

# The main types of **Contracts for Difference** in the energy sector

Although the concept of a **CFD** is relatively simple, the incentives it creates – and therefore its design – can be complex, particularly when framed within a **public renewable support scheme**.



For example, depending on which market price is used to settle the CFD, the incentives for the generator vary significantly:

## Hourly price

Generators receive (or repay) the **difference** between a fixed strike price and the hourly market price for each megawatt-hour produced. This offers **maximum risk reduction** and **highly predictable revenues**, although it may distort incentives for flexible or system-responsive generation.

## Monthly average price

**Payments are calculated** based on monthly **average market prices**, introducing greater **revenue variability** (“basis risk”) compared with hourly **CFDs**. Generators have stronger incentives to respond to market **fluctuations**, adjusting production to **maximise value** during higher-price periods.

## Annual average price

Payments are based on the **difference** between the annual average market price and the strike price per **kilowatt-hour** produced. This model concentrates risk over a longer period and **encourages long-term planning** and **maintenance optimisation**.