Dear

Thank you for your enquiry of 10 October 2025. I am the Director responsible for the Financial Audit of the Department for Energy Security and Net Zero and so have been given your query to answer.

Your concern is around the valuation of the Contract for Difference (CfD's) liabilities in the DESNZ annual report and accounts, in particular the load factors used.

**Role of the NAO and C&AG**

It may help if I explain that the National Audit Office (NAO) and the Comptroller and Auditor General (C&AG), who is head of the NAO, are both independent of government. Our function is to audit and express an opinion on the accounts of government departments and other central government bodies and to carry out examinations into the economy, efficiency and effectiveness with which government departments and other public sector bodies have used their resources. The results of this work are normally reported to Parliament. However, while we can consider whether public money is spent economically, efficiently and effectively, the legislation defining our role does not permit us to question government policy objectives nor consider the merits of what public money is spent on.

We also consider whether any information received is indicative of a specific issue or wider thematic issues that merit further investigation. We use the discretion provided to the C&AG by statute to decide what action, if any, we consider appropriate to take consistent with our audit role and responsibilities.

**Audit of CfD's 2024-25**

In respect of your particular concern, it is for management to choose the accounting policy and the related assumptions, such as the load factors. We audit management's application of International Accounting Standards in accordance with International Auditing Standards.

Note 10.1.3 sets out the key inputs and assumptions in respect of load factors.

> *d. Load factor Load Factor is defined as the actual power output of a project as a proportion of its rated installed capacity. It is a percentage figure which is used to transform installed capacity into actual power output (generation). Load factor assumptions are based on reference factors published by DESNZ for given technology types; however, actual power outputs are sensitive to technological and environmental factors which may impact actual cash flows. Plant specific load factors (where a minimum of 6 months of generation data is available) is also available for consideration when valuing the CfDs.*

As set out in our Certificate and Report to the House of Commons we assessed and challenged the assumptions used in valuing the CfDs. We also drew on advice from independent industry experts for a selection of those assumptions including for load factors for non-nuclear CfD's. Based on this work we concluded that management had made a reasonable estimate, within a material range of estimation uncertainty. We were content that, alongside the associated sensitivity analysis disclosed, management's valuation is fairly presented and disclosed.

We drew attention to the disclosures made in notes 1.18 and 10 to the financial statements concerning the measurement of liabilities relating to CfDs. As set out in these notes, there is a high degree of estimation uncertainty inherent in forecasting electricity generation volumes and wholesale electricity prices into the late 2030s.

Based on this audit work we are satisfied that management's assumptions result in a true and fair view.

Yours sincerely,

NAO National Audit Office

The UK's independent
public spending watchdog