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Dear Daniel,

Energy price cap benchmark review

We welcome the opportunity to respond to Ofgem's consultation on the Energy Price Cap Benchmark Review.

We support Ofgem's proposal to update benchmark consumption values in the price cap to reflect more current usage patterns.. As consumption patterns continue to evolve - and potentially diverge across customer segments - misalignment may result in suppliers over or under recovering costs. A sharp increase in electricity consumption is anticipated over the coming decade, driven by accelerated electrification of heat and transport, and it is vital that the price cap evolves to protect consumers from excessive prices while allowing suppliers to recover costs fairly across all customer groups.

In practice, the 'benchmark' has two functions within the price cap. First, where fixed costs are recovered via the unit rate, the benchmark consumption is used in this conversion. Second, the 'benchmark consumption' is used to calculate a notional cap value which, together with the 'nil consumption' cap value defines the maximum standing charge and unit rate under the price cap. Only the first of these has any bearing on consumer bill values or supplier cost recovery and this is what drives the case for updating the benchmark. The second function has no external significance (all external communication of price cap levels is based on TDCV rather than the benchmark) and hence there is no obvious need for updating. One option which Ofgem appears not to have considered is to distinguish between these two benchmarks and update the consumption value used for the conversions, but leave the consumption value used in defining standing charge and unit rate unchanged. This would simplify the changes needed to the price cap spreadsheets.

In terms of the internal 'conversions' benchmark, we support Ofgem's Option 2 (DESNZ Median). The DESNZ dataset is the most recent and robust evidence available, published as Official Government Statistics and accredited under the UK Statistics Authority's Code of Practice, ensuring high standards of quality, reliability, and

transparency. Median consumption offers a more stable measure than the mean and is less sensitive to outlier data (eg resulting from inclusion of high-consumption non-domestic premises in the domestic data set). The median produces a benchmark that is fairer to consumers and more reliable for suppliers, supporting cost recovery in line with the intent of the price cap.

We believe Ofgem should implement an automatic annual update mechanism for internal benchmark values (as used for converting fixed costs to unit rate), using the latest DESNZ median consumption data. This would reduce reliance on ad hoc consultations and ensure the cap remains responsive to evolving consumption trends. In a rapidly evolving energy system, it is appropriate to use the most recent weather-corrected consumption data available. While the internal benchmark consumption and TDCV values used in external communication of price cap values should be broadly aligned, they have different purposes and need not be updated in lockstep. There may be a case for retaining the two year update cycle of TDCVs given the complexity of communicating 'old' and 'new' price cap values each time the TDCV is changed. (As noted above, we see no particular need to update the benchmark consumption used for setting a notional bill value within the price cap spreadsheets, as this is always replaced by TDCV for external presentation.)

We also welcome the exploratory proposals in Part B of the consultation relating to payment method-specific benchmarks. In our view, a single benchmark across all payment types risks distorting cost recovery between suppliers with different mixes of payment methods. We recommend that Ofgem combines DESNZ's authoritative national data with Ofgem's own insights on consumption splits by payment method to provide the most accurate and equitable approach. Any adverse impact on PPM customers could be mitigated by means of the existing levelisation mechanism. This will ensure the cap balances consumer protection with fair cost recovery across all customer groups.

Should you require any further information or clarification, please do not hesitate to contact us.

Yours sincerely,



Richard Sweet
Director of Regulatory Policy

**ENERGY PRICE CAP BENCHMARK REVIEW
– SCOTTISHPOWER RESPONSE**

Part A: Changing the Price Cap Benchmark Consumption

Q1. Do you agree that benchmark consumption in the price cap should be updated?

Yes, we agree that the benchmark consumption assumptions used in the price cap should be updated. However, we think that the 'benchmark' consumption is used in two separate ways in the price cap which may need to be considered separately:

- Consumption assumptions are used internally in the price cap where fixed costs are recovered via the unit rate allowance, which means that if the consumption assumption is too high, suppliers may under-recover fixed costs (and vice versa).
- Consumption assumptions are used in presenting the price cap levels at 'nil' and 'benchmark' consumption. On the basis that the standing charge and unit rate are set by the price cap methodology, the benchmark consumption is mainly presentational, and does not affect the actual bills paid by consumers or cost recovery by suppliers. Indeed, when Ofgem communicates price cap levels externally, it uses the current Typical Domestic Consumption Values (TDCV) rather than the benchmark consumption (which was based on the TDCV in 2017, using data from 2015).

Updating the internal benchmark consumption assumptions (used in converting fixed costs to unit rates) to reflect more recent consumption data is essential to ensure the cap supports efficient cost recovery. We believe that Option 2, using DESNZ median consumption data would be the most appropriate way of updating the internal benchmark consumption assumptions used in the price cap.

One option which Ofgem appears not to have considered is to distinguish between these two benchmarks and update the consumption value used for the conversions, but leave the consumption value used in defining standing charge and unit rate unchanged. This would simplify the changes needed to the price cap spreadsheets.

Q2. Do you agree with our minded-to proposal to update the benchmark consumption level using the latest TDCV?

While we support Ofgem's intention to update benchmark consumption assumptions, we believe Option 2, using the latest DESNZ median consumption data, offers a more accurate and robust foundation than Ofgem's current minded-to approach of using the latest Ofgem TDCVs to update the benchmark consumption assumptions.

While internal benchmark consumptions and TDCV values used in external communication of price cap values should be broadly aligned, they have different purposes and should not necessarily be updated in lockstep.

TDCVs were not originally intended as a benchmark value in the price cap. Their primary purpose is to provide a standardised reference point for comparing energy prices across suppliers, regions, and over time, particularly for use in the price cap and consumer-facing

tools like price comparison websites.¹ If TDCV values are updated too frequently, this makes it harder for stakeholders to understand trends in energy prices, since changes in the 'headline' price cap value may be due to changing prices or changing consumption. It may also make it more complicated for suppliers to provide tariff information to consumers in a way that makes it easy for them to compare tariffs. We think the two year update cycle strikes an appropriate balance.

Price cap internal benchmark values (used in converting fixed cost to unit rate allowance) have little visibility to consumers. We suggest that the internal benchmark consumption values should be updated on an annual basis using the most recent available data. TDCV values should continue to be updated every two years, as at present and should be used in calculating the 'headline' value of the price cap. Should Ofgem move to payment method-specific benchmark values, there may be a case for retaining a uniform TDCV to enable comparison between tariffs for different payment methods.

Q3. What are your views on the alternative approach of using 2023 DESNZ median consumption data?

We consider use of the latest DESNZ median consumption data to be the most suitable approach to updating internal benchmark consumption values in the price cap. The median approach offers a stable and representative measure of a 'typical' household because it reflects the midpoint of household usage. This approach is less sensitive to extreme outliers in the dataset, such as very high-consuming households or misclassified non-domestic meters, which can significantly distort the mean. Moreover, the DESNZ dataset reflects actual household energy usage and is based on more recent consumption patterns. Crucially, these figures are Accredited Official Government Statistics, which means they meet the UK Statistics Authority's Code of Practice for Statistics.² This accreditation ensures:

- Methodological rigour, with transparent and consistent data collection
- Public trust and credibility, supporting regulatory legitimacy
- Policy alignment, as DESNZ data are used across government for energy planning and fuel poverty analysis
- Auditability, with regular review and external scrutiny.

By using accredited statistics, Ofgem can ensure that the benchmark consumption assumptions are not only more representative of current usage but also defensible and coherent within the wider policy landscape. This is crucial as the energy system changes, with electrification of domestic heat and transport.

By contrast, the TDCVs are derived from historical data and do not reflect current consumption trends. The latest TDCVs are based partly on data from 2019, predating the pandemic and subsequent shifts in household energy use and so under-represent recent behavioural and technological changes.

For these reasons, we recommend that Ofgem adopts Option 2 as the preferred methodology for internal benchmark consumption. This will help maintain the integrity of the price cap and ensure it remains responsive to the realities of the modern energy system. To support this,

¹ [Decision for Typical Domestic Consumption Values 2023 | Ofgem](#)

² Accredited Official Statistics are official statistics that have been independently reviewed by the Office for Statistics Regulation, the regulatory arm of the UK Statistics Authority, and confirmed to comply with the standards of trustworthiness, quality and value in the Code of Practice for Statistics: [Accredited official statistics – Office for Statistics Regulation](#)

Ofgem should implement an automatic annual update mechanism to ensure the cap reflects evolving consumption trends using the most current data available.

Ofgem's proposed implementation date of January 2026 is reasonable, providing suppliers with sufficient lead time to adjust internal systems and ensure operational readiness.

If Ofgem adopts Option 2, using the latest DESNZ subnational median consumption data for 2024, this may necessitate Ofgem working with DESNZ to access the subnational dataset prior to its formal publication expected in December 2025. Alternatively, if early access to the data is not possible, an April 2026 implementation date would allow Ofgem to incorporate the most up-to-date, weather-corrected consumption figures into the benchmark assumptions ahead of the 25 February announcement of the April 2026 price cap.

Using the latest available DESNZ data would enhance the accuracy and relevance of the benchmark, ensuring it reflects current household energy usage and supports fairer outcomes for consumers and suppliers.

Q4. What are your views on the option of using 2023 DESNZ mean consumption data, including any implications for the headroom allowance or other elements of the cap?

While updating benchmark consumption using DESNZ subnational mean consumption data would ensure the price cap reflects recent trends, we do not support the use of mean consumption values as the basis for setting internal benchmark consumption in the price cap for several reasons:

Availability of 'clean' domestic consumption data

Consumption data available from DESNZ is typically contaminated by inclusion of non-domestic premises, often with very high consumption. This can skew the mean above the correct level for domestic only sites, but the median is much less sensitive to such outliers.

Volatility

For the same reason, use of the mean could also create unnecessary volatility in benchmark updates, as a small proportion of anomalous data points could have a disproportionate impact on mean values.

Interaction with headroom allowance

The headroom allowance was originally introduced to allow for competition and to cover unforeseen costs not otherwise accounted for within the cap. Since the mean is typically higher than the median, shifting to a mean benchmark would effectively reduce the margin available for unexpected costs, thereby diminishing the practical level of headroom. If Ofgem proceeds with adopting mean consumption, it will be essential to review and potentially increase the Headroom Allowance to ensure it continues to fulfil its intended purpose.

For these reasons, we consider the mean approach to be unsuitable for use in price cap methodology and recommend that it is ruled out as a basis for future benchmark consumption calculations.

Part B: Payment Method Specific Approach

Q1. Do you consider that there is a case for introducing payment method specific benchmark consumption levels within the price cap?

Yes, we agree that there is a strong case for introducing payment method-specific benchmark consumption levels within the price cap framework. Consumption patterns vary significantly by payment type. Ofgem has acknowledged that a supplier with a greater than average proportion of prepayment customers may under-recover its efficient costs, all else being equal.³ It is important that prepayment customers continue to be financially viable for suppliers to serve to ensure they continue to receive the appropriate level of service and support.

Recognising consumption variations across payment methods through differentiated benchmarks would:

- Improve cost reflectivity, ensuring suppliers are more accurately compensated for serving different customer segments.
- Support better policy targeting, enabling Ofgem to tailor protections and interventions more precisely.

We believe this approach would strengthen the integrity of the price cap and better reflect the diversity of the domestic energy market.

We note that this consultation sits alongside Ofgem's decision to apply a reduction in the core operating cost allowance to the standing charge to benefit direct debit and prepayment customers with low usage,⁴ as well as its wider work on standing charges, including its proposal to introduce mandatory low or zero standing charge variants.⁵ It also complements the Energy System Cost Allocation and Recovery Review, which is exploring how fixed costs might be recovered more fairly.⁶ These reforms reinforce the need for benchmark consumption assumptions that are accurate, up-to-date, and reflective of actual customer usage.

We believe that introducing payment method-specific benchmark consumption levels could unlock significant overall benefits, particularly in the context of the transition to MHHS.

MHHS will enable suppliers to price and settle energy based on actual half-hourly consumption, improving cost reflectivity and encouraging innovation in tariffs and services. To fully realise these benefits, the price cap must evolve to reflect the diversity of consumption patterns across customer groups - including differences by payment method.

At present, smart meter uptake remains uneven, particularly among prepayment and standard credit customers, limiting the ability to apply MHHS principles universally. In this context, it is essential that the price cap framework allows suppliers to fairly recover costs for customers who are not yet settled half-hourly.

Benefits of differentiated benchmarks in this context include:

- Better reflecting actual usage patterns across customer groups.
- Supporting fair cost recovery, ensuring suppliers are not disadvantaged by structural differences in consumption linked to payment method.

³ See page 27, [Energy price cap operating cost and debt allowances decision: overview](#)

⁴ IBID

⁵ [Standing charges consultations | Ofgem](#)

⁶ [Energy system cost allocation and recovery review | Ofgem](#)

- To the extent that this change leads to better differentiated consumption benchmarks for customers on single rate tariffs relative to ToU tariffs, it may enable a smoother transition to MHHS, by aligning the cap methodology with the direction of market reform while accommodating current limitations.

While we recognise the need to manage complexity, we believe this approach is both timely and necessary. It would improve the accuracy and fairness of the cap and help ensure that suppliers can continue to serve all customer groups sustainably during the MHHS rollout.

We encourage Ofgem to consider this reform in the broader context of MHHS readiness and to ensure that the price cap framework evolves in step with wider market transformation.

Q2. We have considered a proposed method of calculating payment-specific benchmarks using the 2023 TDCVs weighted by average consumption data from the Debt-related Costs RFI, are there alternative data sources or methodologies you believe we should consider?

While the use of 2023 TDCVs weighted by average consumption data from the Debt-related Costs RFI data is a reasonable starting point, Ofgem could also use the most up to date DESNZ median data, weighting this by average consumption data from the Debt-related Costs RFI. We also encourage Ofgem to consider the operational burden of any new reporting requirements

Q3. What are your views on the potential distributional and operational impacts of introducing payment-specific benchmarks?

Distributional Impacts

There is a risk that some groups - particularly vulnerable customers on prepayment meters or standard credit - could see higher bills if their benchmarked consumption is reduced. Careful impact assessment and targeted support for affected groups would be essential.

We suggest that the mechanism introduced by Ofgem to equalise standing charges between PPM and DD customers (Levelisation Phase 1⁷) could offer a practical way to smooth out these distributional impacts. This would ensure PPM customers are not unfairly penalised and that costs are shared more equitably as we move to a payment-specific TDCV.

Operational Impacts

Introducing payment-specific benchmarks in the internal price cap calculation should have no operational impact on suppliers.

However, if TDCV values are also made payment method-specific, this may affect supplier billing systems, potentially requiring some system changes, staff training, and customer communications, with associated costs and risks. As noted above, we think there may be a strong case for retaining a single (non payment method-specific) TDCV value to enable customers to compare the cost of using different payment methods.

ScottishPower
September 2025

⁷ [Levelisation Phase 1 review: next steps | Ofgem](#)