

## **Citizens Advice response to Energy price cap: proposed changes to Warm Home Discount Scheme cost allowance**

Question 1: Do you agree with our proposal to amend the WHD cost allowance profile as described in section 2 from 1 January 2026?

Yes we agree with the proposal. This will help to smooth the impact on consumer bills resulting from the government's decisions on the WHD scheme.

Question 2: If you do not agree with the proposal, do you propose any alternative WHD profiling options?

No response

Question 3: Do you have any other views you would like to share in response to this consultation?

Whilst we agree with the proposal to minimise unnecessary energy bill volatility for consumers, we do not agree with some of Ofgem's reasoning behind the proposal. In particular, Ofgem notes that "given the current stringency of the price cap, we recognise that suppliers may have different abilities to cover a material cashflow shortfall caused by making WHD payments in advance of receiving revenues."<sup>1</sup>

We do not agree that the price cap is "stringent".

The price cap has had numerous methodological changes since it was first implemented in 2019, generally to increase allowances. Profit margins for suppliers were raised in the 2023 decision on amending the methodology for setting the Earnings Before Interest and Tax (EBIT) allowance.<sup>2</sup> We explored why the prior fixed 1.9% margin was already too high, and why the increase was not justified, in our responses.<sup>3 4</sup>

Ofgem has since taken further steps to reduce risk for suppliers, but has not reflected this in a lower profit margin. For instance, Ofgem made a one-off

---

<sup>1</sup> [Energy price cap: proposed changes to Warm Home Discount Scheme cost allowance](#). Ofgem. 2025. P. 9.

<sup>2</sup> [Price Cap - Decision on amending the methodology for setting the Earnings Before Interest and Tax \(EBIT\) allowance](#). Ofgem. 2023.

<sup>3</sup> [Citizens Advice response to Consultation on amending the methodology for setting the Earnings Before Interest and Tax \(EBIT\) allowance](#). Citizens Advice. 2022.

<sup>4</sup> [Citizens Advice response to Further consultation on amending the methodology for setting the Earnings Before Interest and Tax \(EBIT\) allowance](#). Citizens Advice. 2023.

wholesale cost adjustment in 2022<sup>5</sup> and continues to assess potential further wholesale adjustments. The move to quarterly price cap updates further mitigated price volatility risks for suppliers.

Methodological choices confer further benefits to suppliers. For example, Ofgem has moved to a weighted average benchmark to determine operating cost allowances, which is more generous than the former lower quartile approach.<sup>6</sup> Further, the existence of the headroom allowance with no clawback means that this will often translate into increased profit margins for suppliers.

We therefore caution Ofgem against taking decisions on the basis of a “stringent” price cap, without providing evidence for this assessment.

---

<sup>5</sup>[Price Cap - Decision on possible wholesale cost adjustment](#). Ofgem. 2022.

<sup>6</sup>[Energy price cap operating cost and debt allowances decision: overview](#). Ofgem. 2025.