

3 October 2024

Supplementary forecast information release

Contracts for Difference scheme: forecast drivers

- 1.1 The OBR is releasing this information following a request for further detail in respect of the drivers of our forecast for the Contracts for Difference (CfD) scheme. The CfD scheme is designed to incentivise investment in renewable energy projects and guarantees a set price for electricity known as the strike price. The CfD scheme will pay low carbon energy developers the difference between the indexed 'strike price' and a 'reference price' (reflecting the average market price for electricity) for the electricity they produce over an agreed contract period. Lower wholesale electricity prices would increase CfD receipts, as this would increase the subsidy paid to generators.
- 1.2 The CfD scheme is fiscally neutral, as the payments the government makes, and payments received from energy producers, are passed on to consumers' electricity bills.
- 1.3 The CfD forecast therefore moves with the Department for Energy Security and Net Zero's (DESNZ) forecasts of low carbon electricity generation and strike price, and with our forecast of wholesale electricity prices (which inform the reference price) based on market expectations. Projects agreed at the third and fourth CfD allocation rounds will come on stream through the forecast period. The strike prices agreed at these rounds was significantly lower than earlier rounds, bringing down the average strike price.
- 1.4 Table 3.8 in the 'March 2024 *Economic and fiscal outlook* detailed forecast table – receipts' on the OBR website includes a CfD forecast:
<https://obr.uk/download/march-2024-economic-and-fiscal-outlook-detailed-forecast-tables-receipts/>
- 1.5 Table 1.1 provides details of the drivers of the CfD forecast.

Table 1.1: Contracts for difference forecast drivers

	2024-25	2025-26	2026-27	2027-28	2028-29
(a) Reference price (GBP/MWh) ¹	87.1	85.0	80.1	81.7	83.3
(b) Strike price (GBP/MWh) ²	135.2	118.7	110.3	101.0	94.3
(c = b-a) Difference	48.1	33.7	30.2	19.3	11.0
(d) Generation (TWh) ²	44.2	55.2	68.5	70.6	88.0
(c * d) Forecast (£, millions)	2,126	1,861	2,066	1,363	967

Source: DESNZ, OBR

¹ Wholesale electricity price based on market expectations. ² DESNZ forecasts