Department for Energy Security & Net Zero

Contracts for Difference for Low Carbon Electricity Generation

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

July 2025

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Ministerial foreword

Our mission to make Britain a clean energy superpower is about getting off the rollercoaster of fossil fuel markets controlled by petrostates and dictators with clean homegrown power that we control. The Contracts for Difference (CfD) scheme is central to securing the investment in clean power that we need, at the speed and scale required.

We know that clean power by 2030 is the route to building a more secure energy system that can bring down bills for good. Our priority is to deliver at least cost to billpayers and taxpayers and the most economic benefit to the country. As we do so, we know the next few CfD allocation rounds will be particularly important in ensuring we build the clean energy infrastructure we need at the best possible price for consumers.

The reforms we are setting out today represent an important step forward for our mission. By securing investment in renewable energy at competitive prices, we will increase our energy independence, protect billpayers, create good jobs and drive growth around the country.

Ed Miliband

Secretary of State for Energy Security and Net Zero

Introduction

Context

The Contracts for Difference (CfD) scheme, as the government's flagship policy for incentivising new low-carbon electricity generating projects in Great Britain, is critical to achieving our mission to transform the UK into a clean energy superpower.

The Clean Power 2030 Action Plan[1], published in December 2024, set out the deployment of renewable technologies required to deliver our 2030 goal. Accelerating the energy transition in Great Britian will help realise the benefits of a higher renewable power system sooner, as we prepare for significant growth in electricity demand in the 2030s and beyond as major parts of our economy electrify.

We also committed in the 2030 Action Plan to produce a schedule for future CfD allocation rounds to improve transparency and predictability in the timing and scale of ambition for the CfD. We will continue to hold annual allocation rounds and will confirm the timings of Allocation Round 8 in due course.

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 AR6 to keep us on the path to delivering clean power by 2030. The changes we are making seek to balance significant renewables deployment to deliver the benefits of a low-cost clean power system, while minimising costs to consumers.

On 6 May 2025, the government published an initial response to the consultation covering the areas that required regulatory amendments. This document is the final full response to the consultation, covering all areas not addressed previously.

Overview of consultation proposals

On 21 February 2025, the government published a consultation on further reforms to the Contracts for Difference scheme for AR7, which is planned to open to applications this summer. The consultation invited views from stakeholders on the following potential reforms set out in the 2030 Action Plan:

- to relax CfD eligibility criteria for fixed-bottom offshore wind (OFW) to permit projects that have not yet obtained full planning consent to participate in near-term allocation rounds;
- changes to the information the Secretary of State uses to inform the final budget; and

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

- evidence to assess whether to increase the length of the CfD contract term for future CfD projects.

In addition, the consultation invited views on the following proposed changes to the scheme:

- any further measures to facilitate the government's intention to support multiple Test & Demonstration scale floating offshore wind (FLOW) projects in AR7;
- to increase the length of the Target Commissioning Window for Solar PV from three to six months;
- to remove the ability to apply surrendered capacity from previous allocation rounds into AR7;
- to implement policies previously consulted on covering repowering for onshore wind (ONW) and extending phasing to FLOW projects;
- several minor and technical changes to the CfD contract terms;
- minor changes to CfD regulations to enable the costs of the Clean Industry Bonus to be included in Ofgem's price cap methodology; and
- the potential impact on AR7 from wider risks around renewables, including the scale of change at domestic and international level.

Responses to the consultation

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. 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. 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%.

Summary of decisions

1. The government intends to set appropriate budget and auction parameters to facilitate its intention to support multiple Test & Demonstration scale floating offshore wind projects in AR7.

2.1 The government intends to implement its proposal to relax eligibility requirements to allow fixed-bottom offshore wind projects to apply for a CfD while awaiting full planning consent. The government has decided to adopt an amended eligibility threshold, so that 12 months must have passed between the project reaching the relevant planning stage and the CfD application deadline.

2.2 The government intends to use new regulatory powers to change the information the Secretary of State uses to inform the final budget. For fixed-bottom offshore wind, the budget will be published before the sealed bid window; only bid information on projects that breach the budget level will be viewed by Secretary of State; and a budget increase will only be considered if there is a benefit to consumers.

2.3 The government intends to increase the length of new CfD contracts from 15 to 20 years for fixed-bottom offshore wind, floating offshore wind, onshore wind and solar technologies.

3.1 The government intends to increase the length of the Target Commissioning Window for Solar PV from 3 to 12 months.

3.2 The government intends to implement a temporary restriction on CfD capacity surrendered from previous allocation rounds being entered into AR7.

4.1 The government intends to implement the proposed contract and rule changes to allow repowered onshore wind projects to access CfD support.

4.2 The government intends to implement the proposed contract changes to extend phasing to floating offshore wind.

5.1 The government intends to implement the proposed contract changes relating to the establishment of the National Energy System Operator (NESO).

5.2 The government intends to implement the proposed contract changes relating to Clean Industry Bonus payment suspensions.

Impact Assessment approach

For 2.1, 2.2 and 2.3, please see the Impact Assessment attached to this Government response. An Impact Assessment on 2.2 was also published in May 2025[2]

For 3.1 and 3.2, an assessment of the impacts is included in this document.

For 4.1 and 4.2, an Impact Assessment was published in August 2024[3].

[2] https://www.gov.uk/government/consultations/further-reforms-to-the-contracts-for-difference-scheme-for-allocation-round-7

[3] Proposed amendments to Contracts for Difference for Allocation Round 7 and future rounds - GOV.UK

Next steps

A revised timeline for AR7 has been published on the CfD Microsite. We expect AR7 to open for applications in August 2025. For more detail regarding publication of certain auction parameters, see section 2.2 on amending the budget publication process and information received.

The government also published a consultation on changes to the CfD contract to implement the proposal to relax eligibility requirements for unconsented fixed-bottom offshore wind projects.[4]

Further details regarding AR7, including the government response to the contract consultation, will be published ahead of the round opening to applications.

[4] https://www.gov.uk/government/consultations/allocation-round-7-potential-eligibility-changes-for-fixed-bottom-offshore-wind

Section 1: Support for Floating Offshore Wind

Proposal

Floating offshore wind could help to secure the UK's energy supply and deliver on our statutory decarbonisation obligations. To support this, it is important to provide a route to market for innovative Test & Demonstration scale projects, to provide learnings and support cost reduction of this nascent technology ahead of commercial scale deployment, as well as contributing to the development of the UK supply chain and providing opportunities for a just transition of the workforce from declining carbon intensive sectors.

The government, therefore, set out its intention to support multiple Test & Demonstration scale floating offshore wind projects in AR7. It proposed to set the budget and other round parameters appropriately to facilitate this, to help sustainable development of this nascent sector in deployment zones across the UK, with consideration for cost to the consumer.

Question 1 sought views on whether any further measures were necessary to facilitate the government's intention, whilst considering potential impacts on auction dynamics.

Responses to the consultation

There were 64 responses to the consultation that addressed **Question 1**. Many responses were from developers, but we also received a few responses from trade associations and from various other bodies and individuals.

Summary of responses

Many respondents welcomed the government's support for Test & Demonstration scale floating offshore wind and its intention to support multiple projects in AR7. A few respondents considered that the government's proposed approach was sufficient to achieve this. The majority of respondents provided various suggestions of specific measures that might be applied.

Many respondents highlighted the importance of capturing learnings from Test & Demonstration scale projects to support technological development and drive cost reductions in the move to commercial-scale projects. Many noted the importance of supporting both smaller and larger scale projects.

Many respondents suggested that the Administrative Strike Price (ASP) for floating offshore wind should not be lower than in AR6 and many indicated that this should be paired with increasing contract length.

Many respondents recognised the benefit of a capacity ambition, with many suggesting this should take precedence over a monetary budget.

Many respondents noted the need for adequate budget to support the government's ambition and many suggested that some form of ring-fence would help to protect Test & Demonstration scale floating offshore wind projects. Many suggested a capacity minimum should be set at the level of known eligible projects.

A few suggested extending the proposal for the Secretary of State to have sight of anonymised bid information to floating offshore wind. A few suggested relaxing the eligibility requirement for planning consent, though one respondent recommended maintaining current eligibility requirements.

A few respondents recommended carefully managing competition with a priority of supporting deployment. A few mentioned the need to manage costs to consumers.

A few respondents suggested supporting deployment in specific geographic areas.

A few respondents suggested support is needed for the development of supply chains.

A few respondents recommended considering alternative support mechanisms for Test & Demonstration scale projects.

Specific suggestions from a few included reducing the Required Installed Capacity for floating offshore wind from 95% to 85% and increasing the longstop period from 12 to 24 months, in line with those for fixed-bottom offshore wind.

A few respondents provided suggestions for longer-term measures, beyond AR7. These included a capacity ambition for future allocation rounds, adapting eligibility criteria, longer delivery windows and bigger budgets to support commercial-scale projects too.

Policy response

The government intends to set appropriate budget and auction parameters to facilitate its intention to support multiple Test & Demonstration scale floating offshore wind projects in AR7, with consideration of cost to the consumer. The government recognises the importance of providing a route to market for these projects and the contribution that they can make in supporting floating offshore wind deployment in the longer term. The government also notes the specific suggestions in consultation responses, both for this allocation round and for the longer term. The government will consider how best to support floating offshore wind projects ahead of each allocation round, recognising the development of the technology and the evolution of the emerging pipeline, including the balance between Test & Demonstration and commercial scale projects.

Section 2. Proposed reforms to the CfD scheme

2.1 Relaxing CfD eligibility criteria for fixed-bottom offshore wind projects

Proposals

The CfD scheme aims to use the power of markets and competition to minimise costs to consumers, while delivering the investment needed to meet our mission to be a clean energy superpower. To attract more bidders to the auction and improve competition, the government consulted on proposals to remove the requirement to obtain planning consent before applying for a CfD for fixed-bottom offshore wind only, as well as possible changes to the CfD Standard Terms and Conditions to implement this policy.

Responses to the consultation

There were 87 responses to **Questions 2-11**, though not every respondent answered every question. The majority of responses were from developers. We also received responses from trade associations, investors, public bodies, research centres, engineering and supply chain companies and individuals.

Summary of responses

Changes to the eligibility requirements

Question 2 sought views on whether stakeholders supported the general proposal to relax eligibility requirements to enable projects to apply for a CfD while awaiting planning consent. Support for the proposal was mixed, with no majority in favour or against (but slightly more against).

Respondents who supported the proposal emphasised benefits such as increased competition, lower consumer costs, earlier supply chain engagement, and quicker deployment. However, many respondents who supported the proposal also expressed concerns about potential drawbacks.

Respondents who did not support the proposal raised concerns about increased non-delivery risk resulting from planning delays, and particularly the risk of unconsented projects displacing consented ones. Respondents were concerned about unexpected bidding behaviour, including unconsented projects factoring in higher ‘risk premiums’, which could result in higher strike prices.

Question 3 sought views on two options for the date by which a replacement eligibility criterion should be achieved. The most common answer was ‘no preference’. Option B (Consent

Eligibility Date is 13 December 2024) was more popular than Option A (Consent Eligibility is the CfD application deadline), with respondents pointing to the need to ensure only relatively advanced projects can apply for a CfD. A few respondents stated that using either date as the threshold would be too early in the planning process, and that a later threshold would be preferable.

Question 4 sought views on whether newly eligible (unconsented) projects would be likely to take advantage of the proposal. The majority of respondents believed that newly eligible projects would be likely to take advantage of the proposed relaxation of eligibility requirements.

Of those who provided further detail, a few respondents mentioned how a CfD award before full planning consent could secure earlier project certainty and investor confidence.

Many respondents mentioned that this would depend on the developer's risk appetite, the maturity of the project and the contractual flexibilities offered.

Question 5 sought views on whether the proposal would be likely to reduce development timelines for newly eligible projects. Opinions were mixed with no majority, though more respondents believed that the proposal would be likely to reduce development timelines than those who said it would not or were unsure.

Of those who believed it could reduce development timelines, many respondents thought that eliminating the wait between receiving planning consent and applying for a CfD would be material to overall timelines. However, most respondents who answered no or unsure stated that overall timelines are more likely to be driven by more fundamental factors such as planning consent, grid connection dates and supply chain availability.

Question 6 sought views on whether a developer would face any challenges or barriers in preparing a bid for a newly eligible (unconsented) project. Most respondents believed that a newly eligible (unconsented) project would face additional challenges or barriers when preparing a bid.

Of those who provided further detail, the majority mentioned increased cost uncertainty resulting from planning delays and the risk of planning variations.

In addition, over half highlighted potential challenges in engaging with the supply chain at an early stage, arguing that suppliers may prioritise consented projects.

Question 7 sought views on whether the proposal would have a positive, negative or neutral impact on supply chains. Opinions were mixed with no majority; though more respondents believed the proposed change would have a negative impact on supply chains, than a positive or neutral impact.

Those who believed the proposed change would have a negative impact on supply chains raised concerns about increased pressure on supply chains to meet demand, which could lead to increased delays, as well as difficulties prioritising between consented and unconsented projects and the impact of higher non-delivery risk.

Those who believed the proposed change would have a positive impact on supply chains spoke about improved longer-term visibility of orders from earlier supply chain engagement.

A few respondents said the supply chain would be unlikely to engage with unconsented projects, and a few respondents said the opposite.

Changes to the CfD Standard Terms and Conditions

Question 8 sought views on whether the Non-Delivery Disincentive should apply to unconsented projects that fail to return a signed CfD contract to the Low Carbon Contracts Company (LCCC) within 10 working days of being offered one. Most respondents agreed that the Non-Delivery Disincentive (NDD) should apply to unconsented projects. Many respondents who said yes believed that the NDD was important in deterring speculative bids and minimising non-delivery risks. A few believed it was important that the NDD applied to unconsented projects to ensure fairness between consented and unconsented projects. A few said that whilst they agreed that the NDD should apply, they had concerns about penalising developers for factors beyond their control and how flexibility and exemptions could be required. A few respondents felt that the NDD should be more robust and proposed using mechanisms such as bid bonds or completion bonds to achieve this.

Question 9 sought views on whether certain contractual obligations and milestones should be deferred or some flexibility permitted for unconsented projects until a planning decision is issued. A slight majority agreed that there should be some contractual flexibility permitted for unconsented projects until a planning decision is issued.

Of those who provided further detail to their response, over half mentioned that limited flexibility was logical or practical to avoid unfair penalties for factors outside of a developer's control, such as planning decision delays, grid connection delays and Judicial Reviews.

Those who did not agree that that there should be contractual flexibility raised concerns about developers exploiting flexibility and increased speculative bidding. Respondents also raised concerns about the risk of creating an unlevel playing field between consented and unconsented projects.

Questions 10a, 10b and 10c sought views on whether certain contractual flexibilities should be allowed for unconsented projects.

- Deferment of the Milestone Delivery Date (MDD) until a planning consent is issued – responses were mixed between yes, no and unsure, with no clear majority.
- Whether a generator should have the ability to leave its contract early without penalty if planning consent is delayed beyond a certain date – responses were also mixed, with almost half of respondents disagreeing with this proposed flexibility.
- Whether unconsented projects should be allowed to adjust their contracts to accommodate conditions in their planning consent – responses were split equally between yes and no, with a few respondents answering unsure.

Question 11 sought views on whether there are any other contractual obligations or milestones that should be deferred or granted flexibility. A few respondents provided suggestions for additional contractual flexibilities, which we have considered.

Policy response

The government intends to implement its proposal to relax eligibility requirements to allow fixed-bottom offshore wind projects to apply for a CfD, while awaiting full planning consent. The primary rationale for this change is to open the auction to more projects, improving competitive tension. Improved competition should deliver better outcomes for consumers as we aim to scale up renewable deployment, by incentivising developers to bid at their minimum viable price. We will keep this measure under review for future allocation rounds.

We have considered feedback that the previously proposed threshold came too early in the planning process and agree that it risked insufficiently advanced projects entering the round.

We have, therefore, decided to adopt the following amended eligibility threshold, to achieve a better balance between improving competition and mitigating non-delivery risk:

By the CfD application deadline, and in relation to the eligible generating station only[5]*, 12 months should have passed since:*

- *projects in England and Wales had their application for a Development Consent Order (DCO) accepted for examination by the Planning Inspectorate.*
- *projects in Scotland applied to the Scottish Ministers for any required section 36 consent and marine licence(s), and public consultation commenced.*

Securing a CfD is independent from securing planning permission and the awarding of a CfD will neither prejudice nor impact the planning process or decision making. Neither will this reform negate or reduce the requirements to do what is possible to avoid damage to nature, and delivering compensation when damage is impossible to avoid, as outlined in current planning processes.

We are aware that the new eligibility threshold does not cater to projects that are too small to enter the DCO process. We will consult on an appropriate threshold for non-DCO projects ahead of future allocation rounds as appropriate.

On 27 May 2025, we published a consultation on potential technical and drafting amendments that would be required to the scheme rules and contract terms, to ensure the practical implementation of this policy.

That document highlighted that the government continues to assess whether the current NDD is appropriate. If the government was minded to alter the NDD provisions, this would require a change to regulations, which is not possible before AR7 opens this summer. Potential applicants are, therefore, reminded that termination of contract before the MDD for any reason, including by mutual consent, would count as ‘non-delivery’ under CfD regulations.

[5] The status of other applicable planning consents will be checked during the CfD application process.

Projects to which the NDD applies would be excluded from participating in the next two allocation rounds for which they are eligible.

More generally, this consultation will inform any resulting amendments to the CfD contract terms (as initially covered by questions 8-11 in the February consultation), with the final outcome announced in a further government response prior to the opening of AR7 to applications. We will also consider responses to the February consultation in developing that final government response.

2.2 Amending the budget publication process and information received

On 6 May 2025, the government published the response to the legislative amendments to the CfD scheme ahead of AR7 opening.[6] This response confirmed our approach to legislative amendments and commitment to inform stakeholders of how we intend to use the new regulatory powers in AR7.

Contract Budget Notice Publication

Many developers indicated the importance of receiving a monetary budget before the sealed bid window, as it provides a useful indication to participants of the government's ambition for the allocation round. Following the concerns raised, we can confirm that the government will publish Contract Budget Notices for all technologies. As a monetary budget will be published and the Clean Power Action Plan sets out ambitions for key technologies up to 2030, the government will not issue a specific AR7 capacity ambition statement.

Once the Statutory Instrument (SI) comes into force, it is anticipated that for AR7, Contract Budget Notices setting out budgets for each pot will be published after the application window opens, but before the sealed bid window opens. This will not affect the Administrative Strike Price and Pot Structure notices, which will be published 10 working days before the application window opens. The Contract Allocation Framework and the updated timeline will set out when the Contract Budget Notices will be published.

Removing restrictions on seeing auction information

In response to the consultation, many developers suggested alternative approaches to the Secretary of State seeing all offshore wind bids. Most of the suggestions involved the Secretary of State only seeing offshore wind bids that breached a pre-determined level, which we have termed 'partial visibility'. The government intends to implement a partial bid stack approach (only seeing anonymised bids that breach a pre-determined level) solely for fixed-bottom offshore wind. This is subject to the amending SI that was laid in Parliament on 2 June being passed, which will allow the Secretary of State to request anonymous information about

[6] Further reforms to the Contracts for Difference scheme for Allocation Round 7: government response to the legislative proposals

sealed bids before the end of the round. The government will maintain the current approach to budget setting for all other technologies i.e. setting a budget without sight of the bid stack.

As set out in the previous government response[7] and impact assessment[8] on bid stack visibility, fixed-bottom offshore wind faces an underspend risk which could delay the deployment of renewables, undermining progress towards Clean Power 2030 (CP2030) capacity ambitions. Unlike fixed-bottom offshore wind, Pot 1 technologies do not typically face this underspend risk. Whilst emerging technologies can also face an underspend risk, these technologies are expected to play a more limited role in achieving CP2030, as set out in the Clean Power Action Plan. Therefore, the government will only apply bid stack visibility to fixed-bottom offshore wind for AR7; this aligns with the view of the majority of respondents as set out in the previous government response.

For AR7, the government will publish a monetary budget for fixed-bottom offshore wind and will only assess bids above this constraint in order to evaluate whether to increase the budget. This approach aims to balance achieving a good value for money outcome for consumers whilst keeping us on the path to delivering CP2030 and wider decarbonisation targets. The government will have access to anonymised price information of bids which exceed the budget, enabling an assessment of whether these bids represent good value for money for the consumer.

Expediting the allocation round process for offshore wind

We can confirm that fixed-bottom offshore wind and floating offshore wind will be in a separate allocation round from all other technologies, designated AR7. All other technologies will be in a separate allocation round, designated AR7a. This will allow the fixed-bottom offshore wind and floating offshore wind contract allocation process to proceed in the event all applications are deemed eligible by the Delivery Body, without having to wait for the conclusion of any appeals processes of other technologies. This will allow fixed-bottom offshore wind and floating offshore wind results to be published as soon as possible. Alongside the publication of this government response, we have published an updated timeline for AR7 on the CfD Microsite[9]. This publication is comprised of two timelines: one for fixed-bottom offshore wind and floating offshore wind (AR7) and the other for all other technologies (AR7a).

Implementation

In summary, our approach for AR7 will be:

Fixed-bottom offshore wind

- A Contract Budget Notice will be published before the sealed bid window. This will inform developers of the budget available in AR7.

[7] Further reforms to the Contracts for Difference scheme for Allocation Round 7: government response to the legislative proposals
[8] Further reforms to the Contracts for Difference scheme for Allocation Round 7: Final stage impact assessment

[9] AR7 Timeline | Contracts for difference CfD

- Only bid information on projects that breach the budget level will be viewed by the Secretary of State.
- A budget increase will only be considered if it represents good value for money and if HM Treasury agree to an increase. Any changes to the budget will be published in accordance with the amended regulations
- Flexible bids for offshore wind in AR7 will not be available.

All other technologies

- A Contract Budget Notice will be published for all other technologies ahead of the sealed bid window opening.
- The Secretary of State will not have access to bid information for any other technologies.
- Flexible bids will remain available to all other technologies.
- A revised timeline has been published on the CfD Microsite, this provides stakeholders with the indication on when the budget will be published.

Our use of the new regulatory powers will be reviewed after the conclusion of AR7 and the government will confirm how such powers will be used in future allocation rounds. We will also publish full auction parameters, including our approach to separate clearing prices, ahead of AR7 opening to applications.

2.3 Increasing the contract term for future CfD projects

The Electricity Market Reform (EMR) (2013) concluded that the optimal contract term for a CfD was 15 years. At the time, this was judged to appropriately balance the risks between Value for Money (VfM), bill affordability and investor confidence. However, due to recent global cost pressures that have impacted all electricity generating technologies, there is significant pressure on consumer energy bills. As such, we considered it appropriate to reassess the term of the CfD and consider whether 15 years remained appropriate across technologies, and if increasing it could help to place downward pressure on consumer energy bills in the medium-term.

Response to the consultation

There were 87 responses to **Questions 22-36**, though not every respondent answered every question. Most responses were from renewable developers/generators; however, responses were also received from investors, trade associations, research centres, supply chain organisations, public bodies and individuals.

Summary of responses

Market failure

Question 22 sought views on whether new renewable electricity projects operating on a 15-year CfD were more exposed to market price risk than was originally conceived in the EMR (2013). The majority of respondents reported that new renewable electricity projects operating on a 15-year CfD would be exposed to greater market price risk. Key considerations include longer asset lifetimes, significant increases in renewables deployment, and more frequent periods of negative wholesale prices[10]. Uncertainty related to market reform, such as the Review of Electricity Market Arrangements (REMA), was seen as further exacerbating these risks. Some respondents did not expect greater market price risk, citing the EMR's clear position on revenue support tailing off and the market's ability to adapt. One respondent believed that lower revenue is a natural consequence of diminishing returns, while another suggested that the market will be better equipped to manage risks by the 2030s and that a longer-term contract may inhibit the incentive to adapt.

Question 23 sought views on whether there are concerns about the economic viability of assets at the end of their CfD term. Most respondents reported that they had concerns. Reasons included price cannibalisation, negative pricing periods, and greater exposure to merchant risk due to longer asset lifetimes. The potential introduction of zonal pricing and high operational costs further exacerbate these concerns. Some respondents highlighted the immaturity of the Power Purchase Agreement (PPA) and Corporate Power Purchase Agreement (CPPA) market in Great Britain as a factor limiting post-CfD viability. A minority were not concerned about economic viability at the end of an asset's CfD term. Of these, many recognised that the business case was more risky, less profitable and harder to predict, but felt that projects with short-run marginal cost would likely remain economic and that the PPA market would support merchant tail viability. A few were unsure, citing the difficulty in modelling future merchant risk and the impact of potential reforms under REMA.

Question 24 asked those who responded to question 22 and 23 to provide evidence to quantify the impact of these developments on strike price bids (% and/or £/MWh). Estimates varied but most respondents suggested there would be some increase in CfD bids from AR6 to AR7 due to developments in the market such as increased frequency of negative pricing, merchant tail risk and concern over price cannibalisation.

Potential benefits

Question 25 sought views on whether increasing the contract term would reduce cost of capital, specifically looking for breakdown of impact on cost of debt, equity and gearing. A majority agreed that increasing the contract term would reduce the cost of capital. Reasons given included greater revenue certainty, lower risk perception, and alignment with longer operational life of renewable assets. Detailed breakdowns of impacts on cost of debt, cost of equity, and gearing were provided, with many suggesting higher gearing ratios and lower overall weighted average cost of capital. A few disagreed, believing that increasing the CfD contract term would not necessarily reduce the cost of capital. One respondent argued that the

[10] Since AR4, generators have not been paid difference payments under the CfD when day-ahead prices are negative.

cost of capital was determined by wider economic circumstances and return expectations for project development risk would not be significantly impacted by longer contracts.

Question 26 asked that those who responded 'yes' to question 25 to also provide evidence to quantify the impact they believe it may have on CfD strike prices (% and/or £/MWh) via i) reduced cost of capital; ii) increased subsidy period; and iii) details of discount rates applied. Respondents provided varied estimates of strike price reductions due to longer contracts. Most respondents covering offshore and onshore wind reported strike price reductions when moving to a 20-year contract. Opinions were mixed on whether extending the contract to 25 years would lead to further reductions. While there were fewer responses for solar compared to offshore and onshore wind, most of those respondents also indicated strike price reductions for a 20-year contract. A few respondents reported that reduced cost of capital would reduce strike prices for floating offshore wind. One respondent provided evidence on tidal, and although they stated that contract extension would benefit the total project cost of capital, they suggested that it might not materially affect the strike price.

Question 27 asked the extent to which a potential reduction in strike price from longer contracts would be limited if there was insufficient competition in auctions. Responses varied; some believed there would be no significant impact, while many of these respondents felt that there were too many variables in CfD auction dynamics and bidding strategy beyond competition levels. Some were unsure whether there would be an impact. A few suggested there would be significant impact of insufficient competition on the potential reduction in strike prices.

Question 28 sought views on whether there are any changes to auction rules or design that the government could make to increase the likelihood that project cost savings feed through to strike price bids. Respondent recommendations included pay-as-bid auctions, technology-specific capacity targets, simplified metering requirements, and addressing high Transmission Network Use of System (TNUoS) charges. Some proposed extending delivery years and creating separate auctions for longer CfD contracts.

Costs / unintended consequences

Question 29 sought views on whether increasing the contract term for new CfD assets in AR7 and later allocation rounds would increase wholesale electricity price cannibalisation. Most respondents do not believe that increasing the contract term for CfD assets would increase wholesale electricity price cannibalisation. They argued that price cannibalisation is driven by higher renewable penetration with geographic concentration, and low energy system flexibility, rather than CfD contract length specifically. A minority believed that longer contracts would increase cannibalisation due to higher volumes of electricity traded and insufficient storage and flex capacity.

Question 30 sought views on whether increasing the contract term would materially impact security of supply. Most respondents reported that they did not believe that longer contracts would materially impact security of supply. They argued that more renewables would enhance

security, supported by storage and flexible dispatch. Those who responded yes expressed concerns about more generation being shielded from market signals.

Questions 31 sought views on whether increasing the contract term would materially increase overall investor confidence in the renewable electricity industry. The majority did believe that increasing the contract term would materially increase overall investor confidence. Reasons included greater revenue certainty and more favourable borrowing terms, which could contribute to lowering the cost of capital. Reasons also included alignment with other countries' support schemes and encouraging investment in supply chains. Overall, these respondents felt that longer CfD contracts could provide a strong signal of government support. A minority disagreed, suggesting that current contract terms are sufficient and that longer terms might introduce new challenges.

Question 32 asked for any unintended consequences that could arise as a result of this reform, that may not have been considered in this consultation. A small majority highlighted potential unintentional consequences. Concerns about interactions with zonal pricing were also raised several times. There were also multiple mentions of longer CfD contracts exacerbating concerns over blunted market signals and interactions between the CfD and other financing packages (e.g. PPAs).

Implementation

Question 33 sought views on which contract term best balances the factors of: i) the impact on the wholesale market and security of supply; ii) the impact on CfD strike price bids and billpayers; and iii) overall investor confidence in the renewable electricity industry. Most respondents preferred extending the CfD contract term to at least 20 years, with many of these respondents advocating for 25 years to maximise investor confidence and reduce costs. A few suggested flexible contract length options based on technology-specific needs. A few suggested 15 years was sufficient.

Question 34 sought views on whether an alternative approach to price indexation (currently CPI) may be required in any additional years of the contract to better balance the risk between generator and consumer. Most respondents opposed changing the price indexation from CPI, citing concerns about investor confidence, market stability, and increased strike prices. A few supported a move to an industry-specific measure or linking indexation to TNUoS costs.

Question 35 sought views on whether increasing the contract term from 15 years should apply to all renewable technologies supported under the CfD. Some respondents supported applying the increased contract term to all renewable technologies. Some suggested limiting the extension to technologies with increased operational lifetimes. A few also specifically noted that FLOW assets should be included given its developmental stage and scale potential.

Question 36 sought views on what unintended consequences there may be for enabling longer contract term for i) fixed-bottom offshore wind only; ii) fixed-bottom offshore wind and onshore wind only; iii) fixed-bottom offshore wind, onshore wind and solar only. Some respondents highlighted that different contract terms between technologies could disadvantage one technology over the other, whilst some respondents noted that pot structure and

parameters would need to be adjusted to ensure competition is still effective, if contract lengths vary for different technologies.

Policy response

The government intends to offer 20-year contracts for fixed-bottom offshore wind, floating offshore wind, onshore wind[11] and solar. The indexation measure will remain as Consumer Price Index (CPI) for the duration of the contract, including any additional years.

The Clean Energy Superpower Mission is accelerating the GB energy transition to realise the benefits of a higher renewable power system sooner, as we prepare for significant growth in electricity demand in the 2030s and beyond as major parts of our economy electrify. To achieve this, there will be significant scaling up of capital-intensive infrastructure from now into the 2030s and beyond.

Outcomes from the consultation and internal and external analysis outlined in our impact assessment indicate that a longer CfD contract could help rebalance costs between the short term (where major growth in investment is needed) and long term (where the benefits of that investment will continue to be felt). While this approach would reduce subsidy costs between approximately 2030 and 2045, it would likely lead to lead to higher costs in the longer-term beyond 2045 for a 20-year term compared to a 15-year term. The net impact on lifetime discounted subsidy costs is uncertain and dependent on future wholesale electricity prices. During the 2040s, many CfD-supported assets from previous rounds are expected to transition to their merchant phase, supplying electricity at market prices without additional support. Longer contracts would reallocate some of the capital costs to consumers in the 2040s, who are set to benefit from the lower prices associated with this larger merchant pool of renewables.

The consultation and wider internal and external analysis[12] highlighted that there are two main processes by which costs would be smoothed and balanced more evenly across generations, as a result of longer contracts**.** Firstly, a longer contract term reduces the relative annual support required, as the costs are spread over a longer period. Secondly, a longer contract would reduce the exposure of renewable assets to merchant tail revenue risk, which could feed through to lower cost of capital and downward pressure on strike prices.

This second point – reducing exposure to revenue volatility – was a particular focus of consultation feedback. Developments such as increasing asset lifetimes, growing macroeconomic pressures and market uncertainty are contributing to an increase in merchant tail revenue risk for projects. Longer contracts could help to mitigate some of this risk by increasing the period in which revenues are more certain. This reduced risk would feed into cost of capital decreases, enable cheaper financing arrangements and reduce total project costs; potentially bringing down strike prices compared to a 15-year term.

[11] For the purpose of this document, this includes Remote Island Wind and repowered onshore wind.
[12] Independent research on the impacts of contract length extension was provided by consultancy CEPA.

The successful passthrough of the benefits of a longer contract to consumer bills and the VfM of a longer contract rely on sufficient competitive tension in the auction. The wider reforms covered in this government response, such as the relaxation of eligibility and amendment to bid stack visibility, aim to facilitate this and to ensure value for money to consumers.

The magnitude of the long-term subsidy increases compared with the anticipated reductions in the medium term are uncertain. This is primarily due to the extended timeframe over which these long-term subsidy costs are expected to emerge and the range of variables that could affect the wholesale price in that time. However, CfD subsidy costs depend on the difference between the wholesale electricity price and the CfD strike price. In the long term, wholesale price reductions – driven by renewables – are what determines these subsidy costs. Importantly, any increase in consumer bills compared to the counterfactual would therefore only occur if wholesale prices have fallen significantly after 15 years and consumers are already realising the benefits.

As well as reducing consumer bill impact in the medium term, the extension of contracts to 20-years for selected technologies is expected to boost investor confidence in an increasingly competitive and uncertain market. Given current global market uncertainty, competition and pressure across the value chain, it is critical that we ensure our CfD offering continues to crowd in the investment needed and ensures the realisation of the socio-economic benefits of a clean power system.

Our assessment shows that the VfM benefits of longer contracts are not as strong for contracts over 20 years. Consultation feedback was not conclusive that strike price bids would be lower for AR7 projects under a 25-year contract compared to 20 years, due to financing limitations for contracts at this length. Moreover, as contract length increases, the total lifetime costs are expected to increase, and potential benefits of assets operating in the merchant tail decrease, with a 25-year contract fully eroding the merchant tail for onshore wind and floating offshore wind.

We have also assessed the case for each CfD-eligible technology. We consider that, under a 20-year term, there is the strongest case to extend for fixed-bottom offshore wind, onshore wind, floating offshore wind and solar. Our evidence of strike price reductions is strongest for fixed-bottom offshore wind, onshore wind and solar, and these are also the technologies for which the capacity in the pipeline is significant enough to realise the benefits to consumers. Whilst floating offshore wind currently has significantly higher costs than these technologies, we have some evidence that a longer contract would decrease its strike price. Floating offshore wind also has a significant pipeline which is likely to come online in the 2030s and is the only other technology with sufficient capacity and scale of projects in the pipeline which could lead to meaningful improvements to medium-term bill affordability when the cost of the energy transition is at its highest – helping to smooth the transition. A longer contract for floating offshore wind is also justified given its interlinked supply chains with fixed-bottom offshore wind, high upfront costs, and similar exposure to price risk. We will reassess the case to increase the contract term for other CfD technologies in future rounds, subject to evidence of strike price reductions and scale, to deliver sufficient benefits for consumers.

We assessed whether it would be appropriate to change the current indexation measure – Consumer Price Index (CPI) – to use an adjusted or partial indexation approach during the additional 5-year extension. We considered that maintaining CPI across the additional years of the contract could add burden on consumers in the long term should significant inflationary events occur. However, consultation feedback strongly indicated that any change to indexation may lead developers to bake in the additional risk to their bidding prices. This would decrease the strike price reduction benefits of increasing the contract length, detracting from the key benefit of the policy in reducing consumer bills. On balance, we consider maintaining CPI as the indexation measure for the duration of the extended period of the contract is best value for consumers.

We have explored options for implementing alternative auction approaches to facilitate the implementation of 20-year contracts. However, legislative requirements, implementation timelines and complexities make these options undeliverable for AR7 without significant delay.

We also considered concerns related to unintentional consequences highlighted by respondents. Wider reforms covered in this consultation and other departmental programmes help to respond to many of these.

Section 3. Other proposed changes to the CfD scheme

3.1 Solar PV Target Commissioning Window

Proposals

Increasing the Solar Target Commissioning Window from 3 months to 6 months

We proposed to increase the Solar PV Target Commissioning Window (TCW) from 3 months to 6 months for all solar technologies due to the increasing size of solar projects in development and our 2030 clean power ambitions. The policy aims to provide more flexibility to solar developers to be able to deal with associated commercial and delivery risks, such as supply chain procurement issues, and reduce the risk of contract erosion.

Assessment of impacts

The government invited views on a draft assessment of the impacts of increasing the solar TCW from 3 months to 6 months from AR7. Views were sought on the potential benefits and any downside risks for AR7 and AR8 from extending the TCW, and suggestions for alternative design options.

Responses to the consultation

There were 44 responses to **Questions 37-38**, though not every respondent answered every question. 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

In response to **question 37**, we received a total of 44 responses. The majority of respondents agreed with the proposal to increase the solar TCW. A few respondents remained neutral, and a few respondents disagreed. There was roughly an equal split between respondents agreeing with 6 months and those suggesting it should be increased to 12 months, with the latter contextualising their arguments with reference to large-scale projects. A few respondents stated in their response that they agreed with 6 months, but that 12 months should be considered.

Many respondents agreed with the proposed 6 months and did not propose to extend the TCW any further, with some stating that a 6-month increase would provide the necessary flexibility for solar developers, reducing risk and contract erosion.

Many respondents stated that the TCW should be increased to 12 months, citing reasons including: commercial and delivery-related issues; supply chain constraints; construction

challenges; competition risk and issues in Pot 1; grid connection and planning delays; maintaining consistency with other Pot 1 technologies; and that the TCW originally set in 2013 is now outdated.

A few respondents suggested that it is likely previous solar projects that entered the CfD with a 3-month TCW had endured some level of contract erosion, which would have been factored into their clearing strike price, and that the current TCW would have a more significant impact in future allocation rounds due to the increasing size of solar projects. A few respondents within this group provided evidence on key project metrics such as timelines, deployment challenges and economic costs to justify why the TCW should be increased to 12 months, particularly in reference to large scale solar projects. A few respondents suggested that the government should provide solar projects with a third delivery year, citing similar reasons for a 12-month TCW.

A few respondents who remained neutral suggested that increasing the TCW should be considered and applied for other technologies who face similar and/or additional challenges.

One respondent disagreed with the proposal and suggested a 3-month TCW is sufficient. A further respondent who disagreed supported a 12-month TCW, citing similar reasons as above, including that this could help lower strike prices and support large-scale solar projects.

Assessment of impacts

In response to **question 38**, a total of 29 responses were received. Respondents were asked if they had any further views on the impact assessment, the benefits of increasing the TCW for AR7 and AR8, potential risks and alternative design options. The draft impact assessment of increasing the TCW to 6 months weighed the benefits of increased developer confidence and potentially lower strike prices due to reduced contract erosion, against the risk of potentially slowing deployment in some cases.

A minority of respondents agreed with our impact assessment and highlighted the following points:

- Increased TCW will reduce construction risk, may lead to lower bids, enhance value to the consumer, reduce risk of non-delivery and ultimately reduce the risk of contract erosion.
- Risks may be that extending the TCW does not necessarily incentivise early delivery.
- A few respondents suggested this change should be monitored for future allocation rounds.

A few respondents disagreed with our impact assessment and raised points similar to those outlined in response to question 37. Other key points specific to this question raised were that:

- Extending the TCW would not delay deployment; if anything, not setting an appropriate TCW would increase the risk of non-delivery, the risk of contract erosion and result in projects more likely not delivering/contributing to our 2030 clean power ambitions.

- Developers are incentivised to commission as early as possible with the Unilateral Commercial Operations Notice in place since AR5 to ensure this is fulfilled; however, the development of large-scale projects requires more time and flexibility.

The following suggestions were received in response to the request for alternative design options that might better balance the need for increased flexibility for some solar projects, while ensuring that developers are still incentivised to build out efficiently:

- To increase the TCW to 12 months for all projects, regardless of size, as smaller projects experience similar challenges to larger projects.
- To adopt a differentiated TCW with only large projects (100MW+ matching the increased NSIP[13] threshold) being allocated a 12-month TCW.
- To implement both a third delivery year and a 12-month TCW using the 100MW+ NSIP threshold.
- To adopt a differentiated TCW with projects required to provide evidence for an extended TCW.
- To implement a post-TCW period, where projects can provide evidence that they met the TCW on time without financial penalty/contract erosion.
- To amend the Milestone Delivery Date for Solar PV by linking it backwards from the TCW, allowing solar to have more efficient procurement.
- To continue monitoring the impact of this change for future allocation rounds.

Policy response

In light of the sound evidence and arguments put forward in the consultation responses with specific reference to the pros and cons of increasing the TCW, the government intends to amend the Contract Allocation Framework to increase the solar TCW from 3 months to 12 months for all solar PV technologies above 5MW from AR7.

The government acknowledges the strong support for an increase to the TCW with similar rationale being outlined by both the group of respondents who agreed with the proposed 6 months and group of respondents who suggested that the TCW should be increased to 12 months. The clear distinction between the two groups is that those who argued for an increase to 12 months did so with more specific emphasis being made to large-scale solar projects in development and highlighted the elevated potential risks for such projects.

Having reviewed the responses and evidence provided to the consultation, the government believes that there is a case for, and benefit, in increasing the solar TCW to 6 months from the original 3-month TCW. However, we acknowledge that a 6-month TCW may not be sufficient to support large solar projects, which may need additional flexibility as larger projects face

[13] Solar projects above 50MW are decided by the Secretary of State for Energy Security and Net Zero through the Nationally Significant Infrastructure Project (NSIP) regime, in accordance with the energy National Policy Statements. We have recently legislated to increase the threshold for projects determined under the NSIP planning regime to 100MW, and this will come into force on 31 December 2025.

elevated risks, and smaller projects may face issues of a similar nature. In addition, a 12-month TCW could provide an opportunity to reduce costs for consumers, without a significant impact on delivery. The government has therefore decided to increase the TCW from the proposed 6 months to 12 months for all solar PV applicants from AR7. The government has decided not to implement a differentiated approach, with different TCWs based on a capacity threshold, because of the administrative complexity of such an arrangement.

The government also acknowledges the suggestions for a third delivery year for solar. The government will confirm final delivery years for AR7 ahead of the round opening to applications in August.

Assessment of impacts

The government welcomes the views from respondents on the draft assessment of impacts. The government is proposing to extend the TCW to 12 months, with responses arguing that if projects are de-risked, this can support faster deployment. This has been factored into our updated assessment below.

Potential benefits and costs

- Lower risk priced into CfD bids since developers will have greater confidence in building out without contract erosion. This could result in lower bid prices and, therefore, strike prices, compared to a counterfactual where larger projects building out with a 3-month TCW face higher project risk.
- The CfD remains an attractive route-to-market for the largest solar projects, helping to accelerate renewables deployment and contribute to the clean power mission.
- Increased developer confidence that the CfD scheme is able to adapt to the changing landscapes of larger projects and supply chain developments.

The government views the key potential risk of the change as the possibility that it could slow deployment in some cases, although this risk will largely be mitigated by the commercial incentive to begin operations as soon as possible. Further, in some cases, this policy could accelerate deployment compared to the counterfactual, if projects are de-risked.

Summary of consumer impacts

On balance, the benefits of this proposed change are likely to outweigh the risks, particularly given developers will be incentivised to build out efficiently; and extending the TCW could, in some cases, de-risk projects. This proposal should, therefore, allow larger solar projects to develop through the CfD with lower project risk, and hence lower cost transferred to the consumer.

3.2 Eligibility of surrendered CfD capacity for AR7

Proposals

Temporary restriction of surrendered capacity from bidding into AR7

We proposed introducing a temporary restriction on surrendered CfD capacity being entered into AR7 while the government examines the value for money and other implications of this practice, with a view to implementing an enduring policy from AR8. The proposed restriction would apply to capacity surrendered through the discretionary Permitted Reduction flexibility and released in relation to (or by anticipating) a generator fixing its Final Installed Capacity (FIC). The restriction would apply to CfD capacity awarded in allocation rounds 1-6.

Documentary evidence and eligibility checks

We proposed that all applicants wishing to participate in AR7 will have to provide documentary evidence, and will be subject to additional eligibility checks, to verify that they are not an excluded application. The consultation document summarised the proposed requirements to be added to the Contract Allocation Framework (which sets out the rules and eligibility requirements of an allocation round).

Assessment of impacts

The government invited views on a draft assessment of the impacts of preventing surrendered capacity from being able to bid into AR7. Views were sought on an initial assessment of potential benefits and costs, downside risks in terms of the potential for reduced deployment and a summary of consumer impacts. Stakeholders were invited to provide further evidence on the likelihood and significance of the benefits and risks identified, and any further benefits or risks to the proposal not explored in the consultation stage assessment.

Responses to the consultation

There were 58 responses to **Questions 39-41**, though not every respondent answered every question. The majority of responses received were from developers, while responses were also received from trade bodies, investors, supply chain and engineering companies, public bodies and individuals.

Summary of responses

Temporary restriction of surrendered capacity from bidding into AR7

We received 55 responses to **Question 39**. Most respondents agreed with the government's proposal to apply a temporary restriction on CfD capacity released by generators through the permitted reduction and FIC flexibilities being entered into AR7. A few respondents opposed taking this step or adopted a neutral stance.

Those who supported the policy were of the view that allowing existing CfD projects to rebid capacity awarded in previous allocation rounds would limit budget available to support new

projects, could deter investment in new developments, encourage unsustainable bidding and/or distort competition. A few respondents also felt that there was a lack of evidence that projects required an uplift in strike price. The few respondents who disagreed with the policy felt that the proposed restriction would limit developers' ability to react to unforeseen challenges in project delivery and could be counterproductive to reaching 2030 targets.

Question 39 also invited evidence from any existing CfD generators that may be adversely affected by this proposal to exclude surrendered capacity from entering AR7. We received no evidence to indicate that any specific CfD projects would be adversely impacted if the temporary restriction is introduced for AR7.

Those who oppose the policy (a minority), and even many of those who support it, said that they understood the rationale of AR4 projects in rebidding surrendered capacity into AR6, the benefits of this to delivering Clean Power by 2030 and that the flexibility could be useful in handling future macroeconomic shocks. These respondents suggested that without this flexibility, some large AR4 projects might have failed to deliver entirely, and this lost capacity might have had to be secured later at a significantly higher cost to the consumer. They believe, therefore, there is a good case to retain this flexibility in future allocation rounds beyond AR7 and encouraged the government to examine this through consultation.

Documentary evidence and eligibility checks

Question 40 attracted 58 responses. A majority agreed with the proposed documentary evidence and eligibility checks. A few respondents submitted a neutral response, indicating that they neither supported nor disagreed with the proposals. A minority opposed the changes while in some cases still supporting the proposed temporary restriction policy. For the most part, those who agreed with the proposed evidence and eligibility requirements offered little or no additional commentary to explain their position. Where additional commentary was provided, it was usually to reiterate support for the main policy.

A few respondents who supported the temporary restriction policy were concerned that AR6 projects could enter part of their contracted capacity into AR7 and then surrender that capacity through a permitted reduction before their Milestone Delivery Date (in early 2026) if they were to win an AR7 contract. These respondents encouraged government to ensure that the eligibility checks in the Contract Allocation Framework are sufficiently robust to prevent this from happening.

Assessment of impacts

A total of 40 responses were received to **Question 41**. A range of views and suggestions were received in relation to the initial assessment of impacts. None of the responses addressed all aspects of the initial assessment or the questions posed. A few respondents reiterated their support, given in response to Question 39, for the introduction of the temporary restriction and/or that they agreed with the initial assessment as set out in the consultation document. Most respondents who engaged with Question 41 support the policy proposal, including several who either disagreed to some extent with the government's initial assessment and/or offered additional views and suggestions for issues and risks that should be considered.

Part (a) of Question 41 requested further evidence on "*The assessment of benefits and risks identified in this assessment, including any additional evidence on the likelihood and significance of benefits and risks identified*."

A few respondents agreed that preventing generators from being able to rebid into AR7 could help avoid previously awarded capacity getting a higher strike price and deliver potential cost savings for consumers. They also agreed that it would improve certainty on build out for the supply chain. A few respondents also felt that the policy would help maintain a strong incentive for developers to bid sustainably and price an appropriate level of risk into their bids. The view was expressed that not allowing surrendered capacity to rebid would allow for greater fairness in the allocation of contracts and the more efficient use of budget to support the deployment of new capacity. A few respondents, while supporting the assessment, noted that the policy could increase financial risk for developers, which could result in fewer bids and slower deployment.

Most respondents to this question, including many who support the policy proposal, questioned the government's view that the macroeconomic circumstances of the past few years were largely exceptional, with challenges likely to persist for some time. It was suggested that the restriction policy may not be needed in a market where prices are relatively stable, as developers would have little incentive to surrender and re-bid capacity in such circumstances. A few respondents cautioned against the expectation that CfD clearing prices would fall given ongoing global macroeconomic risks and regulatory uncertainty (e.g. REMA) within the UK market. They suggested that government should consider the potential for economic shocks to recur in its assessment of impacts and the benefit of maintaining the flexibility for projects to rebid surrendered capacity into future allocation rounds as a way of coping with such events.

Several other suggestions were received for strengthening the assessment of impacts, including by undertaking a more detailed quantitative analysis of the potential financial impact on developers and the overall cost to government of the policy, exploring the robustness of the policy and its resilience to gaming and examining any unintended consequences on auction clearing prices and competition levels.

Part (b) of Question 41 requested further evidence on "*Whether there are further benefits or risks to this proposal which are not explored in the assessment*".

Several suggestions were put forward for additional benefits and risks to be explored, and analysis to be undertaken, in the government's assessment of impacts, including:

- The potential impact on investor confidence and the risk of any associated reduction in potential investment resulting from imposing the temporary restriction;
- the risk of higher bid prices if the opportunity to mitigate the effect of adverse economic impacts through rebidding surrendered capacity is not available;
- the benefits of allowing projects to rebid in specific circumstances, e.g. geopolitical risks, in supporting the delivery of Clean Power 2030;

- the potential impact on emerging technologies, such as floating offshore wind and tidal stream, whose higher capital costs and longer development cycles render them less flexible and able to adapt to economic shocks;
- regional economic implications, including on regional and localised supply chains;
- to support the selection of optimum policy outcomes, a sensitivity analysis exploring the impacts of different policy scenarios, e.g. reflecting the restriction being in place for different time periods, applying the restriction to all technologies, specific groups of technologies or specific projects.

Policy response

Temporary restriction of surrendered capacity from bidding into AR7

In view of the strong support expressed in the consultation responses, the government intends to implement a temporary restriction on CfD capacity released by generators through the permitted reduction and FIC flexibilities being entered into AR7. The restriction will apply to CfD capacity awarded in allocation rounds 1-6. The government wishes to clarify that the temporary restriction will only apply to surrendered capacity being rebid into AR7. It will not prevent CfD generators from exercising their right to reduce their project capacity, or establish their FIC, as allowed by the contract to accommodate changing circumstances around the construction of their projects.

The government is grateful for the many comments and suggestions received, both for and against this policy proposal, and will take all views submitted into consideration in developing an enduring policy ahead of AR8. We will consult in due course on any further policy proposals.

Documentary evidence and eligibility checks

The government intends to introduce the documentary evidence requirements and eligibility checks outlined in the consultation document. The detailed requirements and checks will be set out in the Contract Allocation Framework, which will be published before the AR7 application window opens. Potential applicants will have an opportunity to engage with NESO to clarify the requirements before the allocation round gets underway.

Assessment of impacts

The government is grateful for the level of engagement on its draft assessment of impacts and the range of comments and suggestions received. After considering the responses, the government considers the assessment provided in the consultation to fairly balance the benefits and costs of the proposal. This is re-stated below, for the ease of the reader.

Assessment of potential benefits and costs

The government views the key potential benefits of the change to be:

- Potential savings to electricity consumer costs by preventing surrendered capacity from rebidding into a subsequent allocation round and achieving a higher strike price purely for commercial gain.
- Ensures fairness in allocation of contracts, helping to support greater deployment of renewables since budgets will be allocated effectively to projects ready to build at the strike price.
- Ensures a strong incentive is maintained for project developers to bid sustainably, wherever possible pricing an appropriate level of risk into their bids, and locking in prices early through supply chain contracts.
- Greater certainty for the supply chain that capacity secured is more likely to build out according to the original bid timelines.
- Ensures positive public perception of the CfD scheme as a means of delivering new build renewable electricity generation at a low cost.

The key potential risk of the change is that it could prevent or slow renewable electricity deployment if developers would have sought to use this flexibility in order to respond to changes in project economics that would otherwise make their projects commercially unviable. However, the government views the macroeconomic circumstances of the past few years as largely exceptional, and that it is reasonable for developers to manage the risk of cost increases through pricing in a proportionate level of risk into their bids, and negotiating terms with the supply chain.

Summary of consumer impacts

The extent to which capacity reductions may have rebid into AR7 depends largely on individual projects and expected clearing prices, which is uncertain. On balance, this proposal should help support renewable deployment whilst protecting consumers from potential arbitrage opportunities between CfD rounds. This policy also maintains the possibility for permitted reduction and FIC flexibility in the contract, which means that overall, there is not a high-risk transfer to the developer from the change.

Section 4. Implementing AR7 policies

4.1 Repowering of onshore wind

Proposals

We invited views on changes to the CfD scheme rules and contract terms to implement the government's decision[14] to enable CfD support for full onshore wind repowering projects from AR7 onwards.

Responses to the consultation

There were 33 responses to **Questions 42-48,** though not every respondent answered every question. The majority of responses were from trade associations and developers.

Summary of responses

Question 42 sought views on proposed new eligibility criteria and enabling provisions for developers wishing to participate in AR7 as repowering onshore wind projects. The majority of respondents agreed with our proposals, while a minority disagreed. A few respondents suggested that the 'end of operating life' requirement does not account for the shorter design life of first-generation onshore wind technologies. Others said that setting the 'end of operating life' at 25 years does not adequately consider phased or extended onshore wind farms, which have different commencement dates for operation yet share the same expiry dates for operational consent. A few respondents suggested reducing the 'end of operating life' requirement from 25 to 20 years. A few respondents enquired as to whether repowered projects would be entered into a separate auction pot, with some supporting this.

Question 43 sought views on the proposed documentary evidence that onshore wind repowering projects will have to submit with their applications. Most respondents agreed with our proposals. A small number disagreed or did not address the specific question. A few respondents who agreed with our proposals suggested that the commissioning date specified in the Renewables Obligation (RO) register would be more appropriate than the RO accreditation date to demonstrate the project's original commissioning date.

Question 44 sought views on new definitions to be added to the Contract Allocation Framework and CfD contract terms to implement the eligibility and evidential requirements outlined above. The majority of respondents agreed with the proposed definitions. A few respondents queried or suggested refinements to some of them. Several respondents advised that the proposed definition of 'Decommissioning' did not account for the fact that foundations are not always refurbished or removed but sometimes left in situ and put beyond use, often in accordance with decommissioning requirements imposed by planning authorities. With regard

[14] Government response to consultation on policy considerations for future CfD rounds, October 2024 (Chapter 1.1): https://www.gov.uk/government/consultations/proposed-amendments-to-contracts-for-difference-forallocation-round-7-and-future-rounds

to the definition of 'Existing Generating Assets', a few respondents explained that transformers and switchgear are more associated with distributing the electricity generated by the turbines and system safety than being part of the generating process itself, and that they should be removed from the definition. However, we also received evidence that transformers and switchgear can form part of the wind turbine unit. A few respondents were concerned that the government's policy seemed to exclude small onshore winds projects, of 5MW and below, from applying as a repowered project even if the new capacity is above the minimum threshold for CfD support (>5MW).

Question 45 sought views on the requirement for applicants seeking CfD support to demonstrate that their existing onshore wind station will, or would but for decommissioning, have reached the end of its operating life by the Target Commissioning Date (TCD). The majority of respondents agreed with this proposal. Of the few respondents who disagreed, the majority did not object to the TCD being the date by which a project should have reached its end of operating life, but instead argued that projects should be allow to repower before 25 years have elapsed, that the operating life should be less than 25 years or that there should no cut-off date and no evidence should be required to demonstrate this.

Question 46 sought views on allowing a more flexible approach to demonstrating that the existing generating station had reached the end of its 25-year operating life through the fulfilment of an Operational Condition Precedent (OCP). The majority of respondents agreed with the proposed approach. Several industry respondents disagreed because they believe the OCP undermines developers' flexibility to utilise the Target Commissioning Window (TCW) to full effect where repowered projects are completed before the TCD. These respondents suggested that a generator wishing to set its TCW and commission its new repowered project **before the TCD**, as permitted by the scheme rules[15], **would have to wait until at least the TCD** to fulfil this OCP and commission its project, thereby delaying its eligibility to start receiving CfD payments.

The same respondents also suggested that the requirements of the 'operating life' OCP could delay generators fulfilling other OCPs, even if their projects were commissioned and ready to start generating under contract terms. There was some uncertainty as to whether LCCC might invoke the Unilateral Commercial Operation Notice (UCON)[16] procedure in such cases, making the new OCP requirement redundant, or whether generators could use the terms of the new OCP requirement to delay the CfD Start Date for commercial gain.

Question 47 sought views on several other amendments to the CfD contract terms to ensure that projects are full repowering and not life-extensions, and that the existing station has reached the end of its operational life before the new repowered facility can start receiving CfD payments. The majority of respondents agreed with the proposed contract changes. Clarification was sought on what evidence will be required for full asset decommissioning and

[15]The TCW is the period during which the generator can commission its project while maintaining the full value of its 15-year payment term. An onshore wind generator can set its TCW to run for the 12 months up to, or the 12 months from, the first or last day respectively of the Delivery Year selected by the generator in its CfD application.
[16] LCCC may give a Unilateral Commercial Operation Notice (UCON) to a CfD generator during the TCW if they consider that commercial operations have begun. This is to ensure that CfD projects start generating under contract terms once a certain generation threshold has been met.

on whether pre-commissioning costs reflect the capital cost differences between repowered and new sites.

Question 48 sought views on the proposed amendments to ensure separation between the CfD facility and existing decommissioning plant. Most respondents agreed with the proposed amendments while a minority disagreed. The government was asked to provide more clarity on how separation applies to the recommissioning of repowered plants, stating that the wording should explicitly define where these rules apply to recommissioning activities. A respondent referred to the proposed drafting of new condition 1.21(B) in the Standard Terms and Conditions and suggested that any reference to the term “Facility” should exclude not only foundations but also exceptions such as roads, electrical equipment, cables and other such infrastructure.

Policy response

Demonstrating eligibility at application stage

The government intends to incorporate into the Contract Allocation Framework the new eligibility criteria and enabling provisions outlined in the consultation document. The government notes the suggestions by a few respondents that the ‘end of operating life’ should be shortened from 25 years, e.g. to 20 or 23 years, to account for the shorter design life of first-generation onshore wind technologies or to permit phased or extended wind farms to be repowered at the same time. A few respondents raised these issues across replies to several consultation questions. The government’s response on this issue is given here for ease of reference. The government decided in October 2024, following extensive consultation, to set the ‘end of operating life’ for onshore wind projects wishing to repower under the CfD at 25 years, and maintains that this is the appropriate threshold. The majority of respondents supported this view. With regard to how repowered onshore wind projects will be treated in the forthcoming auction, the government will announce the pot structure and auction parameters ahead of the round opening to applications.

Documentary evidence and eligibility checks

The government intends to adopt the documentary evidence and eligibility checks as proposed in the consultation document. We have provided a range of acceptable documentary evidence that a developer may use to demonstrate the date on which the existing power station first started generating electricity. We will add to this the project’s commissioning date as specified in the RO register. The range of evidence to be specified in the Contract Allocation Framework will not be exhaustive. NESO will have the discretion to accept other forms of evidence that satisfy the eligibility requirement.

New definitions in the Contract Allocation Framework and CfD contract

The government intends to adopt the definitions proposed in the consultation document but with several amendments to reflect stakeholder feedback. The definition of “Decommissioning” in the Contract Allocation Framework will be amended to acknowledge the common industry practice of leaving unused turbine foundations in situ. Transformers and switchgear will be

removed from the definition of 'Existing Generating Assets' in the Contract Allocation Framework based on the evidence that these components are more associated with the transmission of electricity generated onsite and ensuring system safety than electricity generation. To allow greater flexibility in interpretation, the definition of 'Existing Generating Assets' will be further amended to capture any other components and assets involved in the generation of electricity, but not assets associated with the onsite grid connection infrastructure. Corresponding amendments will be made to the contract terms.

With regard to the concerns that smaller onshore wind projects (5MW and below) will be excluded from repowering support, the statements in the consultation document referred to the current minimum entry threshold of 5MW for onshore wind projects, rather than to the capacity of existing projects to be repowered.

Clarification of 'end of operating life'

The government intends to adopt the requirement for a developer to demonstrate that its existing onshore wind project will, or would but for decommissioning, have reached the end of its operating life (25 years) by the Target Commissioning Date (TCD). The government also intends to introduce a new Operational Condition Precedent (OCP) requiring generators to demonstrate that this obligation has been fulfilled in order to qualify for CfD payments.

However, the government accepts that the draft OCP as proposed in the consultation (at Schedule 1, Part B, paragraph 2.1(J) of the draft Standard Terms and Conditions) does not achieve our policy intent that once a developer has signed a CfD contract, it will have the flexibility to complete its repowered project prior to the TCD. The February 2025 consultation document confirmed that an onshore wind project will qualify for repowering support if the developer can demonstrate to NESO that the existing project commenced commercial operation at least 25 years before the TCD specified in their application. The proposed OCP would require a generator to confirm to LCCC that the existing project would, had it not been decommissioned, have reached the end of its 25-year operating life by the time the OCP is fulfilled, while allowing some flexibility in the practical application of this requirement to account for the possibility that new projects might be completed prior to the TCD.

The government will, therefore, alter the proposed OCP so that the period that must have elapsed since commercial operation of the pre-existing onshore wind project started is 25 years *less* a period equal to time from the start of the Initial Target Commissioning Window (TCW) to the TCD. To achieve this, we will insert the following new definition into the Standard Terms and Conditions:

> "**Required Operational Life**" means, in respect of the Existing Generating Assets, twenty-five (25) years less a period equal to the amount of time between the start of the Initial Target Commissioning Window and the Target Commissioning Date".

This term will be added to the OCP so that the generator of a repowered onshore wind project must include in a declaration to LCCC that the "the Required Operational Life has elapsed since the Existing Generating Assets commenced commercial operation". Given that it is possible to set the start of the TCW before the TCD, we consider these adjustments provide

greater consistency with our stated policy, while also addressing some respondents' concerns about the interaction with the UCON provision in the contract terms.

Ensuring that projects are full repowering and not life-extensions

Apart from the adjustments to limb (J) of the Operational Condition Precedent to address the points raised in response to Question 46 above, the government intends to adopt the proposed contract changes set out in the consultation document. With regard to the evidence that a generator will be required to present to LCCC to demonstrate full asset decommissioning, as set out in the draft contract proposals, the generator must provide a declaration to that effect to LCCC before it can receive CfD payments. In response to the request for clarification on whether pre-commissioning costs reflect the capital cost differences between repowered and new sites, the Total Project Pre-Commissioning Costs referred to in the consultation document relate only to the new CfD Facility. As indicated in the consultation document, costs incurred in decommissioning the existing generating station will not count towards meeting the generator's 10% spend requirement at Milestone Delivery Date in respect of the repowered CfD facility.

Separation between the CfD facility and existing decommissioning plant

Apart from minor adjustments to accommodate changes agreed in other sections above, the government intends to adopt the definitions proposed in the consultation document to ensure separation between the CfD facility and existing decommissioning plant. The government considers that the contract changes proposed in the consultation document will fulfil this objective. With regard to the comments in relation to new condition 1.21(B), the purpose of this new provision is to exclude the existing generating assets, which are to be decommissioned, from being considered as part of the new CfD Facility for the purposes of the CfD contract. Foundations are exempted from this exclusion because they are the only part of the existing generating assets that may be re-used with the new CfD Facility. We are not placing any restrictions on the reuse of facilities or assets, e.g. roads or cables, which are not engaged in the generation of electricity, and so condition 1.21(B) does not need to refer to them.

4.2 Phased CfDs for floating offshore wind

Proposals

The government proposed several amendments to the CfD contract terms to implement its decision to extend phasing to floating offshore wind, confirmed in October 2024[17]. The changes are necessary to enable LCCC to offer and complete phased contracts in respect of floating offshore wind projects that are successful in a CfD allocation round.

[17] Government response to consultation on policy considerations for future CfD rounds, October 2024 (Chapter 1.4): https://www.gov.uk/government/consultations/proposed-amendments-to-contracts-for-difference-for-allocation-round-7-and-future-rounds

Responses to the consultation

A total of 44 responses were received to **Question 49**. The majority of responses were from developers, while responses were also received from trade bodies, investors, supply chain and engineering companies, public bodies and individuals.

Summary of responses

A majority of respondents supported the proposed drafting changes to the CfD contract. In doing so, many of them welcomed or reiterated support given in response to the 2024 consultation for the extension of phasing to floating offshore wind. A minority of respondents either did not support, or were neutral towards, the proposed drafting amendments. A few respondents welcomed the government's earlier decision to allow floating offshore wind projects to phase under the CfD scheme without specifically indicating whether they supported the drafting proposals.

Several additional changes were proposed, which mostly concerned bringing floating offshore wind into alignment with the flexibilities provided to fixed-bottom offshore wind. In some cases, these were re-statements of suggestions put forward in response to the 2024 consultation on proposed amendments to the CfD scheme for AR7:

- A few respondents proposed increasing, or at least reviewing, the phasing cap for both floating and fixed-bottom offshore wind in recognition of the increased scale of projects in the pipeline. Some of these suggested that a cap of 3,000-4,000MW would better reflect the future pipeline of projects that will use significantly larger turbines than the typical project when the 1,500MW cap was introduced. Others suggested no specific cap threshold or that the cap should be removed entirely;
- A few respondents suggested reducing the Required Installed Capacity (RIC) for floating offshore wind from 95% to 85% and increasing the Longstop Period from 12 to 24 months;
- A few respondents proposed that the government should consider extending CfD phasing policy to onshore wind in anticipation of the emergence of larger onshore wind sites and to facilitate repowering projects that deploy a back-to-back phased approach for decommissioning and commissioning;
- A suggestion to extend phasing to marine technologies was also made.

Policy response

The government intends to implement the drafting changes to the CfD contract terms set out in the consultation document. These changes, together with the essential adjustments that we will make to the eligibility criteria in the Contract Allocation Framework and the legislative amendments made earlier this year, will enable floating offshore wind projects to apply and operate as phased CfD projects from AR7 onwards.

The government notes the specific suggestions for additional changes to align floating offshore wind with the flexibilities provided to fixed-bottom offshore wind and for extending phasing to

other technologies. The government keeps the CfD scheme under review to ensure it remains appropriate, taking account of project sizes and the maturity of the respective technologies to which it applies. This includes considering whether to extend further flexibilities to floating offshore wind or fixed-bottom offshore wind or phasing to other renewable energy generation technologies, should it become appropriate to do so in future.

Section 5. Minor and Technical changes to the CfD contract terms

5.1 Changes relating to implementation of Part 5 of the Energy Act 2023 (establishment of NESO)

Proposals

The government sought views on technical changes to the CfD Standard Terms and Conditions to reflect the establishment of the National Energy System Operator (NESO - formerly National Grid ESO) and the roles and responsibilities assigned to NESO, where relevant to the effective functioning of the CfD contract. The majority of proposed contract changes involved the amendment, replacement or deletion of existing definitions, the insertion of new definitions, changes that reflect the numbering and structure of NESO's new operating licence or language in legislation and several consequential changes. In additional, a small number of 'tidying up' amendments unrelated to the establishment of NESO were proposed.

Responses to the consultation

There were 19 responses to **Question 50**. The majority were from developers, while responses were also received from trade bodies, investors, supply chain and engineering companies, public bodies and individuals.

Summary of responses

The majority of respondents either agreed or had no comments or concerns about the proposed contract amendments. A minority who responded did not address the specific drafting proposals but commented on other matters within NESO's responsibilities, including grid connection reform and zonal pricing. We have considered these points in our response to Question 53 where relevant to the CfD.

Policy response

The government intends to implement the technical drafting changes to the CfD contract proposed in the consultation.

5.2 Changes relating to Clean Industry Bonus payment suspensions

Proposals

The government response to the consultation on additions to the Contract for Difference contract arising from the introduction of the Clean Industry Bonus (CIB), published in February 2025, set out circumstances in which CIB payments would be excluded from certain provisions related to the suspension of CfD payments. This was because the link between the reason for the suspension of CfD payments (in the circumstances outlined) and the CIB was not sufficiently robust as to justify the withholding of CIB payments.

A further exclusion was proposed. The CfD Private Network Agreement allows suspension of CfD payments where generators have failed to comply with certain undertakings related to their position as Private Network Generators. These are set out in Condition 30.1(K) and (L) and require the generator to undertake that (a) they shall, at all times, remain a Private Network Generator and (b) that they shall not supply electricity, directly or indirectly, to an Offshore Installation. In line with the previous policy intent, an amendment to the CfD Private Network Agreement is now proposed to exclude CIB payments from being withheld where the generator fails to comply with Conditions 30.1(K) and (L). A copy of the draft CfD Private Network Agreement containing the proposed amendments is published alongside this consultation document.

Responses to the consultation

There were 28 responses to **Question 51**. The majority were from developers.

Summary of responses

The clear majority of respondents agreed that the amendments to the conditions relating to CfD Payments suspensions in relation to CIBs were sufficiently clear and fit for purpose. Two respondents disagreed. One gave no reason; the other specified that CfD payment suspensions terms are too narrow in scope and should focus on a broader range of matters, such as environmental harm. One respondent made the more general point that there could be value extending CIBs to solar.

Policy response

The government will take this proposal forward unamended.

Section 6. Other consultation matters

6.1 Changes to regulations relating to the Clean Industry Bonus

Please see page 12 of the government response to the legislative proposals in the consultation on further reforms to the CfD for AR7, published on 6 May 2025.[18]

6.2 Wider Risks that may impact the Allocation Round

Proposals

Given enduring challenges around renewables and the scale of change domestically and internationally, the government invited views on whether there are other issues not covered elsewhere in the consultation that might affect this Allocation Round.

Responses to the consultation

There were 57 responses to **Question 53**, from a range of types of respondents.

Summary of responses

In line with the broad nature of this question, there was a wide range of issues raised by respondents. These included issues relating to the Review of Electricity Market Arrangements (REMA), reforms to transmission charging and grid connection policies, CfD delivery years, and wake effects for offshore wind farms, among others.

Policy response

The government thanks respondents for the detailed views they shared in response to this question and is considering these in relation to policy work on the topics raised.

The government published a policy update on REMA on 10th July.[19]

[18] https://www.gov.uk/government/consultations/further-reforms-to-the-contracts-for-difference-scheme-for-allocation-round-7

[19] Review of electricity market arrangements (REMA): Summer update, 2025 (accessible webpage) - GOV.UK

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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