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Energy Price Cap: Programme of Work 2025/26

Following the introduction of the default tariff cap ('the cap') in January 2019, we have continued to update the methodology and adjust the cap level, where appropriate, so it continues to protect default tariff customers and reflect a fair price for supplying energy. This has included some larger reviews and updates to reflect the continued changes in the energy market over the past few years.

This letter sets out our latest update to our programme of work, outlining areas we intend to prioritise over the next 1-2 years. A clear work programme provides transparency to stakeholders on where we intend to focus our resources and helps manage expectations on what we seek to achieve, providing confidence in our setting of the cap. This is particularly important as we transition to greater flexibility and diversity across the energy market.

The cap remains a key part of protecting customers in the retail energy market. Our objective in setting the cap is to protect existing and future customers on default tariffs. In doing so we have regards to several factors such as the ability for an efficient supplier to recover its costs and promotion of efficiency. The objectives and matters of regard are set out in the Domestic Gas and Electricity Act 2018 ('the Act') that underpins the cap. When setting the cap, we must also have regard to other statutory requirements, such as the growth duty and the public sector equality duty.

In March 2025, we published the Ofgem forward work programme for 2025 to 2026.[1] The price cap plays an important role in Strategic Priority 1: Shaping a retail market that works for consumers. Within this strategic priority, we set the following objectives: ensure fair prices; ensure high quality service; deliver financial resilience, promote investability and support sustainable competition; support new and evolving markets. While we seek to meet our legislative duties when setting the cap, we are mindful of these strategic priorities set out in the forward work programme when considering the work we prioritise and the changes we consider.

This programme of work is for the price cap only and does not cover broader pricing strategy workstreams such as debt and affordability, standing charges and fixed cost

[1] Ofgem (2025), Final Forward Work Programme for 2025 to 2026
https://www.ofgem.gov.uk/decision/final-forward-work-programme-2025-2026

allocation though we note that these have interactions and dependencies that will be managed.

We note that this plan outlines our current plans but that these are always subject to change as a result of decisions and events as we will always seek to balance our priorities. We will keep key stakeholders informed of any material changes to this plan.

Completed workstreams

Since publishing our previous programme of work, we have prioritised our review of operating costs and debt allowances in the cap.[2] This has included continued work to set and extend a temporary float allowance for debt-related costs, which has now been superseded by the fuller operating cost review.

In May 2025, we published our decision on the operating cost and debt-related allowances review in May 2025.[3] Our set of decisions included:

- Setting four distinct components for core operating costs, debt-related costs, industry charges and the ongoing change smart metering costs. This new structure provides greater transparency on where costs sit and flexibility when updating them.
- Benchmarking costs at a weighted average level of efficiency, moving away from our previous use of lower quartile in many cases.
- Setting a forward looking debt allowance to replace the temporary allowances we had previously introduced.
- Allocating costs between the unit rate and standing charge, whilst passing on savings from the review to the standing charge.

Alongside the review, we have continued to carry out our regular ongoing work to set and update the cap level every quarter and ensure suppliers comply. On compliance, we also carried out a targeted review of supplier compliance with the price cap requirements for customers with Restricted Meter Infrastructure.[4]

[2] Ofgem (2024), Energy price cap programme of work for 2024 and 2025 https://www.ofgem.gov.uk/publications/energy-price-cap-programme-work-2024-and-2025

[3] Ofgem (2025), Energy price cap operating cost and debt allowances review https://www.ofgem.gov.uk/consultation/energy-price-cap-operating-cost-and-debt-allowances-consultation

[4] Ofgem (2025), Supplier compliance with Price Cap Requirements for Customers with Restricted Meters https://www.ofgem.gov.uk/decision/supplier-compliance-price-cap-requirements-customers-restricted-meters

Upcoming and ongoing priorities

Strategic priorities

Over the coming 12-18 months, we are prioritising three overarching priorities:

1. **Delivering the cap:** Ensuring the cap reflects the efficient costs of a notional supplier.
2. **Adapting to MHHS:** Reviewing how we cap wholesale costs, particularly in respect to changes coming though MHHS and ensure that the cap is not a barrier to consumer-led flexibility.
3. **Case for reform:** Establishing how price protection should evolve beyond this, and how to balance consumer interests across price protection, incentives to engage, investability and price stability.

Delivering the cap: We continue to deliver quarterly updates to the cap and review allowances where we see systematic and material deviation of costs from allowances. This includes:

- Smart metering costs: Over the coming months, we will update the smart metering cost allowance for 2024 supplier cost and rollout data. The Department of Energy Security and Net-Zero (DESNZ) are currently considering how to set the post-2025 framework for the smart meter rollout. Once DESNZ has published its decision, we will review whether consequential changes to the smart metering allowance are required.
- Benchmark consumption: We intend to review the level of consumption we use to set the cap. As set out in our operating cost and debt allowance review decision, this will include considering whether the overall level of consumption used to set the cap is appropriate and whether we should set different levels of consumption for the three payment methods. This will consider the ability of efficient suppliers to recover their fixed costs that are assigned to the unit rate. We expect to consult on this in late Summer 2025.
- Debt related costs: Given the uncertainty over how debt-related costs will progress, we intend to continue to monitor this data over time, along with wider debt and arrears indicators. The timing of any true-up on the previous float allowance will depend on the availability of appropriate data. Whether we decide to pursue a true-up allowance will depend on the evidence and materiality of any difference between eligible costs and benchmarked allowances. We also want to consider the interaction with any debt relief scheme; however, this does not mean we would necessarily wait for such a scheme to be delivered before assessing the true-up of previous allowances.

- ECO4: We have reviewed the evidence and are currently working closely with Government on how best to address cost recovery associated with the ECO4 scheme. We expect to write to relevant stakeholders this summer, including any relevant next steps. The current legislation for these schemes is expected to conclude by end March 2026 so we may also consider how we approach allowances for any future scheme.
- Warm Homes Discount: We are working with Government to ensure that the planned expansion of WHD eligibility can be captured in the cap. We expect this to be in place from October 2025.
- Technical Issues: We are considering supplier representations across a number of smaller technical issues. This includes, but is not limited to: Backwardation deadband, Unidentified Gas (UIG), Contracts for Difference (CfD) and Capacity Market, and Group Correction Factors. We note that while we will consider these issues on their merits, we will also need to take an "in the round" view on whether they justify urgent (or any) action. For example, we are mindful that headroom and risk allowances exist to cover some cost discrepancies and that we need to guard against selection bias meaning only issues of under-recovery are focused on.
- New schemes: Any new policy by Government will also need consideration, for example the possible introduction of a Nuclear Regulation Asset Base (NRAB) allowance in the price cap, though this remains subject to final investment decisions yet to be made by Government.

We do not plan to take forward a formal standalone review of cap headroom at this time. However, this will feature in our work on cap reform, and we note the interaction of benchmark consumption with the original headroom allowance.

The below table outlines initial timings for the key delivery items described above. The timings are subject to change based on analysis of issues and further stakeholder engagement. As timings change, we will endeavour to keep stakeholders updated.

Table 1 – Initial timings of 'Delivering the cap' workstreams

Workstream	**Initial key timings**
Smart metering allowance	Annual Supplier Returns update: Summer 2025 Post 2025 rollout framework Consultation: Winter 25/26 - Spring 26 Decision: Summer 26 Note: timings will be dependent on post-2025 rollout framework decisions from HMG. However the ASR update will set out how we propose to update the allowance during any interim.
Benchmark Consumption review	Consultation: Summer 2025 Decision: Autumn 25 - Winter 25/26 Note: We may consider different timings/processes for consideration of update to the level of benchmark consumption and consideration of the case for payment type specific consumption benchmarks.
Debt	To be confirmed once there is more clarity on the Debt Relief Scheme and data from the period is available and reasonably settled. We expect this to mean an analytical review of the float allowance in Autumn 2025 and a consultation in Autumn/Winter 2025.
ECO 4	Consultation: Summer 2025 Decision: Winter 2025/26 Note: This work is being taken forward in collaboration with government.
Warm Homes Discount	Letter to suppliers: July 2025 Implementation: October 2025
Technical fixes	Analysis and consideration: Summer/Autumn 2025 Consultation for issues taken forward: Summer/Autumn 2025 Decisions: Autumn 2025 – Spring 2026 Note: Timings may differ between each technical issue depending on the issues being considered. As above we will endeavour to keep stakeholders informed of how we are considering these issues and next steps as this is always likely to be an ongoing and iterative process.
New schemes	To be confirmed: Dependant on when government takes decisions. For Nuclear RAB we are engaging closely with DESNZ and the scheme administrators to ensure any allowance is consulted upon and introduced in a timely manner upon Final Investment Decision. We will engage stakeholders on our approach in the coming weeks.

Adapting to MHHS: The wholesale allowance relates to the costs to suppliers of purchasing energy on the wholesale market for delivery to customers. After completing the operating cost and debt allowance review, we see the wholesale allowances review as the next step in incremental reform for the cap. Given that this will be a substantial review, we intend to deliver this review in phases, so that we can concentrate on the most strategic issues up front and deliver aspects of the review when they are ready rather than holding up all decisions until the end of the project. The review will cover two key areas:

- Market-wide Half Hourly Settlement (MHHS): We will scope and consider what changes may be needed to the cap methodology to reduce the risk that the cap becomes a blocker to a more flexible market under MHHS. This includes consideration of how we continue to enable recovery of efficient costs and minimise competitive distortions that may arise.
- Additional wholesale allowances: We will review elements of the additional wholesale allowances, which for example reflect the costs of suppliers refining their purchases to match when their customers consume energy. Elements of these costs may require a data and/or methodology update as we have not reviewed them since 2018. For example, we intend to review the methodology for setting the CfD and UIG allowances, with a consultation expected later this year if we think changes are appropriate.

We will seek to prioritise key aspects within these two streams of the review to maintain a realistic scope under which we can achieve outcomes within a reasonable timeline. We anticipate there will be significant cross-over across the two areas above. For example, certain changes required for MHHS are likely to be implemented through the electricity shaping and imbalance allowances which fall under the additional wholesale allowances.

This workstream is necessarily technical and we will seek to work with the sector collaboratively and in an agile way to build our evidence base and analysis of the options. We anticipate taking strategic decisions by the end of 2025/26 on how the cap should adapt. However, given the inherent uncertainty faced, this may look like an ongoing programme of reforms including immediate changes, monitoring and review points, rather than a single set of changes.

Case for reform: Within this future price protection workstream, we will consider what further reforms may be necessary to price protection as the retail market evolves. This work will look at the objectives of the price cap and how we achieve our objective to protect existing and future customers. This means examining the role of the cap in the market and its interactions with investability, innovation and competition; the incentives it results in for suppliers and customers; and the level of price stability it results in. This work is necessarily broad and will have further interactions with Ofgem and Government work on affordability, debt and cost allocation. Therefore, in parallel we will continue to incrementally reform the current cap approach, as set out above. We expect to consult on this later in 2025.

This work will include consideration of other forms of price protection, for example the Ban on Acquisition Only Tariffs, noting that our default position remains that we are minded-to extend the current arrangements until we have taken decisions on the future of retail/price protection. We appreciate the need for market certainty and we intend to consult on extension over the summer and communicate a decision ahead of the observation window for the April 2026 price cap.

Links to wider pricing and cost recovery programme

Our priorities on the future of the price cap and price protection form part of a broader programme of work on pricing and cost recovery in the retail market.

As Great Britain makes the shift away from fossil fuels towards cleaner sources of energy, the underlying costs making up customers' bills will also shift. We expect the balance of fixed and variable costs that make up a customer's bill will change, with an increase in the fixed proportion and a reduction in the variable proportion (notwithstanding wider market events). Without changes, this will also mean substantial increases to future standing charges. Our cost allocation review will consider how these changes might affect customers and the options to respond to them. Such an ambitious review will take time, but we are aiming to develop a clear preferred option by April 2026, and we expect to publish a call for input this summer.

In the meantime, we recognise that customers are already beginning to feel this shift with the rise of standing charges, and we received record levels of engagement in response to our consultations on this topic. As we have set out[5], we want to improve customers' choices about how they pay for fixed costs, and we will be working with you to develop proposals for tariffs with low or no standing charges while ensuring that suppliers can recover their costs appropriately. We plan to improve this choice in the coming winter, while working on enduring options as part of the cost allocation review.

Beyond pricing, we remain concerned by the continued rise in levels of debt in the energy sector. Rising debt places pressures on all customers' bills and on supplier finances. For debt to be reduced, we ultimately need to see a reduction in situations

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[5] Ofgem (2025), Introducing a zero standing charge energy price cap variant https://consult.ofgem.gov.uk/energy-supply/introducing-zero-standing-charge-variant

where customers are getting into significant debt that they are unable to repay. And we also need to see improvements in the efficiency of debt management, for example making sure that changes of supplier or tenancy do not result in missed payments and inadvertent increases in debt.

We plan to publish an update to our debt strategy in the Autumn. We expect this to include further considerations on:

- Ensuring we have a controlled approach to credit in the retail market, including exploring the roles of different payment methods and reviewing how and when financial support should be offered to customers Tackling system inefficiencies and incentives that might mean that customers with the means to pay, avoid paying their fair share, or are not incentivised to engage with their supplier
- Improving customer trust and engagement in the sector to ensure better debt outcomes for individual customers and the sector as a whole

To enable these reforms, we plan to press ahead with resetting legacy debts from the energy crisis through the Debt Relief Scheme. We will share further details on our proposals in the coming weeks with suppliers and other interested stakeholders.

Next steps

We will engage stakeholders through a range of consultations, workshops and bilateral meetings covering the work areas mentioned through this letter. While we are not explicitly seeking responses to this work programme, we welcome any feedback. If you wish to share views, please send them to retailpriceprotection@ofgem.gov.uk in the coming weeks. Earlier feedback would be helpful to aid us in planning our work and resource. Where you think we should prioritise areas not covered in this work programme, please provide your view on what areas we should de-prioritise.