electricity bills for 2026/27 to 2028/29 means that savings from indexation changes during this period will accrue primarily to taxpayers rather than bill payers.

The analysis assumes that suppliers will pass on cost changes to consumers in full and that generator behaviour remains unchanged. However, market participants may respond differently to changes in indexation, potentially affecting ROC trading dynamics, investment decisions, or the timing of generator exits from the schemes.

Consultation feedback highlighted concerns that retrospective changes to indexation, particularly under Option 2, could undermine investor confidence in UK energy policy stability. This perceived increase in political risk may raise the cost of capital for future investments, potentially offsetting some of the anticipated consumer savings.

Direct Costs and Benefits to Business

Changing the index from RPI to CPI will likely lead to reduced annual inflationary increases for NIRO accredited generators. Transitioning the RO indexation from RPI to CPI will ensure that RO revenues are maintained in real terms however, as CPI reflects the Government's official inflation target. This approach aligns the scheme's revenue adjustments with the broader economic policy objective of price stability, thereby safeguarding the purchasing power of revenues over time.

Businesses in general may benefit from reduced electricity costs, especially those which are high electricity users.

Wider Impacts

Several respondents to the consultation indicated that changes to indexation could cause future investments to require a higher cost of capital. These representations were made on the basis that changes to indexation, particularly Option 2, could erode investor confidence in the UK's policy stability.

A perception of increased political risk in the UK could influence the future cost of capital that lenders and investors seek, even if it cannot be directly measured at this time.