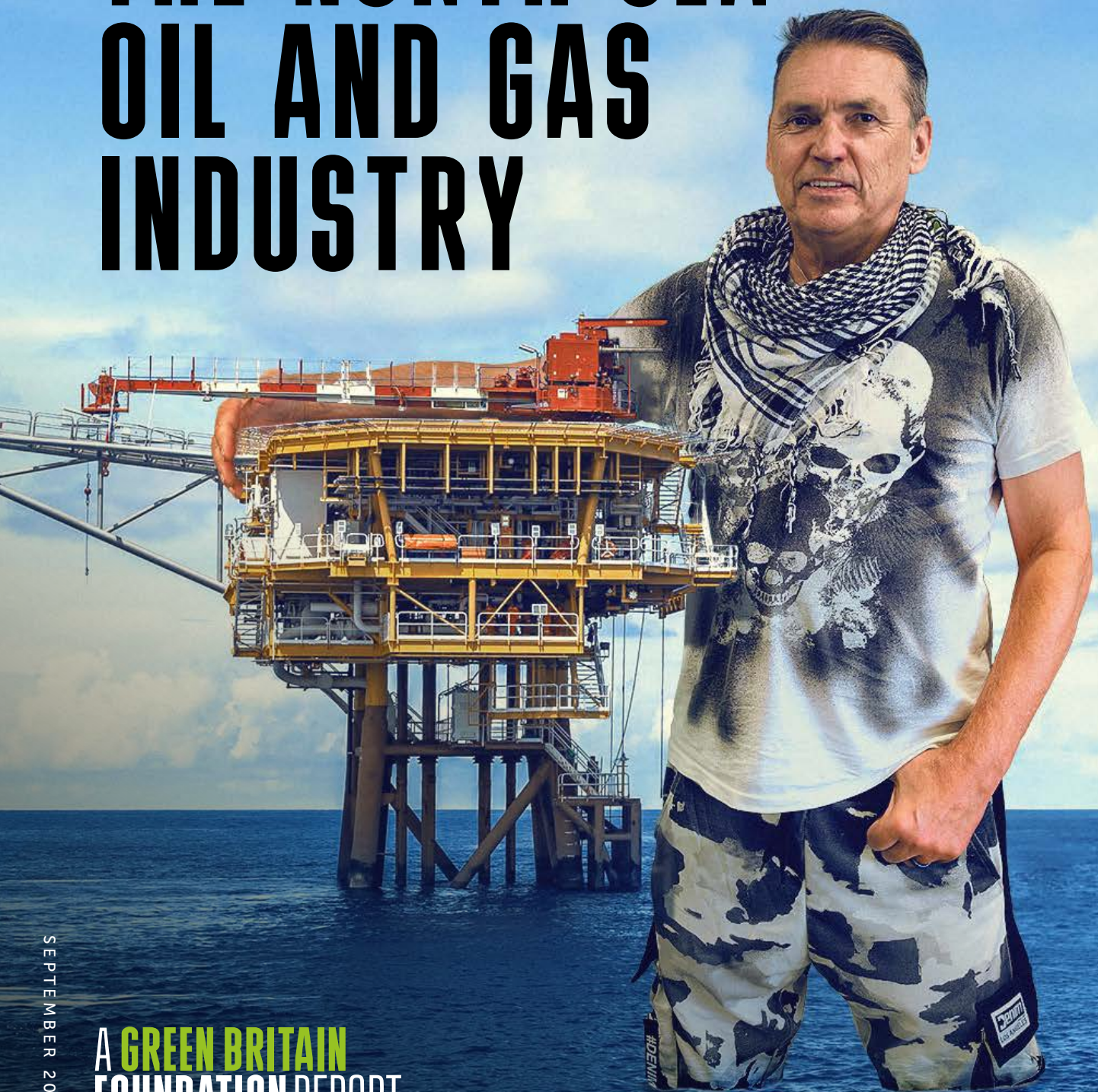


PUTTING AN ARM AROUND THE NORTH SEA OIL AND GAS INDUSTRY



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A **GREEN BRITAIN**
FOUNDATION REPORT

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Forward

A Fair Deal for Energy – It's Time for CfDs in the North Sea

The Contracts for Difference scheme was set up to back renewables — and it's worked. It gives green energy generators certainty and it has powered the shift away from fossil fuels.

This report argues why we should be using the same tool to manage the decline of fossil fuels, too. I believe it's time we put all forms of energy on an equal footing, here's why.

A CfD for North Sea gas would bring stability to an ageing industry, protect jobs, and give the UK a fighting chance at a just transition — one without cliff edges or political chaos.

It would also make the Energy Profits Levy — the so-called windfall tax — redundant. That tax has been messy, unpredictable, and near-impossible for businesses to plan around. With a CfD in place, we fix prices at a fair level — covering the real cost of production and a reasonable profit — instead of being held hostage by volatile international markets.

And here's the icing on the cake: if we'd had CfDs in the North Sea over the past five years, we could have saved £50 billion. That's money that should've stayed in people's pockets, not handed over to fossil fuel giants during the energy crisis.

Lower bills. Certainty for workers. An end to political firefighting. No downsides — Let's get on with it.

Dale Vince OBE
Founder of Ecotricity

Exec Summary

This report offers a solution that will protect consumers from volatile gas prices as well as protecting North Sea businesses and jobs.

It shows how Contracts for Difference (CfD) - already widely used for renewable energy generators - could be used for North Sea gas operators to give them long-term certainty.

This policy would have saved £50bn over the past five years and would have protected households and businesses from the energy price crisis.

What are Contracts for Difference?

The Contracts for Difference (CfD) scheme was introduced in 2014 as a way to support investment in renewable energy and has cross-party support. The scheme was introduced by the Conservative-led Coalition Government and continues to be a key part of Labour's Clean Power 2030 target.

It incentivises investors by guaranteeing a long-term and stable price for the energy produced by the renewable energy asset/generator, which gives investors certainty. Without this guaranteed price, investors would face uncertainty from the volatile wholesale market and be unsure whether they would recover their initial investment.

A CfD is essentially a contract between a renewable energy generator and the Low Carbon Contracts Company (LCCC), which is a government-owned company that administers the scheme. It guarantees a set price for every kWh of energy that the supplier produces and lasts for a set number of years (currently 15 years), which is known as the 'strike price'.

These contracts depend on the wholesale electricity price. If the market price is below the strike price, then generators are topped up with payments from the Low Carbon Contracts Company (LCCC) (with the cost being passed on to suppliers/consumers on their bills). However, if the market price is above their strike price, then it works in reverse and the generator pays the difference (or surplus) back to the LCCC, with this surplus then being passed back to consumers.

CfD contracts are awarded through auctions, which are known as Allocation Rounds (AR). The first of these – AR1 – took place in 2014 and the most recent – AR6 – took place in 2024.

Policy overview - a CfD for the North Sea

CfDs are therefore a well-established mechanism in the UK energy sector. They provide price guarantees and long-term certainty to investors and businesses.

The UK government should move all North Sea gas generators onto a CfD, which would provide the sector with long-term certainty and protect jobs while the UK reduces its reliance on fossil fuels.

This would set a fixed strike price for electricity produced from North Sea gas, which would be based on the true cost of production and an allowable profit margin. If the market price clears above this strike price, then the difference will be passed back to consumers through lower bills as it is now for renewable generators. If the market price clears lower to the strike price, then the difference will be topped up from consumer bills via the LCCC.

Not only would this provide certainty to these operators, but it would also provide stable energy prices for British businesses and households by reducing the UK's exposure to volatile international energy markets and price spikes.

The strike price for North Sea CfDs could be based on the cost of production with an acceptable profit margin of 10%.

The exact length of these CfDs could be agreed in consultation with the industry and other stakeholders but could align with the length of renewable energy CfDs at 15 years.

Policy benefits – long-term certainty and lower bills

Moving North Sea suppliers to a CfD would provide the following benefits:

Lower bills – by fixing the price generators receive to something closer to the true cost of producing this energy and a fair profit margin, it would remove the excess international market prices that drive up bills.

Price cap - the price cap would no longer need updating as frequently as now due to the price of gas being fixed, which would mean energy bills would be stable.

Price spikes - protect against volatility in international energy markets and price spikes by having a fixed price. A market price above the CfD price would just mean this additional amount is returned to consumers in lower bills.

North Sea jobs – the long-term certainty would protect jobs in the North Sea and the communities they support, allowing the industry to transition in a more orderly fashion.

Cliff edge – CfDs would avoid the potential for a cliff edge with North Sea operators where they walk away if low energy prices render their business unprofitable.

Windfall tax – there would no longer be a need for the Energy Profits Levy, which is politically toxic, complex and much harder for businesses to plan for.

Potential cost savings

The potential cost savings from such a policy are extensive, especially during energy crises and gas price spikes.

Our calculations show that this policy could have saved £50bn over the past five years, with over £20bn saved in 2022 at the height of the energy crisis.

Year	Market price for electricity (£/MWh)	North Sea gas production (TWh)	Savings with a CfD strike price of £13.64/MWh
2020	19.59	439	£2.6bn
2021	44.36	364	£11.2bn
2022	61.42	423	£20.2bn
2023	26.7	383	£5bn
2024	41.48	341	£9.5bn
2025 year to date	27.74	144	£2bn
Total savings			£50.5bn

Methodology

To calculate potential cost savings, we have used the assumption of 40p/therm for a theoretical North Sea gas CfD. This equates to a £13.63/MWh strike price and assumes a 10% margin on production costs to allow North Sea operators to make a profit.

We then analysed forward curve gas prices over the past five years and North Sea gas production to calculate how much a CfD would have saved compared to market prices in each year.

Assumptions

Market price – based on forward prices, using a weighted average forward curve price. This most accurately reflects the way that market participants operate and how costs are passed through to customers.

North Sea gas CfD strike price – we have used a strike price of £13.64/MWh, which assumes a 10% margin on production costs to allow firms to make a profit.

North Sea gas output – taken from official UK government statistics on gas production from the UK Continental Shelf in the North Sea.



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