

Subsidy Advice Unit Report on Contracts for Difference (AR8/2026)

Referred by the Department for Energy Security
and Net Zero

4 September 2026

Subsidy Advice Unit

Part of the Competition and Markets Authority



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1. The Referral

- 1.1 On 23 July 2026, the Department for Energy Security and Net Zero (DESNZ) requested a report from the Subsidy Advice Unit (the SAU)¹ in relation to the Contracts for Difference for renewables (CfD) scheme, as at Allocation Round 8 (AR8) (the Scheme) under section 52 of the Subsidy Control Act 2022 (the Act).²
- 1.2 This report evaluates DESNZ's assessment of compliance (the Assessment) of the Scheme with the requirements of Chapters 1 and 2 of Part 2 of the Act.³ It is based on the information and evidence included in the Assessment.
- 1.3 This report is provided as non-binding advice to DESNZ. It does not consider whether the Scheme should be implemented, or directly assess whether it complies with the subsidy control requirements.

Summary

- 1.4 The Assessment uses the four-step structure described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the [Statutory Guidance](#)) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the [SAU Guidance](#)).
- 1.5 In our view, DESNZ has considered in detail many aspects of the compliance of the Scheme with the subsidy control and energy and environment principles. In particular, the Assessment:
- (a) clearly articulates the policy objective (Principle A);
 - (b) explains why DESNZ considers the Scheme to be an appropriate policy instrument and refers to relevant evidence supporting the continued need for intervention (Principle E); and
 - (c) explains how the Scheme is expected to change beneficiaries' economic behaviour and provides evidence supporting the view that the Scheme brings about activity that would be less likely to occur in the absence of subsidy (Principle D).
- 1.6 However, we have identified the following areas for improvement. The Assessment should:

¹ The SAU is part of the Competition and Markets Authority.

² [Referral of the proposed Contracts for Difference for Renewables Allocation Round 8 scheme by DESNZ - GOV.UK](#).

³ Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy creates a number of requirements with which public authorities must comply.

- (a) when discussing proportionality, consider the size of subsidies under the Scheme relative to the value of the affected market, or to an estimate of the investment needed to achieve the policy objective (Principle B);
- (b) when considering whether the design of the Scheme minimises distortions to competition and investment, more clearly explain:
 - (i) the rationale for the revised five-pot structure, which separates technologies into different auction pots with separate clearing price outcomes;
 - (ii) why any reduction in potential bidder participation from the proposed Gate 1 eligibility restrictions is expected to have limited effects on competitive outcomes;
 - (iii) whether the hybrid metering arrangements, which allow CfD and merchant assets of the same technology to share metering infrastructure, may give rise to broader competition concerns (Principle F); and
- (c) consider in more detail the effects of the subsidies given under the Scheme on market structure and market concentration, and on other low-carbon generators (Principle F).

1.7 We discuss these areas below, along with other issues, for consideration by DESNZ in finalising its assessment.

The referred scheme

- 1.8 The CfD scheme has existed since 2014 and aims to encourage low carbon electricity generation. CfDs are long-term (15 or 20 year) contracts between a low carbon electricity generator and the CfD counterparty, the Low Carbon Contracts Company (LCCC). This Scheme concerns the latest CfD allocation round, the eighth allocation round (AR8), which opened for applications on 20 July 2026.⁴
- 1.9 Under the Scheme, the generator sells its electricity at a variable market price. When the reference price (a proxy of the wholesale electricity price) is below the strike price agreed in the CfD contract, the generator receives a top-up payment from LCCC for the difference (funded by a levy on electricity suppliers). When the

⁴ The SAU published a report on 16 October 2025 evaluating DESNZ's assessment of compliance as at AR7 of the CfD scheme ([Report on DESNZ's proposed Contracts for Difference for Renewables Allocation Round 7 scheme - GOV.UK](#)); and on 21 February 2024 evaluating DESNZ's assessment of compliance as at AR6 ([Referral of the proposed subsidy scheme, the Contracts for Difference for Renewables \(as at Allocation Round 6\), by the Department for Energy Security and Net Zero - GOV.UK](#)); and, on 22 February 2023 evaluating the Department for Business, Energy and Industrial Strategy's assessment of compliance as at AR5 ([Referral of Contracts for Difference for Renewables Scheme \(as at Allocation Round 5\) by the Department for Business, Energy & Industrial Strategy - GOV.UK](#)) (on 7 February 2023 responsibility for the CfD scheme was transferred to DESNZ).

reference price is above the strike price, the generator must pay back the difference to LCCC.

- 1.10 CfD contracts are typically awarded through a competitive allocation round, where companies submit bids in relation to new generation capacity, and the lowest bids are accepted until the overall budget for the allocation round is reached.
- 1.11 The Scheme is open to applications from any eligible renewable electricity generator with a project in Great Britain. Eligible electricity generating technologies include advanced conversion technologies, anaerobic digestion, dedicated biomass with combined heat and power, energy from waste with combined heat and power, floating offshore wind (FLOW), geothermal, hydro, landfill gas, offshore wind, onshore wind, remote island wind, sewage gas, solar photovoltaic, tidal stream, wave, and Other Deepwater Offshore Wind (ODOW). These technologies must meet certain size and type requirements to be eligible for the Scheme.
- 1.12 In each allocation round, DESNZ sets an administrative strike price⁵ for each eligible technology, which is the maximum strike price that a project can receive for generating electricity. DESNZ sets these administrative strike prices based on cost information for the technology. For AR8, the administrative strike prices will be published alongside the pot structure⁶ and delivery years.⁷ The clearing price for each technology is set at the level of the final accepted bid in the competitive auction, and must be less than or equal to the administrative strike price for that technology.
- 1.13 A budget notice specifying the overall budget available for each delivery year applicable to the allocation round, and the administrative strike prices for AR8, will be published during the allocation process. As an indication, the Assessment states that the estimated total lifetime subsidy amount for contracts accepted in AR7 was £40 billion (in 2024 prices and rounded to the nearest £5 billion), though the estimated total subsidy amount for AR8 may be significantly lower or higher than this figure, depending on wholesale electricity prices and how much electricity supported projects generate. There is no set maximum subsidy, however bids must fit within the budget, therefore no subsidy will exceed the largest pot budget.
- 1.14 DESNZ consulted on changes to the Scheme for AR8 and is now implementing the following:⁸

⁵ Administrative strike prices set a maximum price per MWh that a project of a particular technology type can receive under a CfD.

⁶ The pot structure is the separation of eligible technologies into different groups for the competitive allocation. Technologies compete in 'Pot' groupings, each pot has its own auction and clearing price. For information on the AR8 pot structure, see [Contracts for Difference \(CfD\) Allocation Round 8: statutory notices - GOV.UK](#).

⁷ The delivery years, for each pot, are the years when a project in that pot can start receiving payments under its CfD contract.

⁸ [Proposed refinements for Allocation Round 8 and future rounds - GOV.UK](#).

- (a) Making permanent the restriction preventing previously surrendered CfD capacity from being re-entered into future allocation rounds.
- (b) Introducing a requirement that applicants hold a Gate 2 connection agreement⁹ in order to be eligible for CfD support, while continuing to permit certain Gate 1 Capacity Point and Capacity Reservation projects¹⁰ to participate.
- (c) Introducing a new technology category for ODOW.
- (d) Extending the circumstances in which the Secretary of State may view anonymised bid information for certain technologies during the allocation process.
- (e) Implementing a five-pot structure comprising separate pots for solar, onshore wind, offshore wind, FLOW/ODOW, and emerging and less-established technologies.¹¹
- (f) Introducing additional delivery years for a number of technologies, including solar, onshore wind, remote island wind, offshore wind and FLOW/ODOW.
- (g) Changes that DESNZ considers more minor including enabling CfD and merchant assets of the same technology to share metering infrastructure (hybrid metering),¹² contractual changes for FLOW projects, measures to prevent the delayed commencement of CfD start dates, removing the requirement to assign default bids at the administrative strike price, and other minor and technical changes to the CfD contract terms.

1.15 The Assessment explains that the Scheme is a Subsidy Scheme of Particular Interest because a significant portion of subsidies awarded in AR8 are likely to exceed £25 million over the lifetime of the subsidy.

⁹ A [Gate 2 connection agreement](#) is a grid connection offer issued under the National Energy System Operator's (NESO) reformed connections process to projects that satisfy readiness and strategic alignment criteria. Gate 2 projects receive a confirmed connection date, connection point and queue position, providing greater certainty that they will connect to the electricity network within the relevant timeframe.

¹⁰ A Gate 1 Capacity Point and Capacity Reservation (CPCR) project is a project that has received a Gate 1 connection offer and a reservation of connection capacity under transitional arrangements within NESO's reformed connections process. Although Gate 1 offers generally provide less certainty than Gate 2 agreements, certain CPCR projects remain eligible for AR8.

¹¹ AR7 used a four-pot structure comprising: Pot 1 (solar photovoltaic and onshore wind), Pot 2 (offshore wind), Pot 3 (floating offshore wind and Other Deepwater Offshore Wind), and Pot 4 (emerging and less-established technologies).

¹² Hybrid metering allows a renewable energy project supported by a CfD and a renewable energy project operating without CfD support to share the same metering infrastructure, reducing costs.

2. The SAU's Evaluation

- 2.1 This section sets out our evaluation of the Assessment, following the four-step structure used by DESNZ.

Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use

- 2.2 Under Step 1, public authorities should consider compliance of a subsidy with:
- (a) Principle A: Subsidies should pursue a specific policy objective in order to remedy an identified market failure or address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and
 - (b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.¹³

Policy objectives

- 2.3 The Assessment explains that the objective of the Scheme is to encourage low-carbon electricity generation, whilst having regard to carbon targets and budgets (under the Climate Change Act 2008), ensuring security of supply to consumers of electricity,¹⁴ and the likely cost to consumers of electricity.
- 2.4 The Assessment explains that the Government has set out its latest ambitions on the deployment of renewables in its Clean Power Action Plan.¹⁵ The plan sets out the existing installed and contracted capacity for offshore wind, onshore wind and solar, alongside gaps to the DESNZ 'Clean Power Capacity Range' for each technology. It also sets out an objective for offshore wind for three allocation rounds, AR7, AR8 and AR9, to reach the required capacity to fulfil the UK government's Clean Power 2030 objectives.
- 2.5 In our view, the Assessment clearly describes and evidences the specific policy objective of the Scheme.

¹³ See [Statutory Guidance](#), paragraphs 3.33–3.59 and the [SAU Guidance](#), paragraphs 3.6–3.10 for further detail.

¹⁴ The Assessment defines security of supply as the ability to access and secure sufficient supplies of electricity and gas to meet consumers' demands over the short and long-term, ensuring that there is sufficient electricity capacity to meet peak demand.

¹⁵ [Clean Power 2030 Action Plan - GOV.UK](#).

Market failure

- 2.6 Market failures arise where market forces alone do not produce an efficient outcome. When this arises, businesses may make investments that are financially rational for themselves, but not socially desirable.¹⁶
- 2.7 The Assessment sets out five market failures relevant to the Scheme:
- (a) Carbon emission externalities of fossil fuels: by itself, the market would not reduce the production of greenhouse gases associated with fossil fuel combustion.
 - (b) Positive externalities leading to under provision of security of supply: electricity generators cannot monetise or internalise the wider social benefits provided by security of supply, leading to lower than socially optimal levels of security of supply delivered.
 - (c) Positive externalities leading to under provision of diversity of supply: individual producers will likely not internalise wider benefits of avoiding over-reliance on certain technologies, leading to an under provision of diversity of energy supply. Diversity of electricity supply sources is desirable from a resilience point of view to avoid over-reliance on a particular technology. Greater diversity generally enhances the robustness of an electricity system to fossil fuel supply shocks and hence yields macroeconomic and security of supply benefits.
 - (d) Positive externalities leading to insufficient incentives to achieve the learning benefits of deploying first of a kind and immature technologies: such projects cannot internalise the wider learning and innovation effects associated with their deployment, leading to below socially optimal deployment levels.
 - (e) Financial market failures which restrict funds available to energy infrastructure projects: there is a market failure due to capacity constraints and a resulting funding gap as there is uncertainty and asymmetric information as regards risk between capital providers and low carbon projects.
- 2.8 The Assessment explains and evidences how the design of the Scheme links to each of the market failures that it seeks to address. For instance, it sets out that offering a CfD to new and emerging renewable technologies could open pathways for such technologies to be provided by the market in future.
- 2.9 In our view, the Assessment clearly describes and evidences the market failures the Scheme seeks to remedy. However, it could more clearly explain the capacity

¹⁶ [Statutory Guidance](#), paragraphs 3.36–3.51.

constraints and resulting funding gap for low carbon projects that it describes when discussing the financial market failures, and more clearly link these to the definition of a market failure in the Statutory Guidance.

Appropriateness

- 2.10 Public authorities must determine whether a subsidy is the most appropriate instrument for achieving the policy objective. As part of this, they should consider other ways of addressing the market failure or equity issue.¹⁷
- 2.11 The Assessment explains why the Scheme was considered the most appropriate and least distortive instrument among several policy options. It discusses alternative instruments that were originally considered and consulted on as part of the 2010 Electricity Market Reform impact assessment, and why they were discounted, namely (i) an emissions performance standard (restricting high carbon generation); (ii) carbon price support; and, (iii) fixed payments. The Assessment notes that an emissions performance standard and carbon price support were disregarded as they could potentially result in excessive rents to low-carbon generators as opposed to a CfD. Fixed payments were discounted as they would not retain the link between support levels and electricity prices in the way that a CfD does.
- 2.12 The Assessment sets out that alternative options to the format of the Scheme were considered internally ahead of AR7, and discounted as they would not have expedited the delivery of Clean Power 2030. It mentions that the Reformed National Pricing programme¹⁸ is continuing to consider how the CfD scheme can be adapted.
- 2.13 The Assessment explains that the CfD scheme complements the wider policy approach intended to delink the gas price and the wholesale electricity price to protect consumers from volatile electricity prices.
- 2.14 In our view, the Assessment demonstrates that DESNZ has considered other ways of achieving its policy objective and clearly explains and evidences why the Scheme was the most appropriate option. In particular, we note that the Assessment includes an updated evidence base, including the 2026 Evaluation of the CfD scheme.

¹⁷ [Statutory Guidance](#), paragraphs 3.57–3.59.

¹⁸ [Reformed National Pricing \(RNP\): delivery plan - GOV.UK](#).

Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change

2.15 Under Step 2, public authorities should consider compliance of a subsidy with:

- (a) Principle C: Subsidies should be designed to bring about a change of economic behaviour of the beneficiary. That change should be something that would not happen without the subsidy and be conducive to achieving its specific policy objective; and
- (b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.¹⁹

Counterfactual

2.16 In assessing the counterfactual, public authorities should consider what would likely happen in the future – over both the long and short term – if no subsidy were awarded (the ‘do nothing’ scenario).²⁰

2.17 The Assessment sets out a counterfactual scenario where, in the absence of the Scheme, renewable energy projects would not be deployed at the required scale and pace to support the Government’s net zero emissions target by 2050. It explains that without subsidy, a proportion of projects are unlikely to be financially viable because renewable energy projects have higher upfront capital costs than fossil fuel plants, and wholesale market prices, set by short-term operating costs, may not be sufficient to pay back the upfront capital costs. The Assessment states that without the Scheme, low carbon generators would face the risk of volatile prices and so higher financing costs, which discourage investment.

2.18 The Assessment relies on responses from both the 2021 call for evidence²¹ and the 2026 Evaluation of the CfD scheme. It also refers to modelling carried out as part of the 2022 REMA consultation, that reiterated the conclusion that the high up-front costs of renewables, combined with expected price volatility, meant that intervention was required to support the scale and pace of deployment needed to decarbonise the power sector. The Assessment states that this is supported by the results of DESNZ’s in-house dynamic dispatch model (a fully integrated power market model covering the power market in Great Britain over the medium to long term) which suggested the risk factors undermining investment decisions would persist without subsidy.

¹⁹ See [Statutory Guidance](#), paragraphs 3.60–3.74 and the [SAU Guidance](#), paragraphs 3.11–3.13 for further detail.

²⁰ [Statutory Guidance](#), paragraphs 3.63–3.65.

²¹ [Enabling a High Renewable, Net Zero Electricity System: Call for Evidence - government response](#),

- 2.19 The Assessment notes that DESNZ is exploring an updated modelling approach to increase analytical functionality, which may assist future consideration of the counterfactual.
- 2.20 In our view, the Assessment identifies good qualitative evidence that, without the Scheme, a proportion of renewable energy projects would not be financially viable. However, while the Assessment explains that current modelling approaches do not facilitate a fully modelled counterfactual without renewable support, it could further discuss how the future renewable generation mix may evolve in the absence of further CfD allocation rounds.

Changes in economic behaviour of the beneficiary and additionality

- 2.21 Subsidies must bring about something that would not have occurred without the subsidy.²² They should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe without the subsidy ('additionality').²³ For schemes, this means that public authorities should, where possible and reasonable, ensure the scheme's design can identify in advance and exclude those beneficiaries for which it can be reasonably determined would likely proceed without subsidy).²⁴
- 2.22 The Assessment explains how the Scheme brings about a change in economic behaviour by providing an incentive to invest in low-carbon generation through revenue stability, driving beneficiaries to deploy projects that would probably otherwise be unviable in the near term.
- 2.23 The Assessment includes qualitative evidence in support of this view, including the 2022 REMA Consultation document and the 2026 Evaluation of the CfD scheme.
- 2.24 The Assessment sets out several modifications in AR8 that seek to change the economic behaviour of beneficiaries, including, introducing a new technology category for ODO, adopting a five-pot structure, and making permanent the restriction on the re-entry of surrendered CfD capacity. The Assessment explains that these changes are intended to support the delivery of Clean Power 2030, facilitate deployment of emerging technologies, maintain competitive tension within allocation rounds and encourage developers to deliver projects at the contracted strike price.
- 2.25 The Assessment identifies several design features of the Scheme aimed at ensuring that the subsidy brings about additional benefits from beneficiaries and does not compensate for costs that may have been borne anyway:

²² [Statutory Guidance](#), paragraph 3.67.

²³ [Statutory Guidance](#), paragraphs 3.66–3.70.

²⁴ [Statutory Guidance](#), paragraphs 3.71–3.73.

- (a) CfD payments are not made where a project has commenced generation prior to an application for support.
- (b) Measures intended to prevent delayed CfD start dates, which the Assessment states are intended to reduce the risk that generators delay the start of CfD payments while operating on a merchant basis at elevated wholesale prices.
- (c) The Scheme does not allow generators to cumulate a CfD subsidy with any other subsidies granted in respect of the same eligible project costs.

2.26 In our view, the Assessment explains and evidences how the Scheme would change the beneficiaries' economic behaviour and that the Scheme brings about changes that would not have occurred absent the subsidy.

Step 3: Considering the distortive impacts that the subsidy may have and keeping them as low as possible

2.27 Under Step 3, public authorities should consider compliance of a subsidy with:

- (a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and
- (b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.²⁵

Proportionality

2.28 The Assessment states that the Scheme is a 'market-based instrument' which has been carefully designed to ensure proportionality. It states that the CfD premium is designed to minimise payments to just what is needed to fulfil the policy objective and minimise impacts on competition between generators, as it preserves generators' exposure to market forces by incentivising them to compete in the wholesale electricity market.

2.29 Subsidy payments are only made when reference prices are below the strike price, and generators must pay back when reference prices rise above the strike price. Payments are not made when wholesale prices are negative. The Assessment states that this is a key protection against overcompensation. It states that the capping of strike prices for each technology (administrative strike prices) helps to maintain value for money.

²⁵ See [Statutory Guidance](#) paragraphs 3.75–3.112 and the [SAU Guidance](#), paragraphs 3.14–3.18 for further detail.

- 2.30 The Assessment explains that subsidy awards are made through a transparent and non-discriminatory competitive process: which helps maintain value for money.²⁶ This involves auctions between projects within five different pots for different technologies, and typically the lowest bids being accepted until the maximum budget is reached. The Assessment also explains how cumulation of subsidies for the same project is prevented.
- 2.31 The Assessment refers to evidence from the 2026 Evaluation of the CfD scheme to show that the Scheme remains proportionate. The Assessment includes data on the clearing prices for CfD projects and administrative strike prices for CfD allocation rounds over time, illustrating competitive outcomes from the auction process.
- 2.32 The Assessment states that the budget and auction parameters will be set closer to the auction date to ensure that the latest project pipeline information is used to help achieve the objectives while driving competition and value for money. Approval from HM Treasury is required for the CfD budget and parameters for each allocation round due to their impact on energy bills.
- 2.33 The Assessment includes some contemporary evidence and discussion on internal consideration and discounting of alternatives to CfD (see paragraphs 2.11 and 2.12 above).
- 2.34 The Assessment outlines changes for AR8 which have implications on costs to consumers and how they are proportionate to the Scheme's policy objectives, and limited to what is necessary:
- (a) The Secretary of State will have visibility of anonymised sealed bids above the initial budget for a wider range of technologies. The Assessment explains that this may enable a more efficient allocation of (flexible) budget whilst encouraging appropriate bidding incentives and maintaining value for money.
 - (b) Administrative strike prices will remain at AR7 levels. The Assessment explains that this is intended to encourage continued price competition and support value for money for consumers.
 - (c) A permanent restriction will prevent previously surrendered CfD capacity being re-entered into future allocation rounds. The Assessment explains that this will prevent developers from withdrawing capacity and re-entering later allocation rounds to seek a higher strike price.
 - (d) Applicants with Gate 1 Connection offers will generally be excluded. The Assessment explains that this measure protects consumer value for money,

²⁶ Contracts are offered to successful bidders in auctions, the rules for which are published in the allocation framework for each round.

as auction budget cannot be allocated to those projects that risk a significant delay in connecting to the grid.

- 2.35 In our view, the Assessment identifies various aspects of the Scheme which are relevant to limiting the value of subsidy amounts under the Scheme to the minimum necessary and limiting the scope for overcompensation. However, in line with the Statutory Guidance and to provide relevant context to the proportionality of the Scheme,²⁷ it should consider the size of subsidies under the Scheme relative to the value of the affected market or to an estimate of the investment needed to achieve the policy objective. While the value of the subsidies to be provided under the Scheme is not yet known, previous allocation round value estimates could be illustrative of size, as included in the AR6 Assessment.

Design of subsidy to minimise negative effects on competition and investment

- 2.36 The Assessment identifies the following characteristics of the Scheme's design relevant to minimising the scale of potential negative effects on competition or investment:
- (a) The CfD is a market-based instrument which preserves generators' exposure to market forces by requiring them to continue selling electricity in the wholesale market and compete for the best available price.
 - (b) The Scheme is open to application for any eligible renewable generating station (subject to certain size thresholds).
 - (c) Payments are a variable premium (including clawback where appropriate) rather than a fixed payment.
 - (d) The Scheme's built-in performance criteria ('milestones') to monitor delivery progress will continue to apply in AR8.
- 2.37 The Assessment also outlines how changes to AR8 minimises any negative effects on competition and investment. In addition to the characteristics noted in paragraph 2.36, the Assessment explains that:
- (a) the five-pot structure (paragraph 1.12), is intended to encourage competition within established technologies whilst ensuring emerging technologies are not crowded out by lower-cost technologies; and
 - (b) enabling ODOV projects to compete for support may increase investment in this emerging technology and provide developers with greater flexibility in project design.

²⁷ See [Statutory Guidance](#), paragraph 3.91.

- 2.38 In our view, the Assessment largely explains how many of the subsidy characteristics identified in the Statutory Guidance help to minimise distortions and consumer costs arising from the Scheme. However, the Assessment should:
- (a) explain the rationale for AR8's five-pot structure in more detail, specifically the separation of technologies previously grouped within AR7 Pot 1. Evidence on expected bidder participation and competitive tension within each pot would assist in assessing whether the revised auction design is proportionate to the Scheme's objectives and is expected to minimise distortions to competition.
 - (b) given stakeholder submissions about the proposed Gate 1 eligibility restrictions, explain more fully why any reduction in potential bidder participation is expected to have limited effects on competitive outcomes. This could be achieved, for example, by considering whether evidence from previous allocation rounds supports this conclusion.
 - (c) consider whether the hybrid metering arrangements that will be introduced in AR8 (see paragraph 1.14(g)) may give rise to broader competition concerns, including changes in market concentration if certain parties can use metering for both CfD and non-CfD capacity, or impacts on competitive dynamics within future CfD allocation rounds if hybrid metering provides a cost advantage.
- 2.39 In addition, while the Assessment notes (see paragraph 2.53) that Scottish generators will receive a different strike price relative to generators in the rest of Great Britain for offshore wind, as in AR7, it could also explain this aspect of the Scheme's design in further detail.

Assessment of effects on competition or investment

- 2.40 The Assessment identifies the impacted product market as the wholesale electricity market and states that the geographic market is Great Britain.
- 2.41 The Assessment recognises that the CfD scheme, in accordance with its policy objective, provides an advantage for renewable generators that receive it that is not available to other forms of power. Similarly, the Assessment states that the intended shift from fossil fuels to renewable electricity sources in the energy generation mix will impact other electricity generators in the market.

- 2.42 The Assessment highlights the possibility that future increased renewable capacity may lead to more volatile wholesale prices and risk of price cannibalisation,²⁸ which may impact investment incentives.
- 2.43 The Assessment discusses how various reforms made for AR8 may impact competition and investment, where it discusses that:
- (a) excluding most Gate 1 projects may reduce the number of potential bidders, although the Assessment states that the impact on competition is expected to be limited. The Assessment states that any reduction in competitive tension may be partially offset by reducing the scope for speculative bidding from less advanced projects, which could otherwise have put upward pressure on bid prices;
 - (b) the five-pot structure supports competitive tension by ensuring that more established technologies do not crowd out emerging technologies. By ring-fencing budgets, this ensures more established technologies do not receive a higher clearing price than necessary. Emerging technologies are also therefore not supported beyond their required need;
 - (c) introducing ODOV may increase investment in this emerging technology and provide greater optionality for offshore wind developers;
 - (d) extending bid visibility may encourage bidders to submit more competitive bids and allow for a more efficient allocation of budget;
 - (e) the removal of default bids supports consumer value for money by encouraging bidders to bid their minimum viable price; and
 - (f) maintaining the restriction on surrendered capacity may benefit new entrants by ensuring previously surrendered capacity cannot be re-entered into future allocation rounds.
- 2.44 The SAU's previous reports indicated that the assessment would benefit from a more detailed consideration of the subsidies' impact on competition or investment. In response to this feedback, for onshore wind, solar PV and offshore wind technologies, the Assessment includes further detail on the characteristics of successful participants in the CfD scheme, including information on the number of developers that have secured contracts.
- 2.45 The Assessment outlines that renewable electricity generators generally compete on the wholesale energy market with generators of electricity from other low-carbon sources and fossil fuels.

²⁸ Price cannibalisation is described in the Assessment as the scenario where high levels of correlated renewable generation can result in over-supply, depressing the market price.

- 2.46 The Assessment acknowledges the risk that CfD support could crowd out some private investment. However, it provides evidence that alternative routes to market remain relatively limited and may not support deployment at the scale required.
- 2.47 In our view, the Assessment provides some analysis of market characteristics and of potential impacts on competition in Great Britain, including more detail than previous CfD Assessments. However, the Assessment should consider in more depth the likely effects of subsidies given under the Scheme on market structure and market concentration, and on other low-carbon generators.²⁹ For example, further analysis could include:
- (a) details of successful participants for all technologies supported under the Scheme;
 - (b) consideration of whether the companies which tend to win are the same companies each year, the number of bidders for each pot, and how the number of distinct enterprises which bid changes over time; and
 - (c) assessment of the degree to which the subsidy payments enable these companies to establish or exercise any market power in the impacted market(s). This is relevant to assessing the risk that the Scheme is establishing a limited number of generators and to monitoring current and prospective levels of competitive tension.
- 2.48 In this context, additional information from NESO on unsuccessful bids and bidders could provide a fuller picture of participation and competitive tension within allocation rounds and help assess whether auction outcomes are being driven by effective competition, including assessing whether there is the establishment or strengthening of market positions in the affected markets.

Step 4: Carrying out the balancing exercise

- 2.49 Under step 4 (principle G), public authorities should establish that the benefits of the subsidy (in relation to the specific policy objective) outweigh its negative effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.³⁰
- 2.50 The Assessment sets out the following benefits of the Scheme:

²⁹ In the SAU's AR5 and AR6 reports we stated that providing 'edge case' examples would improve the evaluation of the impact of the Scheme on competition. We noted DESNZ's constraints in providing this information. In our AR6 Report we stated that DESNZ could have alternatively considered looking at the largest potential beneficiary in terms of supported generating capacity and estimated its potential impacts on competitors and market structure. These comments were reiterated in our AR7 report.

³⁰ See [Statutory Guidance](#), paragraphs 3.113–3.121 and the [SAU Guidance](#), paragraphs 3.19–3.21 for further detail.

- (a) greater long-term predictability of revenue to developers by reducing the exposure to volatile wholesale prices, thereby reducing the cost of capital and thus the level of support required;
- (b) contribution towards renewable energy targets; and
- (c) reduced financing costs.

2.51 The Assessment notes the following potential negative effects:

- (a) Potential unintended consequences, such as crowding out private investment (see paragraph 2.46 above).
- (b) Potential distortions on competition because the Scheme provides an advantage for renewable generators that is not available to other forms of power. Aspects of the Scheme's design are intended to reduce adverse consequences.
- (c) A distributional impact arising from the funding of the Scheme through a levy on consumer electricity bills based on consumption. As a result, poorer households will spend a larger proportion of their disposable income on electricity. However, the Assessment notes that renewables deployment overall decreases the wholesale electricity price.

2.52 In terms of changes in AR8, the Assessment states that there is the potential for:

- (a) increased deployment of renewable generation through reforms intended to support delivery of Clean Power 2030 whilst maintaining value for money for consumers;
- (b) improved consumer value for money through measures including the permanent restriction on surrendered capacity, the removal of default bids and expanded visibility of anonymised bid information, which the Assessment states may help strengthen competitive tension and improve budget allocation decisions;
- (c) increased investment in emerging offshore wind technologies through the introduction of ODOW and contractual changes for FLOW projects;
- (d) improved deployment certainty through the exclusion of most Gate 1 connection projects from eligibility, reducing the risk that support is awarded to projects unlikely to contribute to Clean Power 2030 within the relevant timeframe; and
- (e) cost savings arising from hybrid metering arrangements and other operational reforms intended to improve the efficiency of the Scheme (see paragraph 1.14(g)).

- 2.53 The Assessment explains that as the location of a project within Great Britain is not considered during the allocation process, DESNZ believes that it is unlikely that geographical impacts will occur but notes that separate clearing prices are applied to offshore wind projects in Scotland as opposed to England and Wales. DESNZ clarified that this approach is intended to address the expected difference in transmission network charges and to ensure that cheaper projects are not overcompensated.
- 2.54 The Assessment explains that as comparable support schemes exist in other countries, any potential effects on trade, investment and location are limited.
- 2.55 The Assessment concludes that the benefits of the Scheme outweigh the negative effects. The Assessment refers back to the Scheme's contribution to decarbonisation targets, and reduced consumer cost through the encouragement of the deployment of low-carbon electricity generation. It further explains that design features of the Scheme will mitigate some negative impacts on consumers.
- 2.56 In our view, the Assessment clearly sets out the positive effects of the Scheme in relation to the policy objectives, its geographic impacts, as well as potential negative impacts, and conducts a balancing exercise between them in line with the Statutory Guidance.
- 2.57 However, while the Assessment briefly sets out the positive effects of the Scheme in relation to the policy objective of encouraging low carbon electricity generation, and other benefits in terms of reduced cost of financing, it could provide additional data to support its analysis. For example, and as recommended in our report on AR7, it could include data from the LCCC on the avoided cost of emissions from the previous allocation rounds.
- 2.58 The Assessment could also provide an assessment of the overall scale of the anticipated effects on the achievement of other policy objectives, such as security of supply.

Energy and Environment Principles

- 2.59 This section sets out our evaluation of the Assessment against the energy and environment principles.³¹
- 2.60 DESNZ has conducted an assessment of the Scheme against Principles A, B, C and E. We have not identified any other principles that should have been addressed as part of the assessment.

³¹ See Schedule 2 to the Act, and [Statutory Guidance](#), Chapter 4.

Principle A: Aim of subsidies in relation to energy and environment

- 2.61 Subsidies in relation to energy or the environment should be aimed at (1) delivering a secure, affordable and sustainable energy system and a well-functioning and competitive energy market, or (2) increasing the level of environmental protection compared to the level that would be achieved in the absence of the subsidy. If a subsidy is in relation to both energy and environment, it should meet both limbs.³²
- 2.62 The Assessment sets out that the objectives of delivering a secure, affordable and sustainable energy system (per the energy limb of Principle A) are aligned to the core objectives of the CfD scheme, as set out in legislation (the Energy Act 2013).³³ The Assessment briefly sets out how the CfD auction mechanism aims to achieve the objectives of ensuring value for money for consumers through use of a competitive bidding process and capped payments. The Assessment also explains that, at times of high market prices, generators are required to repay the difference between the market price and the strike price, and that CfD payments are not made during periods where the intermittent market reference price is below the strike price.
- 2.63 The Assessment explains that the environmental limb of Principle A (increasing the level of environmental protection compared to the level that would be achieved in the absence of the subsidy) is also relevant. Encouraging low carbon electricity generation (and so reducing greenhouse gas emissions) is a principal objective and sets out how the Scheme addresses this.
- 2.64 The Assessment states that the core elements of the CfD remain unchanged for AR8. It also sets out in detail how the changes which are being made to the CfD scheme for AR8 are aimed at and incentivise the energy and environmental objectives in Principle A.
- 2.65 In our view, the Assessment explains by reference to the wording of Principle A of the energy and environment principles how the Scheme complies with that principle.

Principle B: Beneficiary's liabilities as a polluter

- 2.66 Subsidies in relation to energy or the environment should not relieve the beneficiary from liabilities arising from its responsibilities as a polluter under the law of England and Wales, Scotland, or Northern Ireland.³⁴

³² [Statutory Guidance](#), paragraphs 4.19–4.28.

³³ <https://www.legislation.gov.uk/ukpga/2013/32/contents>.

³⁴ [Statutory Guidance](#), paragraphs 4.29–4.34.

- 2.67 The Assessment confirms that no such relief is available through the Scheme. It explains that the Scheme supports UK efforts to reduce greenhouse gas emissions from electricity generation and that it does not relieve beneficiaries of any liability arising from their responsibilities in law as polluters. Rather, the Scheme incentivises reduction of emissions. DESNZ added that CfD contracts include requirements on generators to comply with all applicable law. The Assessment states that none of the AR8 changes affect this general assessment.
- 2.68 In our view, the Assessment clearly sets out why Principle B is met.

Principle C: Subsidies for electricity generation adequacy, renewable energy, or cogeneration

- 2.69 Subsidies or schemes for electricity generation adequacy, renewable energy, or cogeneration should not undermine the UK's ability to ensure that wholesale electricity and natural gas prices reflect actual supply and demand, and that the wholesale electricity and natural gas market rules will, in general terms, be transparent, encourage free price formation, and operate in an efficient and secure manner.³⁵ They should also not unnecessarily affect the efficient use of electricity interconnectors between the UK and the European Union. Finally, they should be determined by means of a transparent, non-discriminatory and effective competitive process, or, alternatively, an explanation should be provided for why a non-competitive process was used.³⁶
- 2.70 On the requirements related to Article 304 of the TCA, the Assessment sets out that the Scheme supports integration of electricity from renewable energy sources and that beneficiaries are subject to balancing responsibilities in the wholesale market. It explains that no payment is made when electricity wholesale prices are negative, which incentivises beneficiaries to adapt to the needs of the wider electricity system.
- 2.71 On the requirements related to Article 311 of the TCA, the Assessment sets out that no aspect of the Scheme could be seen to unnecessarily affect the efficient use of electricity interconnectors. The Assessment explains that AR8 will be open to applications from all eligible renewable electricity generators and that results will be determined in accordance with auction rules published in advance in the allocation framework. Finally, it reiterates that the subsidies are awarded through a transparent, non-discriminatory and effective bidding process
- 2.72 The Assessment states that the core approach will remain unchanged for AR8. In particular, it explains that (a) the restriction on surrendered capacity is intended to

³⁵ Article 304 of the [Trade and Cooperation Agreement](#) between the United Kingdom of Great Britain and Northern Ireland, of the one part, and the European Union and the European Atomic Energy Community, of the other part (TCA).

³⁶ [Statutory Guidance](#), paragraphs 4.36–4.44.

promote more accurate bidding behaviour; (b) the introduction of ODOW provides developers with additional technology options within a competitive framework; (c) restricting eligibility to projects with 'ready to go' Gate 2 connection agreements is expected to have limited impacts on competition whilst reducing speculative bidding; and (d) extending visibility of anonymised sealed bids is intended to encourage more competitive bidding behaviour for technologies with more liquid pipelines.

- 2.73 In our view, the Assessment provides a clear explanation as to how the Scheme meets Principle C.

Principle E: Subsidies for renewable energy or cogeneration

- 2.74 Subsidies for renewable energy or cogeneration should not affect beneficiaries' obligations or opportunities to participate in electricity markets.³⁷
- 2.75 The Assessment confirms that CfD beneficiaries are strongly incentivised by the terms of CfD contracts to participate in the electricity market to receive the best market revenues they can achieve, as CfD payments are the difference payment between their stipulated strike price and the reference price. The Assessment states that it does not consider any of these arrangements to affect beneficiaries' standard obligations or opportunities to participate in electricity markets; it further explains that beneficiaries remain free to sell power through alternative arrangements, including private wire arrangements; and that the core approach remains unchanged for AR8.
- 2.76 In our view, the Assessment provides a reasonable explanation as to how the Scheme meets Principle E.

Other Requirements of the Act

- 2.77 DESNZ confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act apply to the Scheme.

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³⁷ [Statutory Guidance](#), paragraphs 4.48–4.51.