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Securing competitive energy for industry

IFIEC Europe Position Paper on Contracts for Difference and competitive energy prices for Energy Intensive Industries

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European energy-intensive industries (EIIs) face unsustainable electricity prices, threatening their global competitiveness. While Power Purchase Agreements (PPAs) and producer-side Contracts for Difference (CfDs) have been promoted by the European Commission in the Clean Industrial Deal and the reform of the Electricity Market Design (EMD), these instruments do not guarantee EIIs access to predictable and competitive electricity. Industrial off-takers could play a critical role in de-risking renewable projects: their long-term commitments would provide the revenue stability developers need to secure financing. Yet, to make such commitments, EIIs themselves require competitive prices that give confidence for future investment decisions. As the full benefits of the energy transition will only materialise in the long term, bridge solutions are urgently needed to ensure that EIIs remain competitive while supporting the scale-up of renewables.

Without competitive prices, the continuity of EIIs is not secured, causing significant risks for investments in new energy production too. Producer-side CfDs may stabilise revenues for investors, but they leave industrials exposed to high electricity costs and developers to growing volume risk if industrial demand contracts. An effective industrial competitiveness strategy must therefore include complementary instruments, such as CfDs for off-takers, ensuring competitive prices for industrial off-takers.

Both the price risk and volume risk for the developer can be mitigated, as well as ensuring a competitive price for off-takers by introducing a CfD for off-takers. This would take the form of a two-sided contract:

- If the market price exceeds the strike price, the EII is compensated for the difference, ensuring a competitive price.
- If the market price falls below the strike price, the EII pays back the difference, guaranteeing revenue stability for the developer and limiting State exposure.

As a result, the risk of demand destruction is reduced. Such CfDs can be structured either as contracts linked to new renewable assets (e.g. offshore wind auctions) or as purely financial hedges, depending on Member State design.

Concrete example of implementation: CfD for industrial off-takers via tenders
In future (offshore wind or other renewable power production) tenders, investors could be required to allocate a share of their production capacity to industrial off-takers. For example, a minimum percentage of generated electricity would be reserved for EIIs, in line with the Draghi report and the EU Parliament resolution on energy-intensive users. However, relying

IFIEC Europe
International Federation of Industrial Energy Consumers
Silver Building, Boulevard Reyers, 70 – 1030 Brussels
www.ifieceurope.org | chaput@ifieceurope.org | Mobile: +32 496 59 36 07
a.i.s.b.l. NI 436 343 513 | VAT: BE 0436.343.513 | EU Transparency Register: 1978775156-31

exclusively on auctions risks allocating volumes to non-industrial players (such as data centres), undermining the objective of supporting EIIs. Auctions can also lead to higher clearing prices than the competitive level EIIs require, further justifying reserved volumes or differentiated allocation. To avoid this, eligibility should be restricted to EIIs, or ring-fenced quotas should be applied.

The reformed Electricity Market Design provides a concrete legal basis for this targeting. Article 19a allows projects supported by CfDs to reserve part of their output for renewable PPAs and requires Member States to incentivise access for customers facing barriers to the PPA market. EIIs, as hard-to-abate sectors, are a textbook example of such customers. This provision should therefore be operationalised by reserving part of CfD-backed renewable volumes for EIIs through PPAs, or by awarding points in auctions to bidders committing to such contracts.

Beyond the design of CfDs for EIIs, Member States also face a challenge: producer-side CfDs create residual budget exposure. This can be mitigated by issuing and selling long-maturity market products or tailor-made PPAs (including baseload strips), becoming a market-maker of last resort where liquidity is thin (longer maturity products, which are of interest for EIIs). These volumes could be carved out of assets under CfD.

A CfD mechanism would then provide these off-takers with price or price formula certainty. The most efficient model is a price corridor, where the off-taker pays the difference if the market price drops below a minimum level, receives compensation if it rises above a maximum level, and simply pays the market price within the corridor. Alternative price structures based on market-based PPA models (e.g. baseload plus profile adjustments) could also be explored.

Off-takers register their desired volumes and price corridors, ideally supported by a state-backed PPA guarantee funds to reduce credit risk for banks and developers. These anonymized profiles are shared with tender participants, who integrate them into their bids. If off-taker commitments are insufficient to secure financing, developers can request additional CfD support. During the award process, government evaluates the total proposal, including risk allocation and CfD structures, to select the most efficient and effective option.

Need for coordinated actions across the entire value chain

Notwithstanding its significant potential, the provision of CfDs to EII off-takers is not the single silver bullet solution to restoring competitiveness. Accommodating generation profiles in industrial energy procurement portfolios is not simple. Improved profiling methodologies and product design need to be in place to match generation profiles with industrial demand. In fact, there is a need for coordinated actions across the entire value chain, from energy producers to grid operators, regulators, and industrial consumers. A coordinated EU-level approach is especially critical for cross-border and offshore projects, ensuring fair cost-allocation mechanisms involving all beneficiaries. Finally, an additional measure to accelerate impact is proposed, preceding future project-based CfDs, with a market aggregator or platform acting as an intermediary between producers and industrial consumers. The

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aggregator would buy electricity from sellers at a fixed strike price and resell it to Ells at a competitive price.

In conclusion, a well-designed CfD mechanism for industrial off-takers can be a cornerstone of Europe's industrial and energy transition. By combining price stability for EIIs with de-risked revenue streams for renewable developers, such an approach ensures continuous industrial production, accelerates investments in new generation capacity, and safeguards Europe's long-term competitiveness. Implementing this instrument with targeted eligibility criteria will maximize its effectiveness compared to generic auction-based CfDs. It will help creating a level playing field, and support both Europe's strategic autonomy and its climate ambitions. Compared to generic producer-side CfDs, Contracts for Long-Term supply (CLTs) remain a more direct way to channel competitive prices to EIIs. Industrial CfDs should therefore be seen as a complement, not a replacement.

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