

Changes to Inflation Indexation of the Renewables Obligation (Scotland) Order 2009

Island Communities Impact Assessment (ICIA) - January 2026

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Introduction

The Islands (Scotland) Act 2018 places a duty on Scottish Ministers and other relevant authorities to have regard to island communities in exercising their functions, and for the Scottish Ministers this also includes in the development of legislation.

Section 13 of the Act states that the Scottish Ministers must prepare an Island Communities Impact Assessment (ICIA) in relation to legislation which, in their opinion, is likely to have an effect on an island community which is significantly different from its effect on other communities, including other island communities in Scotland.

This impact assessment sets out how potential impacts on Scottish island communities have been considered during the development of changes to the inflation indexation of the Renewables Obligation (Scotland) Order 2009.

Policy Summary - Changes to Inflation Indexation of the Renewables Obligation (Scotland) Order 2009

The Renewables Obligation (RO) 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, and the Northern Ireland Renewables Obligation (NIRO) was introduced in 2005. The UK Government is responsible for the legislation for the RO scheme for England and Wales. The Scottish Government and the Northern Ireland Executive are responsible for the legislation for their respective schemes. All schemes are administered by Ofgem.

Subject to respective parliamentary procedures, the UK Government, Scottish Government and Northern Ireland Executive are changing how the costs of the RO schemes are adjusted for inflation from 1 April 2026. This is in order to bring the schemes in line with regulatory best practice as well as reducing the overall cost of the schemes in future by decreasing the rate at which costs increase with general inflation. The cost of the RO schemes is currently paid for by a levy in consumers energy bills. Any savings from making changes to how the RO schemes are adjusted for inflation could potentially lead to savings in consumer energy bills, however these are expected to be very small.

Consultation and stakeholder engagement

The Scottish Government, UK Government, and Northern Ireland Executive ran a joint public consultation on the two policy options proposed to implement this change. The overarching message from consultation responses is that the renewables industry is opposed to any change to indexation prior to 2030 on the grounds a retrospective change will undermine the UK's reputation for stability and predictability which will in turn undermine investor confidence and increase the cost of capital.

Other concerns raised through consultation responses include:

- **Reduced revenue** – generators with assets supported by RO schemes could experience a decrease in forecast revenue from RO projects.
- **Quickly eroding consumer benefits** – stakeholders questioned whether initial reduced costs for consumers would be outweighed by increasing capital costs which will eventually pass through to consumer bills.
- **Risk related to project financing** – financial projections underpinning project obligations such as leases, debt and financing have been calculated using RPI, and changes to indexation may jeopardise some arrangements.

Having considered the full range of evidence, the Governments recognise that both options carry risks for 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.

Following a recommendation from UK Government's Secretary of State for Energy Security and Net Zero, the UK Government, Scottish Government and Northern Ireland Executive have therefore 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).

Island communities had the opportunity to raise any concerns during the joint consultation. Initial analysis of consultation responses found that some of the above concerns were echoed in responses that specifically referenced Scottish islands, however it should be noted that only 5 out of 247 responses referenced Scottish Island communities.

Additionally, we consulted policy leads in local energy, onshore electricity networks and Local Energy Scotland for their views on the potential impact of changes.

There are no design features or mitigations that specifically consider island communities in this policy.

Evidence

To establish whether the impacts of this policy will have an effect on any island community which is significantly different from its effect on other communities we have considered multiple data sources. In addition to feedback from consultation responses and stakeholder engagement, we also considered existing data on renewable energy projects across Scotland as shown in the Scottish Parliament Information Centre's (SPICe) renewable energy map of Scotland¹.

This tool is based on the UK Government's Renewable Energy Planning Database: quarterly extract². We note that there are some issues with the underlying data used to create the tool, which limited our ability to gather granular detail, however we found this to be a useful high-level overview of how renewable projects are distributed across Scotland.

We also analysed policy documents including the Programme for Government, the Carbon Neutral Islands Financing Roadmap 2025-2028 and the National Islands Plan for data on renewable energy across Scottish island communities.

Assessment

Location of Infrastructure

Our assessment found that renewable energy projects are widely distributed across Scotland, including both island and mainland locations. We note that this should reduce the likelihood of any impacts resulting from this policy change being felt disproportionately by island communities.

Fuel Poverty

Our research also found Scottish island residents are generally more likely to face fuel poverty than the average Scottish resident. Research from both Shetland Island Council³ and Highlands and Islands Enterprise⁴ found energy bills to be higher for Highland and Island communities compared to the rest of Scotland, and the rest of the UK. However, given that this policy change may only result in a very minor decrease in consumer bills, it is unlikely island communities will be uniquely impacted through energy bill savings.

Community Energy

Through the consultation many, particularly community-energy respondents, 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. Without data on ownership structures it is challenging to quantify how many community energy projects will be affected by this

¹ <https://spice-spotlight.scot/2024/06/17/renewable-energy-map-of-scotland/>

² <https://www.gov.uk/government/publications/renewable-energy-planning-database-monthly-extract>

³ <https://www.shetland.gov.uk/downloads/file/6294/shetland-s-energy-august-2022>

⁴ <https://www.hie.co.uk/media/rqblqd23/energy-cost-impact-report-final.pdf>

amendment. In total 5 community projects were accounted for in the 247 consultation responses. The Scottish Government remains committed to working with partners to continue to grow the community energy sector and will continue to support communities through our Community and Renewable Energy Scheme (CARES) and our Good Practice Principles.

Locational Factors

When considering whether the location of island communities could generate unique impacts, we posed two questions to policy leads and Local Energy Scotland:

- Whether renewable energy plays a more significant role in the local energy systems in Scottish island communities compared to other communities
- Whether the ROS subsidy is more essential to the survival of renewable developments in Scottish island communities compared to other communities

Colleagues noted that there is a lack of evidence in this area making it difficult to quantify potential impacts. However, Local Energy Scotland noted that:

- Operation and maintenance costs are higher in Island communities making the transition from ROCs to operating subsidy free more difficult.
- It's difficult to get any new generation in the Islands with the grid restrictions being capped to 50kW.
- Costs are often higher for island projects at construction stage, resulting in higher finance costs.

Given that this policy change is not proposing to remove subsidies or target support for new generation officials consider that it is likely only the last point regarding higher CAPEX costs could represent a unique challenge for island communities when this policy change is implemented.

Additional Support

However, our assessment also determined that the existing policy framework may provide mitigations against any potential impact by providing additional support to islands as they decarbonise. For example, the Carbon Neutral Islands initiative aims to support six islands with tailored support to become carbon neutral by 2040. This initiative is supported by the Carbon Neutral Islands Financing Roadmap which identifies 50 active decarbonisation projects across the islands (including renewable energy projects), outlines funding pathways and provides a strategic guide for investors to coordinate funding efforts.

A key element of this plan is to ensure that all Scottish islands will benefit through the good practices developed by the core project islands. To do this, the Scottish Government is working closely with Community Energy Scotland to support a wider network of Scotland's islands to undertake work to decarbonise including developing climate change action plans, producing carbon audits and developing projects for capital funding.

We also consider programmes⁵ such as the ‘Area Based Scheme’ and ‘Home Energy Scotland: Grant and Loan Scheme’ specifically target fuel poor and rural areas respectively which may benefit island communities.

These policies all embed additional support for renewable energy and decarbonisation for island communities alongside mainland areas.

Determination

In developing this ICIA, the Scottish Government has determined that changes to the inflation indexation of the Renewables Obligation (Scotland) Order 2009 are not likely to have an effect on island communities that is significantly different from its effect on other communities across Scotland. Similarly, it is not anticipated that there will be significant effects on a specific island community compared to other island communities.

Renewable energy projects are distributed across both mainland and island areas, and consultation responses did not highlight impacts unique to island communities.

Where higher CAPEX costs on the islands may affect project financing, we consider that additional support is available to island communities including through the Carbon Neutral Islands Financing Roadmap (2025–2028), the National Islands Plan Update (2025), and the Area Based Scheme. These policies provide tailored support for islands and rural areas, ensuring that their needs are addressed within broader decarbonisation and energy transition plans which could help mitigate against any potential impacts of this policy change.

There is limited evidence island communities would experience impacts of this policy change differently to other communities. One possible difference has been identified alongside a proposed mitigation. Our assessment has therefore not produced evidence that island communities will be disproportionately disadvantaged.

⁵ <https://www.gov.scot/binaries/content/documents/govscot/publications/progress-report/2024/10/heat-buildings-progress-report-2024/documents/heat-buildings-progress-report-2024/heat-buildings-progress-report-2024/govscot%3Adocument/heat-buildings-progress-report-2024.pdf>



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