UK Government

Contracts for Difference for Low Carbon Electricity Generation

Consultation on proposed legislative changes to support implementation of the British Industrial Competitiveness Scheme

Closing date: 9 September 2026

Department for Energy Security and Net Zero (2026)

Contents

General information

Why we are consulting

In November 2025, the Government consulted on the British Industrial Competitiveness Scheme (BICS)[1], under which eligible businesses would be exempt from the indirect costs of certain electricity scheme costs. Under the scheme, eligible businesses will be exempt from paying the indirect costs of the Renewables Obligation (RO), Feed-in Tariffs (FIT) and Capacity Market (CM) schemes. The exemption is due to take effect from April 2027 for the RO and FIT schemes, with the Capacity Market exemption following from October 2027. BICS is expected to provide significant reductions in electricity costs for eligible businesses by reducing the costs recovered through their electricity bills.

The costs of the RO, FIT and CM schemes are recovered through licensed electricity suppliers and are generally reflected in electricity bills paid by consumers. As businesses eligible for BICS will be exempt from contributing towards these costs, implementation of the exemption would otherwise reduce the number of consumers contributing to the costs of those schemes. In the absence of any offsetting measures, this would increase the amount that would need to be recovered from other electricity consumers, including households and non-exempt businesses.

Following consultation on the scheme, the Government confirmed its intention to proceed with the exemption and committed to ensuring that implementation of the exemption would not lead to an increase in electricity bills for domestic and other non-exempt electricity consumers.[2] To support this commitment, the Government intends to provide Exchequer funding to offset the impact of the exemption on domestic and other non-exempt electricity consumers

This consultation seeks views on proposed legislative changes to support delivery of the Government's commitment that implementation of the BICS exemption should not lead to an increase in electricity bills for domestic and other non-exempt electricity consumers. The proposed changes are intended to offset the impact of the BICS exemption on domestic and other non-exempt electricity consumers.

The Government's commitment not to increase bills for domestic and other non-exempt electricity consumers is expected to be delivered through a combination of Exchequer funding and wider system savings, such as the changes to inflation indexation of the RO and FIT schemes announced in January 2026[3]. This consultation concerns only the legislative changes needed to enable Exchequer funding to be reflected through the Contracts for Difference (CfD)

[1] British Industrial Competitiveness Scheme: consultation on scheme eligibility and approach.
[2] Government response to British Industrial Competitiveness Scheme: consultation on scheme eligibility and approach.
[3] See Renewables Obligation (RO) scheme: indexation changes - GOV.UK and Feed-in Tariffs (FiT) scheme: indexation changes - GOV.UK.

supplier obligation framework and invites views on amendments to existing legislation to give effect to this.

Consultation details

Issued: 13 August 2026

Respond by: 9 September 2026

Enquiries to: contractsfordifference@energysecurity.gov.uk

Consultation reference: Consultation on proposed legislative changes to support implementation of the British Industrial Competitiveness Scheme.

Audiences:

The Government welcomes responses from anyone with an interest in the proposals. We envisage that the consultation will be of particular interest to electricity suppliers, delivery partners, generators and other participants in the electricity market. Wider stakeholders with an interest in the operation of the Contracts for Difference scheme may also be interested in the proposals.

Territorial extent:

This consultation applies to Great Britain only as the Contracts for Difference scheme does not operate in Northern Ireland.

How to respond

Please submit your response online using the dedicated online portal or by email, as indicated below. When responding, please state whether you are responding as an individual or representing the views of an organisation. Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome. Please do not send responses by post to the department, as we may not be able to access them.

Respond online at: https://energygovuk.citizenspace.com/energy-security/proposed-legislative-changes-bics-implementation

Alternatively, please email your responses to the following address and including ‘CFD consultation on legislative amendments’ in your email subject line.

Email to: contractsfordifference@energysecurity.gov.uk

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our privacy policy.

We will summarise all responses and publish this summary on GOV.UK. The summary will include a list of names or organisations that responded, but not people’s personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the government’s consultation principles.

If you have any complaints about the way this consultation has been conducted, please email: bru@energysecurity.gov.uk.

Proposed framework for delivering the BICS offset

The CfD scheme provides successful applicants with a private law contract with the CfD counterparty, the Low Carbon Contracts Company (LCCC), under which generators receive a top-up payment when the market reference price for electricity is below the strike price agreed at auction, and pay back the difference when the market reference price is above the strike price. The costs of these payments to generators, together with LCCC's operational costs, are funded through the CfD supplier obligation. Under this framework, licensed electricity suppliers are required to make payments which fund CfD payments to low-carbon electricity generators and the operational costs of the scheme. It is expected that suppliers will pass these costs on to their customers through electricity bills. LCCC administers the supplier obligation, collects payments from suppliers, and passes them on to generators in accordance with their CfD contracts.

The supplier obligation is designed to ensure LCCC has sufficient funds in hand ahead of each quarter to meet its ongoing payment obligations to CfD generators, which it makes on a pay-when-paid basis. To determine how much suppliers should pay each quarter (known as an ‘obligation period’) and meet scheme costs, LCCC calculates and publishes an Interim Levy Rate (ILR) for each quarterly obligation period. The ILR is a forecast levy rate based on LCCC's estimate of future CfD payments, expected income and forecast electricity supply during the relevant quarter. Electricity suppliers make payments based on the ILR throughout the quarter, with subsequent reconciliation arrangements used to ensure that suppliers ultimately contribute an amount that reflects actual CfD payments and their actual share of electricity supplied. The CfD supplier mechanism and LCCC’s function in administering it are set in the Contracts for Difference (Electricity Supplier Obligation) Regulations 2014.

At present, the CfD supplier obligation framework provides only limited scope for Exchequer funding to be reflected in the levy recovered from electricity suppliers, and all eligible CfD scheme costs continue to be recovered from suppliers through the existing levy arrangements.

The Government proposes to use Exchequer funding (alongside existing wider system savings) to offset the impact of the BICS exemption on domestic and other non-exempt electricity consumers. Under the proposed approach, Government funding would be provided to LCCC and taken into account when calculating amounts to be recovered from electricity suppliers through the CfD supplier obligation. This would reduce the amount that LCCC would otherwise need to recover from electricity suppliers and the costs reflected in electricity bills for domestic and other non-exempt consumers, offsetting the impact of the BICS exemption on those consumers. Suppliers would be expected to reflect the resulting reduction in the cost of the CfD supplier obligation in the prices they charge their customers, in line with how they currently pass through the cost of the levy through electricity bills.

Electricity suppliers would remain subject to the supplier obligation and LCCC would continue to calculate and administer levy payments to generators. However, when determining the levy to be recovered from suppliers, LCCC would also take account of any Exchequer funding provided for the purpose of delivering the BICS offset. The existing supplier obligation arrangements would continue to apply alongside the proposed funding mechanism, meaning LCCC would remain able to collect from suppliers the balance of funding required to meet payments to CfD generators in any quarter.

Legislative changes

Proposed amendments to the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014

To implement this approach, the Government proposes to amend the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 ("the Regulations"). The proposed amendments would enable Exchequer funding received by LCCC to be taken into account when calculating the ILR.

The only mechanism currently in the Regulations regarding Exchequer funding was introduced in 2020 in response to the COVID-19 pandemic[4]. It enables the Secretary of State to make loan payments to LCCC in specific circumstances to bridge temporary shortfalls in supplier payments, with those amounts being repaid three quarters later. That mechanism was not designed to support ongoing Exchequer funding of the kind envisaged in this consultation.

The proposed amendments to the Regulations keep the core of the drafting about loans but they allow Exchequer funds to be sent to LCCC for the purposes of reducing the amount of the CfD levy, for objectives unrelated to the CfD scheme itself, without the money needing to be paid back. If Exchequer funds were provided as a loan (which is not currently intended), the new drafting is flexible enough to accommodate a variety of different repayment arrangements. The proposed amendments would remove the existing restrictions on the statutory spending power that may be used and on the requirement for Exchequer funds to be repaid, so that Exchequer funding can be provided under the appropriate spending power and without a mandatory repayment requirement. Details on the proposed changes to regulation 5 for the main levy calculation and regulation 7(2) for the ILR can be found in the draft amendment Regulations published alongside this consultation[5].

Exchequer funding received by LCCC would reduce the amount that LCCC needs to recover from suppliers to fund CfD generator payments, resulting in a lower ILR and lower reserve amounts than would otherwise apply. The Government intends for the first Exchequer payment to reach LCCC in time for it to be reflected in the levy from 1 April 2027, when the BICS exemption is expected to take effect.

The Government's minded position is that payments should be made to LCCC each quarter before the ILR is calculated. Further details will be set out by the Department for Business,

[4] Contracts for Difference: proposed changes to the Electricity Supplier Obligation Regulations in response to COVID-19: government response.
[5] Proposed legislative changes to support implementation of the British Industrial Competitiveness Scheme

Innovation, Science and Trade (DBIST) in due course. DBIST will separately publish an Impact Assessment setting out how the implementation of the BICS exemption will not lead to an increase in electricity bills for domestic consumers or non-eligible businesses.

Use of section 13 of the Energy Prices Act 2022

The Government considers that section 13 of the Energy Prices Act 2022 provides the legal basis for the provision of Exchequer funding to LCCC. Section 13(1) enables the Secretary of State to take such steps as they consider appropriate to provide support for meeting costs relating to the use of energy, while section 13(3)(a) provides that such support may include the provision of financial assistance.

The Government's view is that these powers are capable of supporting the provision of Exchequer funding to LCCC for the purpose of offsetting the impacts of the BICS exemption on domestic and other non-exempt electricity consumers. The proposed funding would reduce the amount recovered through the CfD supplier obligation and, in doing so, support the Government's commitment that implementation of the exemption should not lead to an increase in electricity bills for those consumers.

The Government also considers that section 27(2)(b) of the Energy Prices Act 2022 provides a power to make regulations in connection with measures delivered under section 13. The proposed amendments to the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 have therefore been developed to operate alongside the section 13 spending power by enabling Exchequer funding provided to LCCC to be reflected in calculations under the Contracts for Difference supplier obligation framework.

While the need for the funding arises from the introduction of BICS, the effect of the measure is to protect consumers from additional energy costs. That protection is increasingly important in the context of wider upward pressure on energy bills. The Government therefore considers that the funding can properly be characterised as an energy-cost support measure, consistent with the purpose of section 13.

Consultation questions

1. **Do you agree with the Government's proposed approach of using the CfD supplier obligation framework as a mechanism to deliver the BICS offset? Please give reasons for your response.**

2. **Do you agree with the proposed amendments to the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014?**

3. **Do you agree with the Government's proposed use of section 13 of the Energy Prices Act 2022 as the basis for the provision of Exchequer funding to LCCC? If not, please explain why.**

4. **Are there any wider effects of the proposed funding mechanism – including on the design and operation of the CfD scheme or on the incentives of scheme participants – that you consider the Government should take into account?**

Next steps

Once the consultation has closed, we will analyse the responses and feedback received and set out how we intend to proceed in a government response. The response will provide a summary of the views expressed by stakeholders and will set out the decisions the Government has taken.

Subject to the responses received, we intend to lay amending regulations before Parliament to give effect to the proposed changes, with the aim of enabling the offset to take effect ahead of the CfD obligation period beginning 1 April 2027.

This publication is available from: https://www.gov.uk/government/consultations/proposed-legislative-changes-to-support-implementation-of-the-british-industrial-competitiveness-scheme

Any enquiries regarding this publication should be sent to us at: contractsfordifference@energysecurity.gov.uk

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