UK Government

Contracts for Difference for Low Carbon Electricity Generation

Government response to proposed legislative changes to support implementation of the British Industrial Competitiveness Scheme

Department for Energy Security and Net Zero (2026)

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Introduction

Context

In November 2025, the then Department for Business and Trade (DBT) consulted on the British Industrial Competitiveness Scheme (BICS), under which eligible businesses will be exempt from the indirect costs of the Renewables Obligation (RO), Feed-in Tariffs (FiT) and Capacity Market (CM) schemes. In July 2026, the Department for Innovation, Science and Trade (BIST) confirmed that BICS will be funded through a combination of changes within the energy system (such as those recently made to inflation indexation of RO/FITs), removal of Carbon Price Support from April 2028 and Exchequer funding to ensure domestic and non-domestic electricity consumers do not see an increase in their electricity bills as a result of the scheme.

In August 2026, DESNZ consulted on proposed amendments to the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014. The consultation sought views on proposed legislative changes to facilitate the previously announced Exchequer funding to be provided to LCCC to be reflected in the CfD Supplier Obligation framework.

Responses to the consultation

Responses to the consultation were submitted through an online response tool (Citizen Space) or by email. The consultation received 13 responses. The majority of responses were received from electricity suppliers, with several responses from other stakeholders, including developers and independent members of the public. Not all respondents engaged with every question. The number of respondents to each question is indicated in accordance with the terms described below. The Government is grateful to stakeholders for taking the time to engage with the consultation.

In reporting the overall response to each question, “**majority**” indicates the clear view of more than 50% of respondents answering that question, and “**minority**” indicates fewer than 50%. The following terms are used to summarise additional points raised: “**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 between 30% and 70%.

Summary of decisions

The Government has decided to proceed with the proposed amendments to the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014, as consulted on in August 2026.

Government response

Use of the CfD Supplier Obligation framework to deliver the BICS offset

Proposals

Question 1 sought views on whether respondents agreed with the Government's proposed approach of using the Contracts for Difference (CfD) supplier obligation framework as a mechanism to deliver the BICS offset, and the reasons for their view.

Summary of consultation responses

The majority of respondents broadly agreed with the use of the CfD Supplier Obligation framework to deliver the BICS offset. These respondents agreed that the use of an established framework is pragmatic, workable or proportionate, and noted that it could avoid the need to create a separate funding and settlement mechanism in advance of the proposed April 2027 implementation date.

Many respondents qualified their agreement with a request for early and transparent information on the amount, profile, duration and methodology of Exchequer funding, as well as information on the timing of payments to the Low Carbon Contracts Company (LCCC) and how forecast and actual funding would be reconciled. Respondents highlighted that this information is necessary for suppliers to reflect the offset in tariffs, manage operational planning and avoid adding risk premia to customer prices.

Many respondents raised concerns about the bill impact of BICS. Respondents requested publication of a full Impact Assessment, including the gross cost of BICS, the contribution from wider system savings, the Exchequer funding amount and the expected distributional effects.

A few respondents questioned the proposed approach. They considered that combining the BICS offset with the CfD Supplier Obligation could make costs harder to track, settle, and reconcile, particularly in relation to consumer impact, and could add complexity to levy forecasting.

A few respondents suggested that direct Exchequer funding of the schemes from which BICS eligible consumers are exempt, or direct Government delivery of support to eligible businesses, could be simpler and more transparent over the longer term. One respondent suggested the Government should review whether the CfD Supplier Obligation remains the most efficient delivery mechanism in the long term. Another respondent argued that levy reductions should only be applied once Exchequer funding is confirmed, with later funding being reflected through existing levy adjustment arrangements.

One respondent raised the need for a clear transition mechanism for businesses moving between the Energy Intensive Industries exemption and BICS, to avoid an administrative gap

in support within a levy year. Another respondent argued that BICS should also support on-site and near-site self-generation and storage.

One respondent requested clarity on how the mechanism would account for electricity volumes excluded from CfD liabilities.

Policy response

Delivery mechanism

The Government considers the existing CfD Supplier Obligation framework as the most practical and deliverable approach for delivering the BICS offset. The chosen route builds on an established levy and settlement mechanism administered by LCCC. This route avoids the need to establish a new funding or settlement framework and minimises the legislative and operational changes required for implementation.

Delivering Exchequer funding through the CfD framework helps deliver the necessary funding required to offset the cost of BICS in time for its implementation from April 2027. The chosen route also makes use of existing supplier obligation arrangements, including levy calculation processes, therefore limiting administrative complexity. Under this approach, electricity suppliers will remain subject to the existing CfD Supplier Obligation framework. LCCC will continue to administer levy payments as normal and preserve full payments to CfD generators.

In response to concerns raised regarding operational complexity and supplier administration, the Government considers that regular forecast updates and reconciliation are necessary to ensure that Exchequer funding can remain aligned with underlying BICS costs as more accurate information on eligibility, consumption and policy costs becomes available. Less frequent updates would risk funding levels diverging from actual scheme costs over a longer period. Furthermore, using the existing CfD Supplier Obligation framework minimises the need for new charging, settlement or payment processes. The Government therefore considers this to be a proportionate approach to delivering the BICS offset.

In response to the concern raised on how the mechanism will account for electricity volumes excluded from CfD liabilities, the Government notes that under the BICS scheme, eligible businesses will be exempt from the indirect costs of only the RO, FiT and CM schemes, not the CfD scheme. The proposed amendments do not change the existing methodology used by LCCC to determine liable supply volumes when calculating the CfD Supplier Obligation.

Funding methodology and supplier forecasting

The Government recognises the importance of clarity regarding the methodology used to determine Exchequer funding requirements and the information required by suppliers to support forecasting and pricing for consumers. The Government intends to publish further information on the funding arrangements and supporting methodology, including the interaction between Exchequer funding and wider system savings. The amount of Exchequer funding will be determined by the expected residual cost of BICS after wider system savings have been taken into account, helping to ensure that funding is aligned with the underlying cost of the

BICS scheme and that this cost is offset, rather than being passed through to non-exempt consumers. In addition, suppliers will have visibility of levy-setting and forecasting information published by LCCC through existing Supplier Obligation reporting processes. These publications are intended to support supplier forecasting and pricing decisions, thereby reducing uncertainty that could otherwise be reflected in customer prices.

Reconciliation and treatment of forecasts

The Government will provide funding to the LCCC to reduce the cost of CfD to offset the residual cost of BICS on non-exempt businesses. The Government recognises the importance of ensuring that funding arrangements respond appropriately to differences between forecasted and actual costs of BICS. Payments toward the CfD will take place on a quarterly basis.

Quarterly forecasting updates, including against actual BICS costs, will take place in order to update and inform the amount of Exchequer funding that will be required to fund the BICS offset. By updating forecasts of BICS-eligible consumption and associated costs on a recurring basis, the Government can better incorporate new information as it becomes available. This will reduce the risk of significant divergence between forecast and actual cost of the BICS scheme and allow for more accurate determination of the amount of Exchequer funding required to offset the cost of BICS. Reconciliation between forecasts and actual BICS costs is also likely to take place on a regular basis and incorporated into Exchequer funding levels.

A quarterly approach also aligns with the existing quarterly forecasting and reconciliation processes that already operate within the CfD Supplier Obligation framework. Under the CfD framework, the balance between over-collection and under-collection is managed by LCCC and balanced over time. This is done by forecasting expected CfD costs, setting supplier charges on those forecasts, and using reconciliation processes to correct differences between forecast and actual amounts.

By updating forecasts of BICS-eligible consumption and associated costs on a recurring basis, the Government would be better able to incorporate new information as it becomes available. This will reduce the risk of significant divergence between the forecasted and actual cost of the BICS scheme and allow any variance to be reflected more accurately when determining the amount of Exchequer funding required to offset the cost of BICS. As the scheme matures, quarterly updates will allow funding assumptions to be refined using actual scheme data, leading to improved forecast accuracy and providing greater certainty for suppliers when forecasting future costs and setting tariffs.

The Government will continue to work with LCCC on the detailed design of the forecasting and reconciliation arrangements ahead of implementation. More details on the nature and frequency of forecasting and reconciliation will be published in an upcoming document. BIST will continue to review reconciliation frequency as the scheme progresses.

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

Proposals

Question 2 sought views on the proposed amendments to the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014.

Summary of consultation responses

The majority of respondents agreed with the proposed amendments. A few respondents opposed the amendments because they disagreed with the use of the CfD Supplier Obligation framework to deliver the BICS offset or considered that the draft did not contain sufficient safeguards.

Many respondents sought greater certainty about whether the Exchequer funding would be non-repayable. Respondents noted that uncertainty over possible repayment could affect supplier forecasts, delay or reduce the benefit reflected in customer prices, or create a risk that costs would later return to suppliers and consumers. Similarly, a few respondents requested clarity on the circumstances in which repayment could arise and how repayment terms would operate.

One respondent requested confirmation that Exchequer payments would continue if the CfD scheme entered a negative levy position.

One respondent requested completion of the commencement provision and Explanatory Note before the instrument is laid, including an explanation of territorial application.

One respondent recommended that, for each use of the Secretary of State funds power, the Government publish a notice identifying the purpose, legal basis, amount, relevant obligation period and terms. Another respondent opposed the proposed amendments in their current form and proposed additional transparency, reporting and consumer protection safeguards, including audit, Parliamentary oversight and a sunset provision aligned with BICS.

A few respondents highlighted the need to progress legislation in sufficient time to provide certainty to LCCC, suppliers, Ofgem and other affected parties before implementation.

Policy response

The Government reiterates that the proposed amendments provide the most practical and proportionate means of enabling Exchequer funding to be reflected in the CfD levy calculation. The amendments build on existing concepts and arrangements already used within the Supplier Obligation framework, minimising the legislative and operational changes required ahead of implementation. Suppliers stay within the existing CfD Supplier Obligation framework, and LCCC continues to administer the levy as normal.

In response to requests for clarification on whether Exchequer funding would be non-repayable, the Government confirms that Exchequer funding provided to LCCC for the purpose of reducing the CfD levy rate to offset the cost of BICS will not be repayable. The purpose of the Exchequer funding is to reduce the amount recovered through the Supplier Obligation framework, in order to offset the cost of BICS. This will remain the case even if or where adjustments to the level of Exchequer funding are required as a result of updated forecasts or reconciliation. In a negative levy scenario, Exchequer funding would continue to flow through the existing Supplier Obligation framework. Any adjustments resulting from forecasting updates or reconciliation will be managed through future Exchequer funding decisions and existing reconciliation processes. LCCC will not retain Exchequer funding for use in future obligation periods.

In response to requests for greater transparency measures and concerns regarding the scope of the proposed drafting, the Government notes that the amendments do not alter the existing Parliamentary controls, oversight arrangements or reporting requirements that apply to the underlying spending powers used to provide funding. The Government therefore does not consider that the proposed drafting reduces transparency or accountability. Where funding is provided using powers under the Energy Prices Act 2022, the existing reporting requirements under section 14 will continue to apply.

The Government does not consider that there should be a sunset provision for this measure. The legislative amendments do not create an enduring funding commitment, and the BICS scheme will conclude in 2035. The legislative amendments simply allow LCCC to take Exchequer funding into account when calculating the ILR.

The Government will publish an Explanatory Memorandum, as well as an Explanatory Note, alongside the instrument when it is laid before Parliament to explain the purpose and effect of the amendments.

Use of section 13 of the Energy Prices Act 2022

Proposals

Question 3 sought views on 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.

Summary of consultation responses

Most respondents agreed with the proposed use of section 13 of the Energy Prices Act 2022. One respondent disagreed with the proposed approach by reference to their wider objection to use of the CfD Supplier Obligation mechanism. A few respondents requested assurance that the relevant statutory power would remain available for the full period over which BICS offset funding is required. They cautioned against reliance on repeated short-term extensions and requested a durable legal basis for the funding arrangements.

One respondent requested greater certainty on the timing, duration and approval of the Government's funding commitment, including contingency arrangements if approvals or funding were delayed.

One respondent noted that section 13 could potentially support broader action to reduce energy costs.

One respondent suggested that existing reporting requirements under section 14 should separately identify BICS-related funding, including the relevant obligation periods and cumulative funding provided to LCCC.

Policy response

The Government notes that the majority of respondents agreed that section 13 of the Energy Prices Act 2022 provides an appropriate legal basis for the provision of Exchequer funding to LCCC. The Government intends to rely on section 13 to support implementation of the proposed funding arrangements from April 2027.

The Government considers that the existing quarterly reporting duty under section 14 of the Energy Prices Act 2022 provides sufficient reporting requirements and safeguards. This also minimises additional operational and administrative burdens on LCCC and suppliers by relying on existing reporting and oversight arrangements.

Implications on the wider CfD framework

Proposals

Question 4 sought views on any wider effects of the proposed funding mechanism, including effects on the design and operation of the CfD scheme or the incentives of scheme participants.

Summary of consultation responses

Many respondents raised concerns about forecasting, timing and reconciliation and requested close coordination between the Government, LCCC and Ofgem. They noted that quarterly changes to funding assumptions, levy rates and reconciliation could create uncertainty, additional governance and operational work, and costs that may ultimately be reflected in supplier pricing. One respondent identified a potential risk that suppliers may become less willing to tender for BICS-eligible customers if the scheme creates additional operational and financial costs. Many respondents called for early visibility of a predictable funding profile and more information on funding decisions, including Ofgem’s price cap inputs and reconciliation.

Many respondents also sought clarity on how benefits would be passed through to consumers. Respondents noted that the timing and extent of pass-through would depend on tariff and contract type and noted that existing fixed-price contracts may see the benefit of a reduced levy later. A few respondents raised concerns on the potential for suppliers and BICS-eligible

businesses to receive both the direct BICS exemption and a share of the aggregate CfD levy reduction. They requested that the Government clarify the intended distribution of the offset and explain the effect of applying funding on a per-megawatt-hour basis.

Many respondents raised the risk that the CfD levy reduction might not precisely match the increase in RO, FiT and CM costs faced by suppliers after eligible BICS demand is removed from the charging base, as well as the risks of under or over estimation of forecasted funding. They considered that suppliers should not be required to finance a timing gap or bear the consequences of a funding shortfall or withdrawal. A few respondents requested transparent separation of BICS-related funding and the underlying costs of the CfD scheme. Similarly, a few respondents raised impacts on supplier hedging. One respondent noted that suppliers may already have hedges extending into future periods and that a change in the CfD cost-recovery framework could affect the mark-to-market position of those hedges.

A few respondents raised concerns on increasing complexity affecting confidence in the CfD mechanism. Respondents stressed that the funding mechanism should not alter CfD generator payment rights, risk allocation or confidence in the scheme. A few respondents also raised concerns surrounding administrative complexity. One respondent argued there is a risk of higher CfD strike prices if generators or suppliers price additional uncertainty into bids or tariffs.

One respondent highlighted the possible disincentive for eligible businesses to invest in on-site renewable generation and storage if only grid electricity benefits from the BICS arrangements.

One respondent requested consideration of the cumulative impact of BICS and other exemption schemes and measures on non-exempt small and medium-sized enterprises.

Policy response

Protecting the integrity of the CfD framework

The Government recognises the importance of ensuring the integrity of the CfD framework is upheld and changes proposed to the supplier obligation do not have an impact on investor confidence.

CfD generator payments will continue to be made in full and on time. The proposed approach will not alter contractual arrangements between LCCC and generators, meaning the calculation of payments due under CfD contracts will not be impacted. The existing Supplier Obligation framework through which CfD costs are recovered will operate as usual. Suppliers will continue to be subject to levy payments, and the calculation and administration of levy payments will operate as normal. When calculating the total CfD funding needed, LCCC will deduct the Exchequer funding and set the levy rate based on the reduced amount, in order to offset the cost of BICS. Suppliers will see a reduced levy rate, ensuring the cost of BICS is not passed on to consumers, whilst generator payments will remain unchanged, thereby maintaining revenue certainty. LCCC will remain able to collect from suppliers the balance of funding required to meet payments from generators, and generators will not see a reduction in payments owed to them. The funding mechanism therefore does not affect LCCC’s ability to recover the funding required to meet CfD liabilities or make payments to generators but will

simply allow LCCC to take Exchequer funding into account when determining the amount recovered through the supplier obligation framework.

The Government therefore considers that the fundamental operation of the CfD scheme will continue to be preserved under this arrangement, whilst ensuring consumers are protected from the additional cost of BICS and preserving investment incentives.

Accordingly, and in response to comments concerning transparency, the Government notes that the addition of Exchequer funding does not reduce the underlying cost of the CfD scheme or CfD contracts. Exchequer funding will serve to reduce the proportion of costs recovered from suppliers via the CfD levy and is intended solely to offset the cost of BICS.

In response to concerns surrounding administrative complexity, the Government maintains the position that using the existing CfD Supplier Obligation framework is proportionate as it builds on established arrangements rather than creating a new funding and settlement mechanism. Any monitoring or reporting requirements will be designed to be proportionate and will be communicated in due course.

Supplier hedging and wider market interactions

The Government acknowledges comments regarding potential interactions between the proposed funding mechanism and existing supplier hedging arrangements. The Government therefore recognises the importance of providing timely and transparent information on the funding arrangement for BICS to support supplier forecasting, planning and subsequent pricing, particularly in order to reduce the risk of uncertainty being reflected in customer prices. As noted above, the Government intends to publish further information on the funding arrangements and supporting methodology, with updated forecasts and reconciliation intended to support greater certainty over time.

Ofgem price cap interaction

The Government recognises the importance of ensuring that any changes to the levy rate as a result of Exchequer funding are reflected in Ofgem’s price cap. Ofgem will publish a consultation on any requisite changes to the price methodology in response to the BICS scheme. We expect that any Ofgem consultation would be focussed on identifying the appropriate source data/modelling changes necessary to reflect the costs of the BICS, including the CfD offset benefit, rather than any policy options assessment.

LCCC determines the Interim Levy Rate (ILR) on a quarterly basis in advance of the relevant obligation period. For the April to June 2027 obligation period, the ILR will be set in December 2026. Ofgem is expected to use information provided by LCCC on 5 February 2027 when determining the April 2027 price cap. The first payment of Exchequer funding is intended to be made to LCCC no later than 27 November 2026, to ensure that this can be reflected in the ILR and that any reduction in the ILR can be reflected in the data available for Ofgem’s price cap setting. The Government will continue to work closely with LCCC and Ofgem ahead of implementation to ensure that the CfD levy and price cap are appropriately aligned.

Distributional impacts and consumer pass-through

The Government notes comments regarding the distributional impacts of BICS, including the potential of receiving both the direct BICS exemption and a share of the aggregate CfD levy reduction, and the extent to which the benefits of the offset will be reflected in consumer bills. BIST's Impact Assessment published September 2026[1] notes that the operation of the offset mechanism may result in additional benefits for some beneficiaries. The Impact Assessment sets out that the objective of the offset is to ensure that the residual costs of BICS are offset at a system level and therefore recognised that individual contractual arrangements may affect how the exemption and offset are reflected in prices.

The Government also recognises that some minor difference between forecast and actual costs is unavoidable. To mitigate this, in future quarterly obligation periods, funding levels will be updated and reconciled on a recurring basis to reflect the latest information on eligible consumption and associated policy costs, as explained earlier in this government response. This is intended to support continued alignment between Exchequer funding and the underlying costs of BICS over time. The Government considers that competition between suppliers, suppliers' obligations to treat customers fairly under Ofgem's Standards of Conduct, existing pricing arrangements and the domestic price cap support the objective of offsetting the cost of the exemption for households and other non-exempt consumers. Monitoring and evaluation arrangements will support ongoing assessment of the effectiveness of these arrangements.

In developing the policy for the BICS offset, BIST has carefully considered how the design aligns with the department's obligations regarding subsidy control, both domestically and internationally. BIST will ensure that, to the extent that subsidy control rules apply to this mechanism, it is compliant with all relevant principles and obligations.

Governance and monitoring

As set out in BIST's Impact Assessment, BIST has developed a monitoring and evaluation framework for BICS, including a process evaluation in Year 1, an independent impact evaluation in Year 3 and a summative evaluation in Year 5. Findings from this work will inform the planned review of the scheme in 2030 and future decisions regarding the scheme's operation through to 2035. Further information on monitoring, evaluation and supplier reporting arrangements will be provided through future guidance and supporting publications. These review points will help allow the Government to understand the effects of support measures on both eligible and non-exempt consumers, as well as the wider scheme outcomes over time.

[1] The Renewables Obligation and Electricity Capacity (Amendment) (British Industrial Competitiveness Scheme Excluded Electricity) Regulations 2026 - Impact Assessment

Next steps

The Government has decided to proceed with the proposed amendments to the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014. The amendments will be finalised and laid before Parliament. Alongside publication of this government response, the Government will continue to work with LCCC, Ofgem and BIST on implementation of the funding mechanism ahead of BICS going live in April 2027. Further information on the wider BICS funding arrangements, monitoring and evaluation framework, and associated implementation activity will be published separately by BIST.

This publication is available from: Proposed legislative changes to support implementation of the British Industrial Competitiveness Scheme - GOV.UK.

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

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