GRAVIS UK INFRA

GRAVIS CLEAN ENERGY

Gravis's view on the changes to the Renewables Obligation Scheme

William Argent and Shayan Ratnasingam provide an overview of the TM Gravis Clean Energy Income Fund give their view on the UK and devolved governments' response to the consultation on changes to inflation indexation in the Renewables Obligation Scheme.

"As investors, our preference would have been for no change to the current basis of indexation, as both proposals were detrimental for investors in RO assets and the likely benefits for consumers relatively small," commented William Argent. "That said, it became increasingly clear that the government was likely to proceed with one of the options, particularly following the November announcement to move 75% of the domestic share of RO funding onto the Exchequer from April 2026, with expected savings passed through to household bills.

"Against that backdrop, Option 1 is the least damaging outcome in terms of its likely impact on future revenues from existing RO assets. While it does chip away at confidence in the UK's regulatory stability, it does not, in my view, undermine it. The longer-term implications for future investment decisions or the cost of capital are difficult to quantify, but it is unhelpful at the margin.

"Importantly, the removal of uncertainty is a positive for listed renewable energy companies. Markets had priced in the risk of a more punitive outcome, and the positive share price reaction this morning reflects a sense of relative relief. The decision removes a major overhang for the sector and could also help unlock asset transactions, as buyers now have clearer visibility on the revenue framework at a time when many listed companies are looking to dispose of assets to strengthen balance sheets."

Shayan added: "The announcement on 29 January 2026 brings a swift conclusion to uncertainty that had hung over the sector since the consultation was announced in October last year.

"It brings forward a change to indexation that was already on the cards for 2030, and brings it in line with other regimes that support the energy market and are already indexed to CPI. The gap between CPI and RPI has been narrowing over time, limiting the downside of the change.

"While the impact of today's news impacts legacy renewable assets, we acknowledge the government commitment to grow new renewable generation, as demonstrated by the record budget announcement for offshore wind last week, extension of CfDs from 15 to 20 years, and this week's commitment to 100GW of cross border offshore wind capacity in the North Sea."

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