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Sent by email to: [retailpriceregulation@ofgem.gov.uk](mailto:retailpriceregulation@ofgem.gov.uk)

Dear Daniel

## **Price: proposed changes to Warm Home Discount (WHD) scheme cost allowance<sup>1</sup>**

We welcome the opportunity to respond to Ofgem's proposals to re-profile WHD cost allowances. Before turning to the proposals themselves, however, it is important to be clear on the context in which they arise.

Ofgem presents its proposals as a response to two concerns:

- Financial pressures on suppliers as a result of cost deferred recovery for the current scheme year;
- The prospect of a £17 uplift in WHD allowance in April under Ofgem's 'status quo' default due to overlay of deferred recovery for scheme year 2025/26 with steady state recovery of £39 for scheme year 2026/27.

What is extraordinary about the present consultation is that the concerns Ofgem now highlights are not a result of new developments that Ofgem could not have foreseen; we specifically warned Ofgem about the very concerns it is now seeking to respond to. Our view remains that Ofgem could and should have anticipated these concerns in August by ensuring that October and January allowance uplifts would be sufficient to ensure full cost recovery for scheme year 2025/26 with no deferral.

In short, the impact of deferring cost recovery for the current WHD scheme year was entirely predictable (and predicted) and is the direct result of Ofgem's previous short-sighted decision. It is little consolation that Ofgem has now, belatedly, acknowledged what should have been obvious all along because failing to respond appropriately in time for the October means the concerns prompting the present review are now unavoidable. Revisiting decisions so soon after they have been made corrodes regulatory certainty in the reliability

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<sup>1</sup> [Energy price cap: proposed changes to Warm Home Discount Scheme cost allowance | Ofgem](#)

and durability of regulatory decisions. This is not only deeply unhelpful for supplier financial planning but also undermines investor confidence. Failure to heed and act on clear warnings available to Ofgem at the time of decision is a serious process failure which must not be repeated.

### *Ofgem's proposed response*

There are two aspects to Ofgem's proposed changes:

- On one hand, Ofgem proposes to start addressing outstanding cost recovery one quarter earlier than previously i.e. commencing in January 2026 rather than April 2026.
- On the other hand, it proposes further deferral by extending the end-date for cost recovery from the end of September 2026 (six months after the end of WHD 2025/26 scheme year) to the end of March 2027 (a full twelve months after the end of the 2025/26 scheme year).

Ofgem appears to have completely lost sight of the general principle related to policy cost clearly articulated in 2018, namely that where possible costs should be recovered in the period in which they are incurred.<sup>2</sup>

Nevertheless, given Ofgem's failure to address outstanding cost recovery from October, we accept that compressing full cost recovery into a single quarter so as to avoid deferred cost recovery at all is not now realistic (notwithstanding our view that it could have been accomplished had Ofgem grasped the nettle earlier).

### *Ofgem's prime focus to mitigate April 2026 impacts should be on ET charges not WHD*

While advancing the start of outstanding cost recovery from April 2026 to January 2026 is positive viewed in isolation, elongating the overall timescale for outstanding cost recovery into 2027 is not an appropriate or proportionate response to concern about April 2026 price impacts.

The primary driver of upward pressure on standing charges that Ofgem must address is not deferred WHD cost recovery but electricity transmission charging:

*"To recover the higher ET network charges under RIIO-3, we project that electricity standing charges could rise from £196 per annum today to around £230 by 2026, and £275 by 2031."*<sup>3</sup>

Therefore, rather than focusing narrowly on the WHD allowance in isolation, it is imperative that Ofgem revisits the proposed phasing of ET network charge increases as we have consistently urged.

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<sup>2</sup> [working paper 4 - environment and social obligation costs.pdf](#) paragraph 4.15

<sup>3</sup> [RIIO-3 Draft Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors | Ofgem](#)

### *Pragmatic counter proposal*

As noted above, Ofgem's principal focus to moderate April consumer price impacts should be on network charges rather than re-profiling WHD cost-under recovery. Nevertheless, to the extent Ofgem has now set expectations that it will reprofile WHD allowances it should amend its current proposals to ensure outstanding under-recovery is not allowed to persist beyond 2026.

The most straightforward way to achieve this would be to recover the outstanding shortfall over four quarters from 1 January 2026 rather than five, resulting in an uplift only slightly higher than Ofgem currently proposes.<sup>4</sup>

Compared to Ofgem's proposal, this will further mitigate the short-term pressure on supplier finances in the critical quarter when 2025/26 rebates are paid out while simultaneously ensuring that any further increase in standing charges in April 2026 will not be attributable to a change in the WHD allowance.

Don Wilson

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<sup>4</sup> £8.53 over four quarters, compared to £6.82 over five quarters i.e. increasing January 2026 allowance from £23.87 to £25.58 (£1.71 additional in each of the 4 quarters vs Ofgem's proposal over 5)