

21 November 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. The October 2024 *Economic and fiscal outlook (EFO)* forecast includes the results of the sixth allocation round that concluded in early September. This raises renewables generation towards the end of the forecast period.
- 1.4 Table 3.8 in the 'October 2024 *Economic and fiscal outlook* detailed forecast table – receipts' on the OBR website includes a CfD forecast:
<https://obr.uk/download/october-2024-economic-and-fiscal-outlook-detailed-forecast-tables-receipts/>
- 1.5 Table 1.1 below provides details of the drivers of the CfD forecast. We will include this as a regular table in our detailed forecast tables on the OBR website for future *EFOs*.

Table 1.1: Contracts for Difference forecast drivers

	2025-26	2026-27	2027-28	2028-29	2029-30
(a) Reference price (GBP/MWh) ¹	82.0	73.0	67.7	71.3	72.7
(b) Strike price (GBP/MWh)	122.8	113.6	103.0	96.5	97.4
(c = b-a) Difference	40.8	40.7	35.3	25.2	24.7
(d) Generation (TWh)	54.5	68.3	76.0	102.6	123.6
(c * d) Forecast (£ million)	2,225	2,779	2,683	2,585	3,053

¹ Wholesale electricity price based on market expectations.

Source: DESNZ, OBR