

ELECTRICITY MARKET REFORMS IN GREAT BRITAIN

Implications for generators and other market participants

Reforms to the electricity market are underway in Great Britain and recent developments in response to instability in the Middle East will have wide ranging implications for market participants and their commercial contracts. In this publication, Slaughter and May and LCP Delta consider the implications of these, with a focus on generation assets under long-term power purchase agreements.

1. Policy landscape

The UK Government (HMG) has announced reforms aimed at mitigating the impact of gas prices on the electricity markets. These proposals are in addition to prior and long-running policy reforms being progressed by HMG, Ofgem and the National Energy System Operator (NESO) to reshape electricity markets in Great Britain (GB). The most recent publications and announcements are summarised below.

<p>DESNZ's Reformed National Pricing (RNP) Delivery Plan sets out a package of reforms to balancing, settlement and transmission charging, and consults on the siting and investment levers needed to support delivery of the Strategic Spatial Energy Plan (SSEP)</p>	<p>NESO's Reformed National Pricing Call for Input ran from February to April 2026 and called for industry input on the proposed balancing and settlement reforms supporting the wider RNP package</p>
<p>Ofgem's Call for Input on locational charges and regulatory siting levers, published on 26 March 2026 and open until 26 May 2026, explores options for reform to transmission network charging to incentivise efficient siting of new assets in line with the SSEP</p>	<p>HMG announced an increase in and extension of the Electricity Generator Levy (EGL) on 21 April 2026 alongside a proposal for certain market participants to be given the option to enter into Wholesale Contracts for Difference</p>
<p>HMG announced the removal of Carbon Price Support (CPS) on 16 April 2026</p>	<p>DESNZ's Review of Ofgem, published on 22 April 2026, sets out a programme of regulatory reform intended to modernise the regulator, strengthen consumer protection and clarify roles and responsibilities across DESNZ, Ofgem and NESO</p>

2. Key reforms

Carbon Price Support (CPS)

HMG confirmed plans to remove CPS from April 2028 to reduce wholesale electricity costs, which may also reduce billpayers' costs of funding the British Industrial Competitiveness Scheme. CPS was introduced as part of

the electricity market reform agenda in 2013. It is applicable to fossil fuels used to generate electricity and acts as a "top-up" tax on carbon emissions from generators, working alongside the UK Emissions Trading Scheme to encourage a switch from fossil fuelled generation to low-carbon generation. It increases the operating cost for gas generation which, in turn, increases the wholesale market price when gas generators set the marginal price for electricity in GB. It is anticipated that the removal of CPS will result in a step down in wholesale market prices from April 2028, with this indirectly reducing consumer prices and revenues earned in the wholesale market.

// CPS has done its job and is no longer fit for purpose //

The Exchequer Secretary to the Treasury

Electricity Generator Levy (EGL)

The EGL was introduced by HMG in January 2023 as a temporary 45% charge on 'exceptional receipts' from wholesale electricity sold above a benchmark price and had been due to expire on 31 March 2028.

HMG has now announced the EGL will be increased from 45% to 55% and extended beyond 31 March 2028. The EGL applies to low-carbon generators with annual generation output exceeding 50 GWh, who benefit from an increase in wholesale electricity prices due to high gas prices without a corresponding increase in operating costs. The levy does not apply to generation under a Contract for Difference (CfD) with the Low Carbon Contracts Company (LCCC) or nuclear generation under the Regulated Asset Base model. This increase in the duration and level of the EGL creates an economic incentive for generators to move to ‘voluntary’ Wholesale Contracts for Difference (see below).

part of the RNP Delivery Plan, DESNZ is consulting on how locational charging interfaces with the connections regime, including options which envisage removal/reduction of locational network charging (relying instead on the connections regime to achieve siting outcomes). Ofgem is also exploring design choices for legacy and transitional arrangements for existing assets. The aim of the proposals is to align locational charges with the Strategic Spatial Energy Plan (SSEP) and reduce network constraint costs.

// The government has reviewed the design of the EGL in light of the conflict in the Middle East and is announcing today that the 45% EGL rate will increase to 55% and will be extended past its scheduled conclusion in 2028. This will support the government’s objective of reducing the impact of gas prices on businesses and households. Firstly, it will encourage participation at a competitive price in wholesale Contracts for Difference, a new proposal announced today by the Secretary of State for DESNZ, which seeks to weaken the link between high gas prices and high electricity generation prices. Secondly, it will ensure a proportion of any exceptional revenues resulting from the passthrough of high gas prices to electricity generators’ revenues is available to government to support businesses and households with the impacts of the conflict in the Middle East on the cost of living //

The Exchequer Secretary to the Treasury

Wholesale Contracts for Difference (WCFDs)

HMG also proposes to introduce WCFDs, describing these as “voluntary” long-term fixed-price contracts for existing low-carbon generators not currently on fixed-price contracts. Under the proposed structure, eligible generators would effectively exchange their current wholesale revenues for a fixed power price through a WCFD. HMG intends to consult on the detail, including which assets will be eligible, later this year.

Transmission Network Use of System (TNUoS) reforms

In March 2026, Ofgem published a Call for Input to inform contemplated reforms to Transmission Network Use of System (TNUoS) charges under the Reformed National Pricing (RNP) programme. TNUoS charges are paid by generators and demand for use of the GB transmission network. They vary depending on location and consumption profile. The Call for Input focuses on the locational forward-looking element of TNUoS charges paid (predominantly) by generation and storage and explores options for reforming interzonal locational charges for new assets. Options range from targeted changes to the existing regime through to plan-based auction pricing. As

Balancing Mechanism (BM) threshold

The RNP Delivery Plan highlights an intention, subject to the outcome of NESO’s Call for Input, to lower the mandatory participation threshold for the BM. The BM is the primary tool used by NESO to balance electricity supply and demand in real time and is used to accept bids and offers from participating generators and storage assets to increase or decrease output at short notice.

3. Impact on market participants and power purchase agreements (PPAs)

Parties will want to consider the implications of these proposals on their PPAs or other commercial contracts and, in particular, whether these trigger change in law provisions. The position will depend on the drafting, as well as the nature of the PPA or other commercial contract. The analysis below considers implications for existing PPAs - in the case of PPAs currently being negotiated, parties will be able to consider the implications of the changes upfront and account for this in the PPA before it is signed. The analysis below is indicative only and each project will need to carry out its individual assessment.

Carbon Price Support (CPS)

CPS removal is expected to be implemented via an amendment to the Finance Act 2000 - it will constitute a change in law, but there is a question as to whether it is a 'change in law' for the purposes of the PPA in question. For example, change in law provisions will often only be concerned with a change in law which is applicable to the generator, the offtaker or the project or will exclude changes in law relating to tax. There is an indirect impact on wholesale market prices, but that does not necessarily mean it is 'applicable' to a renewable generator or its PPA. The drafting would need to be considered.

If CPS removal is a 'change in law' for the purposes of the PPA in question, the next step will be to consider whether the change in law provisions provide for a rebalancing or reopening of the pricing. This is likely to be more relevant where the PPA has a fixed price or floor - the offtaker will want to adjust the fixed price or floor downwards to reflect the step down in wholesale market prices resulting from this change in law. The fixed price or floor would have been set in the context of wholesale market prices and forecasts prior to this change in law.

There will be a question as to whether the change in law provisions provide for the fixed price or floor to be reopened without a requirement for the other party to have made a gain from the change in law. This will depend on how the change in law provisions are drafted, but there may be scope to argue that losses associated with the step down in wholesale market prices should be shared between the parties by adjusting the fixed price or floor downwards in order to preserve the commercial balance. That said, PPAs will often allocate risks associated with movements in wholesale market prices and generator taxes with limited scope for a general reopening of the fixed price or floor. The fixed price or floor is intended to provide revenue certainty and de-link revenues from movements in wholesale market prices. A general reopening of the fixed price or floor for market movements indirectly resulting from a change in law would cut across this.

Initial modelling by LCP Delta suggests that the removal of CPS (compared to a scenario with CPS at £18/t) will reduce the wholesale price by £3-£4/MWh in 2028/29. This, in turn, could reduce capture prices for renewables by £1-£2/MWh and revenues for batteries by 3-5%.

Electricity Generator Levy (EGL)

Again, there is a question as to whether this is a 'change in law' for the purposes of the PPA in question. The EGL itself is not new, so previous analysis of change in law provisions relating to when the EGL was first introduced will likely be relevant.

The EGL is a tax on generation revenues - it is not embedded in wholesale market prices like CPS. It does not have an indirect impact on wholesale market prices and is only relevant to certain low-carbon generators.

In the case of a low-carbon generator facing an increase in EGL, it is likely to be a 'change in law' for the purposes of the PPA but it will be difficult to rely on change in law provisions for a rebalancing or reopening of the pricing given the nature of the EGL.

The increase in the EGL is intended to encourage low-carbon generators to take up the 'voluntary' WCFD described below. As a result, if there is an obligation on the generator to mitigate the impact of any 'change in law', it may be argued that the generator could avoid having to pay the EGL by entering into a WCFD. However, this will be a matter of interpretation of the PPA.

With the EGL applying once the wholesale price goes above £82/MWh, a key consideration for those considering the WCFD will be how often the price is above this point and what that then means for the profitability of their asset. LCP Delta modelling shows that in a normal gas price scenario, the average wholesale price to 2030 is likely to be below this point. However, there will be a number of hours across the year where the wholesale price exceeds this point. In a gas price shock scenario, the average wholesale price will be above this point on a regular basis.

Wholesale Contracts for Difference (WCFDs)

The details are to be confirmed, but as WCFDs are not expected to be mandatory they will not engage change in law provisions relating to performance of existing PPAs. If a generator wants to terminate, replace or amend its existing PPA in connection with entering into a WCFD, we can expect this to involve negotiation with the offtaker as opposed to change in law provisions.

Initial analysis by LCP Delta suggests that there is around 35GW of renewable capacity that is likely to be eligible for a WCFD. A key question for those with existing PPAs will be what the strike price of the WCFD is and how long the contract will run for. This will dictate whether this is an attractive option for investors. For HMG there will be a trade-off between how much capacity they want on the WCFD versus the strike price they are willing to accept.

Transmission Network Use of System (TNUoS) reforms

Changes to locational signals by reforming TNUoS charges would likely be a 'change in law' for the purposes of a PPA as the definition usually captures changes to industry documents, but TNUoS charges are often allocated in line with the Connection and Use of System Code and carved out of change in law provisions.

The impact of TNUoS reforms on the gross margins of different assets is potentially significant but will vary depending on the decisions that Ofgem/DESNZ take, the type of technology, whether it is a new or existing asset, and where the asset is located. For example, a wind asset in Scotland could face removal/reduction of locational TNUoS charges or a significant increase in charges. LCP Delta are undertaking further analysis of what the Ofgem changes could mean for the TNUoS charges of different assets. When negotiating PPAs going forwards, parties may wish to analyse this further.

Reducing the BM threshold

This will be relevant to smaller generators which are brought into the BM as a result of this change in law or industry documents - they may incur some additional operational costs as a result (although there is also scope to earn additional revenues). The generator will need to consider how it will approach this from a practical perspective. We would expect change in law provisions to address mechanical changes that may be needed for the PPA to work after the generator is brought into the BM, but additional operational costs or risks incurred by the generator are unlikely to be passed through to the offtaker under existing PPAs without amendment.

Changes to the BM threshold will likely increase competition within the BM market. This could impact revenues for assets such as storage as the BM prices will be reduced and offers may be less likely to be accepted, reducing volumes as well. Analysis from LCP Delta in the recent [From Bottlenecks to Balance report](#) showed overall constraint costs within the BM decreasing by up to £0.4bn in 2030 with the participation of smaller assets. This is a benefit to the consumer but means decreasing revenues for market participants.

4. Conclusion

There is a tension between political intervention to protect consumers and the impact uncertainty relating to this can have on private investment and the cost of capital. These potential reforms have wide ranging implications for generators and other market participants, in terms of their position under existing commercial contracts, points to consider in the negotiation of new commercial contracts and what it may mean for their long-term gross margins. In particular, parties will want to consider the application of change in law provisions in existing PPAs and how to approach these reforms and allocate associated risks when negotiating such provisions in new PPAs.

LCP Delta

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Slaughter and May

Slaughter and May is a leading legal adviser in the energy sector, with expertise spanning all areas having advised on some of the most high-profile and innovative transactions across wind, nuclear, solar, biomass, energy from waste, hydropower, battery storage, hydrogen and CCUS.

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