

Energy UK Explains AR7 and Contracts for Difference

December 2025

Key points

- Each year, the Government holds an auction in which renewable developers submit competitive bids to secure a Contract for Difference (CfD) to support their project.
- The CfD scheme is the main way the UK secures homegrown clean power and strengthens its future energy security.
- Having a CfD means renewable energy generators are guaranteed a set price for electricity, and households and businesses are protected from volatile global prices, often set by the price of gas.
- The CfD is a win-win mechanism; if wholesale electricity prices rise above the agreed CfD price, generators pay back the difference to customers, and vice versa. This was evident in the recent gas prices crisis when CfD generators helped to shield billpayers from the full brunt of record high electricity prices.
- The fixed price gives developers the certainty they need to invest billions of pounds in the UK for projects with long construction timelines and high upfront costs. It would otherwise be difficult to commit that much investment based on such an unpredictable wholesale market. The CfD agrees a fair price for customers and ensures that developers make neither big losses nor excess profits once projects start generating electricity.
- The Allocation Round 7 (AR7) 'budget' is not actual money that the Government could spend. Instead, the term 'budget' refers to the difference needed to 'top up' generator payments between the agreed price of electricity and if the market price drops.
- The AR7 budget is likely to unlock between £20bn and £27bn of private investment in offshore wind alone.

What are Contracts for Difference?

- The Contracts for Difference (CfD) scheme is the main way the UK secures its own sources of clean electricity. It was first introduced in 2014 as a way to make investment in clean energy less risky to attract private sector funding, and to help bring down the cost of renewable energy projects, like offshore wind and onshore wind and solar farms.
- A CfD is a contract between a low-carbon electricity generator such as a wind or solar farm owner, and an arms-length body: the Low Carbon Contracts Company (LCCC).

- Developers of new clean energy projects bid in a competitive auction to receive a contract which guarantees a price for the electricity they generate, offering stable and predictable revenue streams.

What is a 'strike price' and what is a wholesale price?

- During each competitive auction, developers bid to build their project for a guaranteed price of electricity for the length of the contract. This guaranteed price is called the 'strike price'.
- This is different to the wholesale price, which is the price of buying electricity on the open market, often set by the price of gas. The wholesale price could be more than the strike price but also could be lower.
- The wholesale price fluctuates every day depending on several factors, including geopolitical risk, supply, and demand.

Why are developers given a 'strike price'?

- Knowing in advance the price at which developers will be able to sell their electricity for up to 20 years provides them with confidence of their income. This makes projects a less risky investment and helps to lower financing costs, ultimately leading to lower overall costs to the project and therefore households and businesses. As renewables projects have high upfront costs, but relatively low operating costs, financing costs have a significant impact on the overall cost of the project.
- So far, the CfD scheme has contracted more than 39GW of renewable electricity, and recently celebrated 10GW of operational capacity.¹ In the 12 months up to October 2025, CfD projects generated enough to power 13 million homes – just under half the total number of UK houses.²
- CfDs have been one of the main reasons for the UK's world-leading renewables sector which has been copied around the world. It's estimated that the amount of wind power on the system has already reduced the wholesale price of electricity by up to a quarter.³

How does a CfD auction work?

- The scheme works through an auction process, where developers compete with one another by bidding for a CfD. This auction process is called an allocation round. Six allocation rounds have taken place to date and Allocation Round 7 (AR7) is currently taking place.
- During an allocation round, developers looking to build renewable energy projects submit competitive and closed bids indicating the 'strike price' they need for their project. The LCCC awards contracts to bidders with the lowest strike prices until the whole budget for that allocation round is used up.
- Competition helps to ensure that renewables projects are procured at the best value possible.

¹ [LCCC \(2025\), LCCC celebrates 10GW of low carbon electricity powering British homes](#)

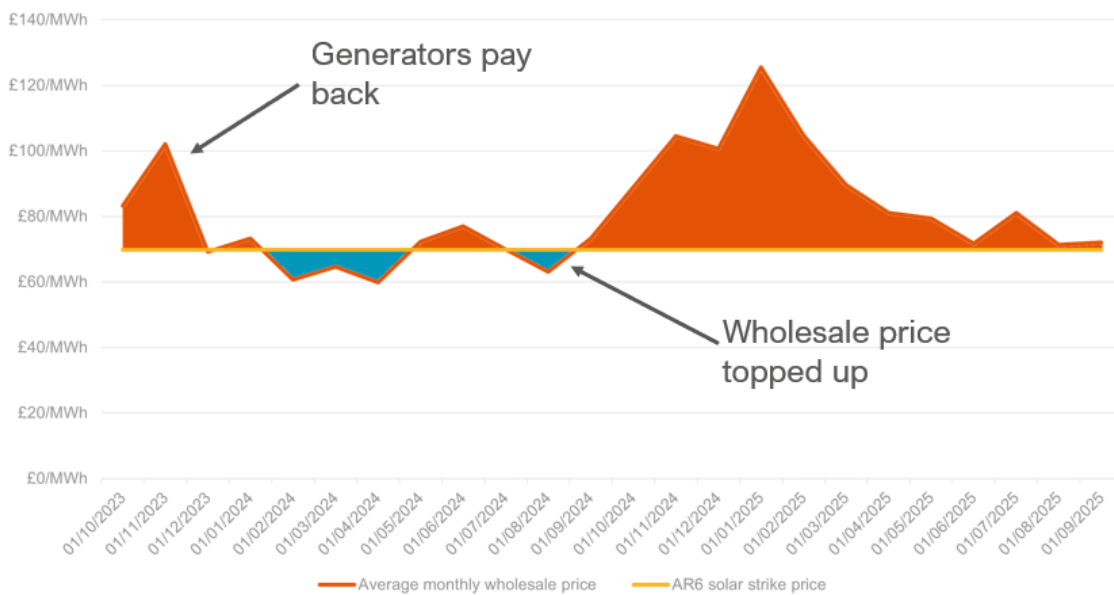
² [LCCC \(2025\), CfD Historical Data](#); Energy UK analysis

³ [ECIU \(2025\), Growth in British Renewables Cutting Electricity Prices](#)

What happens during the contract?

- For the duration of the contract, when the actual price for electricity falls below the strike price, the LCCC will pay the generator the difference between the market price and strike price. If the market price goes above the strike price, the generator will pay the extra money back, as shown by **Figure 1**, which is a figurative example of what might happen.

Figure 1: Figurative example of how the CfD mechanism would have performed over the past two years with the solar strike price of AR6 contracts⁴



- This means that the eventual cost to billpayers will depend on the market price. Next year, CfDs are expected to add between £30-35 on the typical household energy bill. The price of gas often sets the wholesale price of electricity. During periods of high gas prices in 2021 and 2022, CfDs provided net savings on our bills.

How are contracts awarded and what is the CfD budget?

- The allocation round 'budget' is not actual money that the Government will spend. Instead, the term 'budget' refers to the difference needed to 'top up' generator payments between the agreed price of electricity and if the market price drops. Income for generators is paid via LCCC, the money for which is paid by customers through their energy bills.
- In reality, the market price fluctuates and, in some cases, goes above the strike price. In these cases generators end up paying money back to LCCC, as **Figure 1** above shows. Essentially, the budget is a cap on how many projects can receive a CfD. It is not a fixed cost.

⁴ [Ofgem \(2025\), Wholesale market indicators](#); [DESNZ \(2024\), Contracts for Difference \(CfD\) Allocation Round 6: results](#); [Bank of England \(2025\), Inflation Calculator](#); Energy UK analysis

What's the difference with prices in AR7?

- Previous allocation rounds used prices set in 2012 levels. This was to provide consistency across multiple rounds but in reality, it meant that it wasn't clear what the price was in today's money. This has been updated for AR7 which uses 2024 prices.
- This change applies to the budget as well as other figures used in the auction, such as Administrative Strike Prices (ASPs). The ASP is a cap on the maximum price allowed to be submitted for projects bidding into the auction; it does not determine the cost of technologies. The Government sets it at a higher level to encourage participation and to drive competition in the auction, and in previous auctions the strike price has always ended up below the ASP.
- The ASP was increased for wind projects to account for cost increases caused by inflation and supply chain bottlenecks. However, the ASP for solar has been reduced by 12% to account for a reduction in the cost of solar panels and an increase in efficiency.

Why is AR7 important?

- AR7 is an important milestone in the journey towards building a clean power system. It has the potential to be transformative for both the UK's energy system and its economy. Investing in renewables means investing in the future of our energy security, ensuring that households and businesses across the country can benefit from stable energy prices and British sources of electricity for decades to come.

What happens next?

- The auction will open in January, and generators will have around a week to place their bids.
- The results of the auction will be revealed in February.
- For the first time, the results of non-offshore wind projects such as onshore wind and solar will be revealed separately to offshore wind projects. This will allow developers to start work on their projects as soon as possible.

About Energy UK

Energy UK is the trade association for the energy industry, representing companies investing billions of pounds to secure our country's current and future energy needs. From growing start-ups to major electricity generators, grid and infrastructure developers and energy suppliers, our members are driving change across power, heat, transport and flexibility.

We champion initiatives such as our Vulnerability Commitment, which pushes suppliers to go beyond regulation to support customers with additional needs, and TIDE, the industry's drive for greater inclusion and diversity. Through our Young Energy Professionals Forum, with more than 3,000 members representing 350 organisations, we support the development of future leaders.

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