



Department for
Energy Security
& Net Zero

Contracts for Difference for Low Carbon Electricity Generation

Government response to the legislative proposals in the consultation on further reforms to the Contracts for Difference scheme for Allocation Round 7



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Context

Delivering clean power by 2030 is at the heart of our mission to transform the UK into a clean energy superpower. The CfD scheme is the Government's flagship policy for incentivising new low carbon electricity generating projects in Great Britain. The CfD and its predecessor investment contracts have already delivered around 9 GW of renewable generation, with a further 26 GW contracted to become operational by 2030. The CfD is vital in securing the renewables deployment necessary to deliver clean power by 2030.

The Clean Power 2030 Action Plan¹, published in December 2024, set out the deployment of renewables required to deliver our 2030 goal. The 2030 Action Plan noted that while all renewables deployment will be important in delivering our ambitions, growth in offshore wind will be particularly critical. The offshore wind market also differs from that of other renewables technologies with a higher degree of market concentration and larger projects. Currently, there is around 31GW of constructed or contracted offshore wind capacity, which the 2030 Action Plan states will need to increase to 43-50GW in 2030. That means at least 12GW will need to be secured in the next two to three allocation rounds - AR7, AR8 and, depending on the speed at which projects deploy, AR9.

As well as setting out targets for renewables deployment, the 2030 Action Plan provided a roadmap outlining some of the changes to the CfD that could help to deliver the capacity needed. Those proposed reforms for AR7, which were the subject of consultation, aim to build on the record-breaking success of AR6 to keep us on the path to delivering clean power by 2030. Success of the next allocation round will be measured by securing the capacity needed to keep on track for 2030 at a competitive price for consumers. The changes we are proposing therefore seek to balance significant renewables deployment to deliver the benefits of a low-cost clean power system, while minimising costs to consumers.

This document will focus on the changes to the CfD that require regulatory amendments. These are amending the budget publication process and information received and minor amendments to the Clean Industry Bonus regulations to ensure policy costs are captured by the Ofgem price cap. The other reforms proposed in the consultation will be covered in a separate government response document that will be published in due course.

Overview of consultation proposals

On 21st February 2024, the Department published a consultation on potential changes to the CfD to support delivery of Clean Power 2030. The consultation sought views on specific changes proposed for the next allocation round. The consultation was divided into four sections and included (i) reforms outlined in the Clean Power Action Plan, (ii) other proposed

¹ <https://www.gov.uk/government/publications/clean-power-2030-action-plan>

changes to the CfD scheme, (iii) implementing AR7 policies and (iv) minor and technical changes to the CfD contract terms/regulations.

This document will focus on the changes to the CfD that require regulatory amendments. These include amending the budget publication process, allowing Secretary of State to see more auction information ahead of budget setting, and minor amendments to the Clean Industry Bonus regulations.

Engagement with consultation proposals

The consultation was published online and ran from 21 February 2025 to 21 March 2025. Responses were submitted through an online response tool (Citizen Space), or by email. The consultation received 119 responses, from a mixture of companies active in the energy sector (including developers, generators and suppliers), trade associations and bodies. The consultation also saw a small number of responses from investors, consultancies, not-for-profit public campaign groups and individual members of the public. Note that not all respondents engaged with every question in the consultation; as such, the number of respondents for each policy topic is indicated in each chapter.

Next Steps

- **Implementing these changes:** We will bring forward secondary legislation as required to implement the policy changes proposed in this document.
- **Government response to other policy changes:** We will set out further information related to budget setting in due course, alongside the other policy changes consulted on before the AR7 application window opens.
- **Allocation Round 7:** We will publish further details on the next allocation round in due course.

Responses to the consultation

This consultation response outlines the summary of the 119 responses to the 11 questions in the consultation on amending the budget publication process, allowing Secretary of State to see more auction information ahead of budget setting, and minor amendments to the Clean Industry Bonus regulations. The Government is grateful to stakeholders for taking the time to engage with the consultation.

In reporting the overall response to each question, the '**majority**' indicates the clear view of more than 50% of respondents in response to that question, and '**minority**' indicates fewer than 50%. The following terms have been used in summarising additional points raised in the responses: '**most respondents**' indicates more than 70% of those answering the particular

question; '**a few respondents**' means fewer than 30%; and '**many**' refers to the range in between 30% and 70%.

Section 1 - Amending the budget publication process and information received

Proposals

In order to enable efficient deployment from auctions, the Government proposed to amend when the Contract Budget Notice is published and to remove some of the restrictions on the Secretary of State seeing auction information.

Contract Budget Notice Publication

We proposed to remove the requirement to publish a Contract Budget Notice at the opening of the allocation application window for all technologies and instead to publish the Contract Budget Notice after the contract allocation process has run.

In place of a budget, the Government would publish a capacity ambition for the upcoming AR7 contract allocation process and publish a forward schedule for future allocation rounds (both documents will be published in due course).

Expediting the allocation round process for fixed-bottom offshore wind

We set out that we were considering accelerating the fixed-bottom offshore wind allocation process, if there are no appeals. This may include a regulatory change to allow the Secretary of State to direct NESO to run part of the allocation process ahead of other parts, including running the fixed-bottom offshore wind auction if there are no Tier 1 appeals (appeals to NESO over an applicant's failure to qualify for the round).

Removing restrictions on seeing auction information

The Government proposed allowing the Secretary of State to request price-related information from the Delivery Body (NESO), such as bid price and capacity. This information would be anonymised. All anonymised bid information will be held securely within Government and will not be shared externally.

In terms of process, the sealed bid window would open for all technologies before the budget is published. NESO would seek assurance from the Auditor that bid information is correct, then the Secretary of State could request to see the anonymised bid information from NESO. The Secretary of State may then use this information to inform their final budget decision. The Secretary of State will communicate the final budget to NESO, who will then run the auction.

We proposed that this regulatory change would be broad enough to apply to all technologies. We would set out in the Contract Allocation Framework ahead of the allocation round which anonymised bid information we intend to review.

Amendments to the Contract Allocation Framework

We proposed not to allow flexible bids for fixed-bottom offshore wind applications. This is because flexible bids will not serve a useful purpose if we have the ability to set the budget following sight of anonymised bid information.

Responses to consultation

There was a range of 60 to 70 responses across the questions below. The majority of responses received were from developers, whilst responses were also received from trade bodies and non-governmental organisations, public bodies, investors, supply chain companies, and individuals.

Summary of responses

Contract Budget Notice Publication

In response to question 12, there was an even split between respondents who did not believe it is important to receive a monetary budget before the sealed bid window and respondents who believed it is important. A few respondents were uncertain.

In response to question 13, the majority of respondents did not believe replacing a monetary budget with a capacity ambition would impact participation in the allocation rounds. A few respondents were uncertain, and a few respondents believed replacing a monetary budget with a capacity ambition would negatively impact participation in the allocation round.

Many respondents asked for clarification on how the proposed capacity ambition would work.

In question 14 respondents were asked if publishing a monetary budget after the sealed bid window would have an impact on:

- Competition and bidder behaviour – the majority of respondents said there would be an impact on developing bidding strategies. Many respondents said there would be no impact, and a few respondents were uncertain.
- Boards / developer decision making timelines / processes and whether this could impose any unintended consequences / additional costs on developers – many respondents said there would be an impact on achieving board agreement to bidding strategies. Several respondents said there would be no impact, and a few respondents were uncertain.
- Non-delivery/withdrawal from auction – the majority of respondents said there would be no impact. A few respondents said there could be an impact on non-delivery, and a few respondents were uncertain.

There was a mixture of themes in the responses as to the impact of this change on developers. Some believe that this change could see an increase to bid prices, whilst some believe that this change could incentivise developers to bid their minimum viable price.

Expediting the allocation round process for fixed-bottom offshore wind

In response to question 15, the majority of respondents were in favour of expediting the allocation round process. A few of the respondents were not in favour, whilst a few were uncertain.

Removing restrictions on seeing auction information

In response to question 16, the majority of respondents were in favour of Secretary of State having the power to view anonymised auction information. A few respondents were not in favour of Secretary of State having this power and many proposed amendments to the current proposal.

In response to question 17, many respondents believed Secretary of State seeing bid information would have some form of impact on bidder behaviour, investor confidence and consumers. Many respondents said that there would be a negative impact due to an increased perception of political influence in the auction outcomes which come impact bidder behaviour and investor confidence, impacting consumers.

In response to question 18, the majority of respondents believe this proposal could lead to a better outcome for consumers and industry. A few respondents did not believe this proposal could lead to a better outcome.

In response to question 19, the majority of respondents believe that further assurances other than those set out in the Contract Allocation Framework are required. There were various suggestions from stakeholders on the type of assurances required. The most popular suggestions were asking for more clarity on the auction schedule and more clarity on how Secretary of State will use bid information. A few respondents do not believe further assurances are required.

In response to question 20, the majority of respondents agree with the rationale to apply bid stack visibility to fixed-bottom offshore wind for AR7. Many respondents do not agree that it should only apply to offshore wind, suggesting that this power should apply to other technologies.

Amendments to Contract Allocation Framework

In response to question 21, several respondents were in favour of turning off flexible bids for fixed-bottom offshore wind. Many respondents were not in favour.

Policy response

Contract Budget Notice Publication

Government intends to amend regulations to allow for a Contract Budget Notice to be published later in the allocation round process, rather than 10 working days before the application window opens.

In response to many respondent views, we will provide further clarity on how the Capacity Ambition will work with other auction parameters ahead of the round opening. We will also confirm the timing of the publication of the Contract Budget Notice in the AR7 timeline and the Contract Allocation Framework before the application window opens.

Making these amendments means that Secretary of State can make efficient budget setting decisions, with greater certainty of the capacity and price secured through the auction. In setting the final budget, the Government will prioritise value for money for consumers alongside deployment towards 2030.

Removing restrictions on seeing auction information

Government intends to amend regulations to allow Secretary of State to request anonymised bid information from the Delivery Body (NESO), such as bid price and capacity, across all technologies. All anonymised bid information will be held securely within Government. We believe the Secretary of State having improved price-related information will help to more effectively balance capacity procured and consumer bill costs when setting the budget.

The final approach to using the new power – including which technologies it will apply to in AR7 - will be confirmed in the final government response and published in the Contract Allocation Framework. The Government is considering measures to facilitate a competitive auction outcome, ensuring that deployment ambitions are balanced with consumer benefits. These measures will frame the final approach. We believe this will provide enough assurance as to how Secretary of State intends to use the new power.

Many respondents suggested using our current ‘soft constraint’ powers to achieve our aim. However, this power does not adequately address the current underspend risk. The soft capacity cap only applies to capacity budgets, not monetary budgets. Therefore, in cases where an unsuccessful bid breaches a monetary budget, regardless of whether it breaches the capacity cap, the project will remain unsuccessful in securing a CfD. Therefore, this option could still see underspend in an offshore wind pot.

Amendments to Contract Allocation Framework

Government intends to not to allow flexible bids for fixed-bottom offshore wind applications. This is because flexible bids will not serve a useful purpose if we have the ability to set the budget following sight of anonymised bid information.

The Contract Allocation Framework will set out which technologies are not allowed to submit flexible bids.

Expediting the allocation round process for fixed-bottom offshore wind

After further consideration, we have decided that we will not proceed with a regulatory change to allow the Secretary of State to direct NESO to run part of the allocation process ahead of other parts, including running the fixed-bottom offshore wind auction if there are no Tier 1 appeals. Legislation to achieve this change is not feasible before Allocation Round 7.

However, the Government is reviewing the allocation round timeline and exploring whether there are non-legislative routes to allow the fixed-bottom offshore wind auction to proceed if there are no Tier 1 appeals. We will inform stakeholders ahead of Allocation Round 7 opening if any options will be implemented.

Section 2 - Changes to regulations relating to the Clean Industry Bonus

Proposals

The current price cap methodology from Ofgem does not yet include future Clean Industry Bonus (CIB) costs, as part of CfD costs. Amendments to regulations 2, 4 and 7 of the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 are proposed to enable CIB costs to be included in the price cap methodology. In practice, this means that CIB payments are to be explicitly captured in daily and quarterly settlements between the LCCC and the generator, which allows the total cost of the CIB to be factored in fully to the Supplier Obligation. This is necessary so that CIB costs, carried by the Supplier Obligation Levy, are reflected in the total price cap and to ensure that the price cap is accurate.

Summary of responses

Stakeholders were invited to identify any unintended consequences arising from this regulatory change.

In response to question 52, there were 28 responses. The majority agreed that the changes to introduce Clean Industry Bonus costs into the price cap did not seem to introduce any unintended consequences.

Those who disagreed or were neutral did not focus specifically on the price cap issue, but more on the speed at which Clean Industry Bonus get repaid compared to when minimum standard liabilities may be raised, or on the absence of Clean Industry Bonus for marine or solar technologies.

Policy response

Government intends to implement these regulatory changes to ensure that the price cap is accurate.

This publication is available from: www.gov.uk/government/consultations/further-reforms-to-the-contracts-for-difference-scheme-for-allocation-round-7

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