Contracts for differences

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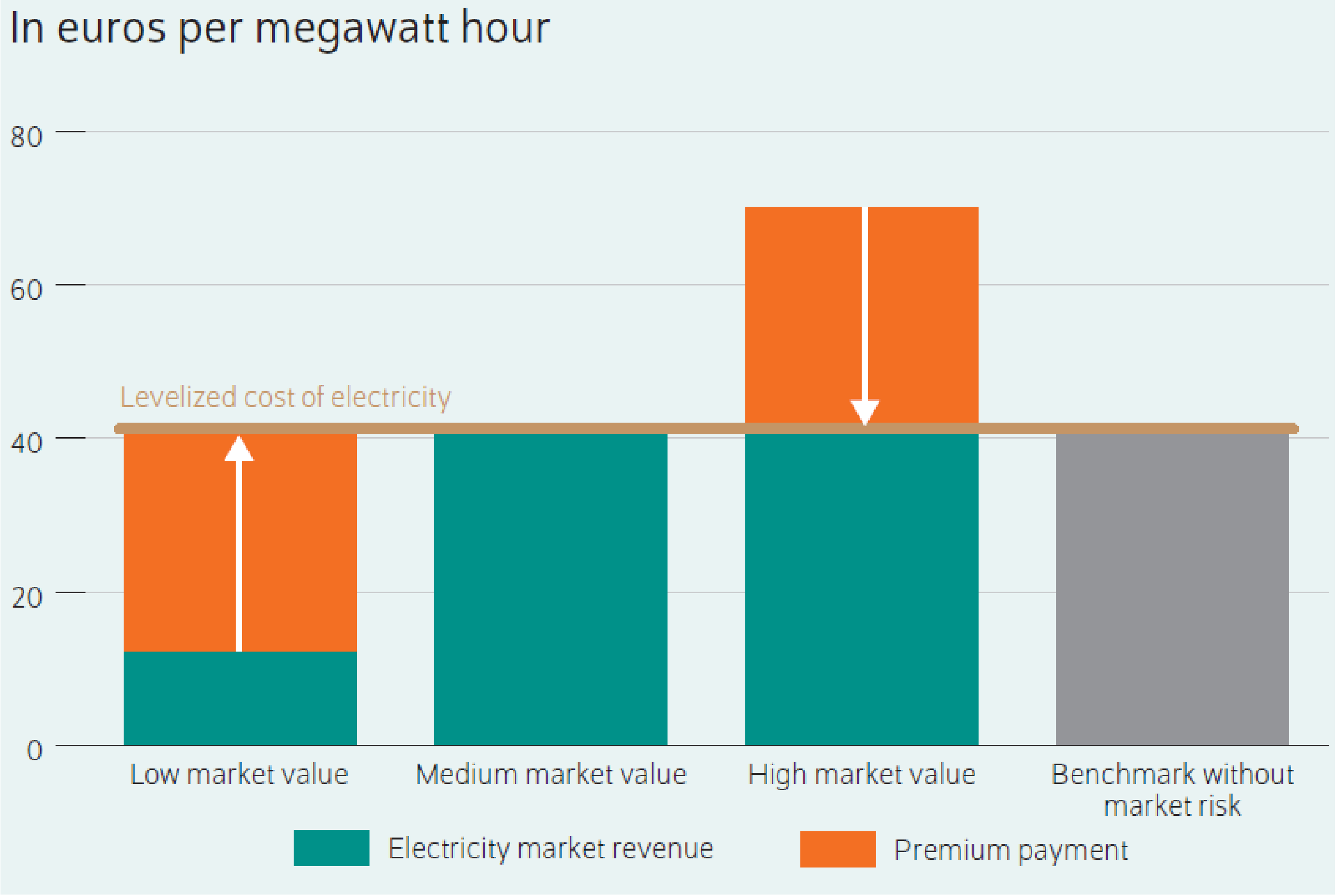
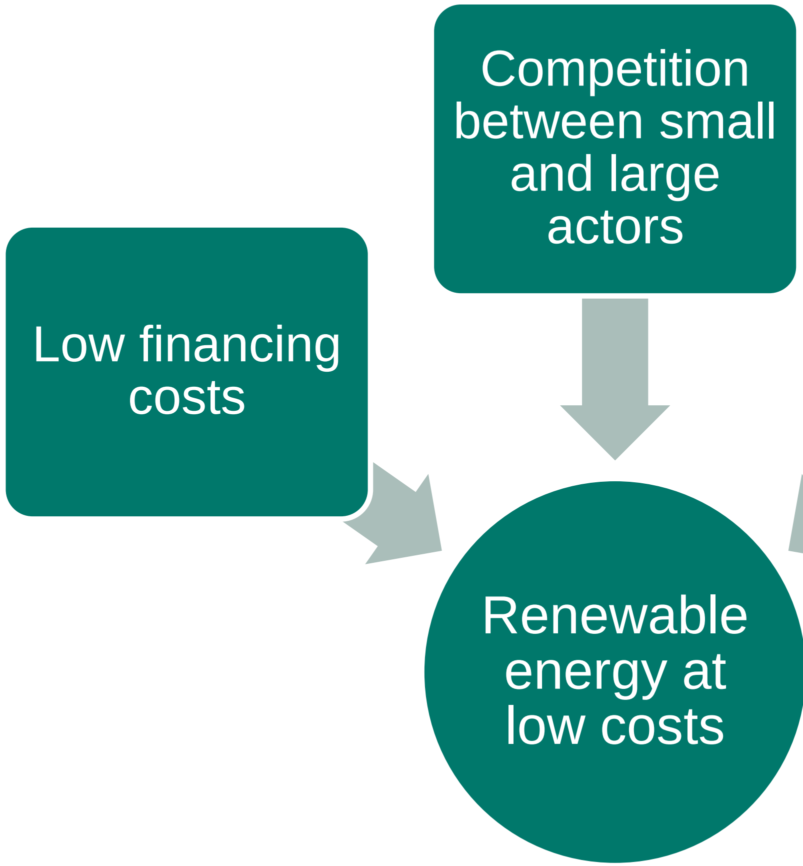
How do contracts for differences work? Example of renewable energies



Contracts for differences (CfDs) provide revenue certainty to project developers and hedge counter-parties against high costs.

Advantages of contracts for differences for renewable energies



CfDs save almost 30% of costs (Aurora Energy Research, 2018: ~28%, Enertrag, 2019: ~25%, May et al, 2017: ~29%)

Project-based carbon contracts for differences

Carbon contracts for difference (CCfD) for innovative projects

- Lower price uncertainty & financing costs for investors (Richstein, 2017)
- Implemented as CfD on the EU Emissions Allowance price with emissions benchmark as baseline
  - If strike price of the CCfD > EUA price: government pays to project owner
  - If strike price of the CCfD < EUA price: project owner pays to government

- Incentives for producers to succeed with their innovations are maintained
- Governments can recuperate costs as carbon price rises
- Signal long-term carbon policy ambition of governments
- Implemented e.g. through auctions for eligibility
- Can be combined with traditional innovation funding
- **Mitigation options that can be supported:**
  - Straight forward for breakthrough technologies
  - New materials for substitution

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