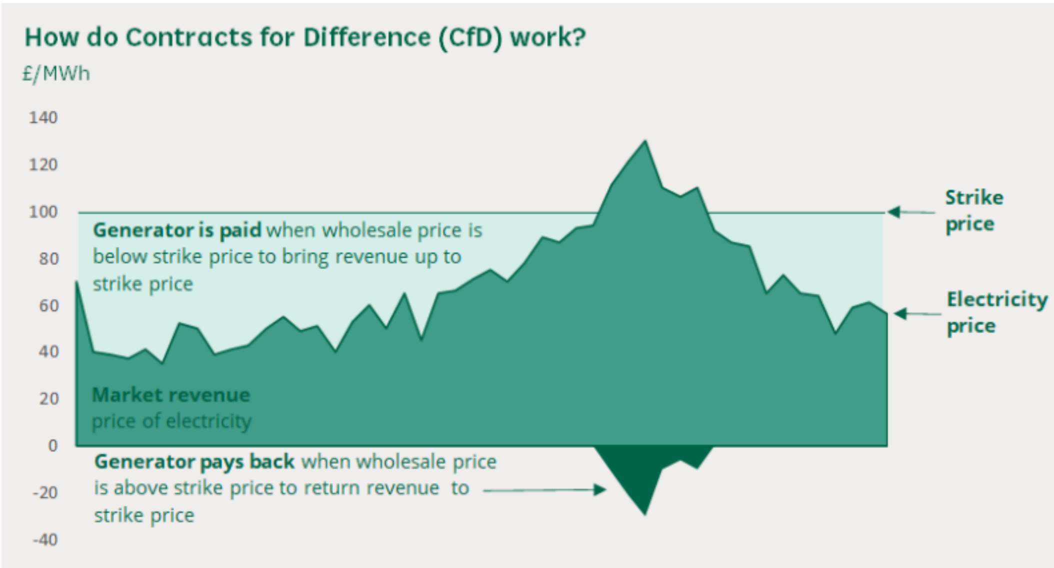
Contracts for Difference and Alternatives

Government support for emergent technologies and major infrastructure projects is a well understood mechanism for development. Governments offer a range of incentives to accelerate the development of renewable sources of energy in order for them to compete with embedded methods of generation, regarded as lower risk (for example gas fired power stations). The most commonly deployed methods are:

- **Contracts for Difference (CfDs):** Provide revenue stability and encourage investment by setting a fixed price for electricity.
- **Feed-in Tariffs (FiTs):** Guarantee a fixed price for renewable electricity, ensuring long-term revenue for developers.
- **Renewable Portfolio Standards (RPS):** Mandate that a certain percentage of electricity comes from renewable sources, creating a market for renewable energy.
- **Grants and Subsidies:** Direct financial support to reduce the capital costs of renewable energy projects.

CFDs[1]



Source: House of Commons Library

CfDs are increasingly used by European governments to support the development of offshore wind energy projects. They provide a stable revenue stream by setting a "strike price" for electricity. If the market price falls below this strike price, the government pays the difference, and if it rises above, the generator pays back the difference. They encourage investment by mitigating market risks, CfDs make renewable energy projects more attractive to investors, leading to increased investment and development.

[1] CBP-9871.pdf

CfD Strike Prices

As set out in the tables below, strike prices have evolved over time from very high levels during the early days of large-scale offshore wind farm construction. With economies of scale, supply chain costs and risk premiums fell to record low strike prices. Unfortunately, these coincided with the surge in oil pricing at the start of the invasion of Ukraine, which drove up both the cost and price of energy globally. Following unsuccessful auctions in the UK and Denmark, pricing in more recent auctions has tended to be higher but not as high as levels seen early in the development of offshore wind farms. The European Power Benchmark averaged 74 €/MWh in 2024[2]; slightly lower than the strike prices awarded in the same period (noting that those strike prices apply to windfarms not yet built). Whilst the price of power will to some extent be influenced by state aids already granted, it can be understood that a successful project requires the convergence of the cost of generating power, the strike price and the wholesale market price.

There have been 14 offshore wind auctions in France to date.

Overview of previous winners

Tender	Date of tender award	Project	Winning Bid*
AO1	2012	450 MW Courseulles-sur-Mer	138.70 €/MWh
		497 MW Fecamp	135.20 €/MWh
		496 MW Saint Brieuc	155 €/MWh
		480 MW Saint-Nazaire	143.60 €/MWh
AO2	2014	496 MW Dieppe-Le Treport	131 €/MWh
		488 MW Iles d'Yeu et de Noirmoutier	137 €/MWh
Floating Pilot	2016	30 MW LEFGL	240 €/MWh
		30 MW Eolmed	240 €/MWh
		25 MW Provence Grand Large	240 €/MWh
AO3	2019	600 MW Dunkerque	44 €/MWh
AO4	2023	1000 MW Centre Manche 1	44.90 €/MWh
AO5	2024	250 MW South Brittany 1	86.45 €/MWh
AO6	2024	250 MW Narbonnaise	92.70 €/MWh
		250 MW Gulf of Fos	85.90 €/MWh

*excluding indexation

[2] [1] Market analysis - European Commission

UK CFD auctions:

Tender	Date of tender award	Capacity awarded (GW)	Budget (£m)	Administrative strike price (£/MWh)
AR1	2014	1.2	260	140
AR2	2017	3.2	290	100
AR3	2019	5.5	65	53
AR4	2022	7	210	46
AR5	2023	0	190	44
AR6	2024	3.7*	800	73

Alternatives to CfDs

- **Feed-in Tariffs (FiTs):** Guarantee a fixed price for renewable electricity, ensuring long-term revenue for producers. FiTs were prevalent in early days of renewables. FiTs are cruder than CfDs because they do not allow Government to claw back revenues in excess of the strike price. The UK retired FiTs schemes in 2019. France has offered (particularly domestic) producers FiTs to promote renewable energy generation in the past, however, during 2025, the French government has begun to drastically reduce these tariffs.
- **Renewable Portfolio Standards (RPS):** Mandate that a certain percentage of electricity comes from renewable sources, creating a market for renewable energy.
- **Grants and Subsidies:** Direct financial support to developers to reduce the start-up and/or operational costs of a renewable's facility. They may be focussed on certain outcomes, for example development of green industry. Are widely regarded as a form of trade protectionism. The UK has recently announced new grants available to support the development of renewables manufacturing in the UK which could reduce the construction costs of offshore wind for developers.