

Decision

Energy price cap: proposed changes to Warm Home Discount Scheme cost allowance

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Contact: Daniel Newport

Team: Retail Price Regulation

Email: retailpriceregulation@ofgem.gov.uk

In October 2025, we published a consultation on proposed changes to the cost recovery profile of the Warm Home Discount (WHD) scheme within the energy price cap, to take effect from 1 January 2026. The consultation followed the government decision to expand the WHD scheme mid-year in the 2025 to 2026 scheme year to 2.7 million additional eligible households and separately, the government proposal to extend the WHD scheme post April 2026.

Following consideration of the feedback we have received, this document sets out our decision to proceed with our minded to proposal. Specifically, we have decided to bring the remaining cost recovery associated with the 2025 to 2026 WHD expansion forward to 1 January 2026 and extend it over a longer period (until 31 March 2027).

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1. Introduction

This chapter provides the background and context for our decision to revise the profile of the WHD cost allowance in the price cap. It sets out a summary of our decision and outlines the process through which this decision was reached.

Background and context

The default tariff cap

- 1.4 The price cap (also known as the default tariff cap, or ‘the cap’) protects domestic customers on standard variable and default tariffs (which we refer to collectively as ‘default tariffs’), ensuring that they pay a fair price for their energy, which reflects its underlying costs. We set the cap by considering the different costs suppliers face. The cap is made up of a number of allowances which reflect these different costs, including a specific Warm Home Discount (WHD) cost allowance.
- 1.5 The cap is provided for in legislation through the Domestic Gas and Electricity (Tariff Cap) Act 2018 (the ‘Act’), which sets out the overall objective and five matters to which we must have regard when setting the cap. The cap is provided for in legislation through the [Domestic Gas and Electricity \(Tariff Cap\) Act 2018](#) (the ‘Act’), which sets out the overall objective and five matters to which we must have regard when setting the cap. In setting the cap, we are required to exercise our functions under the Act with our primary consideration being the protection of existing and future domestic customers who are on default tariffs.
- 1.6 In doing so we must also have regard to the following matters (see section 1(6) of the Act):
 - the need to create incentives for holders of supply licences to improve their efficiency
 - the need to set the cap at a level that enables holders of supply licences to compete effectively for domestic supply contracts
 - the need to maintain incentives for domestic customers to switch to different domestic supply contracts
 - the need to ensure that holders of supply licences who operate efficiently are able to finance activities authorised by the licence
 - the need to set the cap at a level that takes account of the impact of the cap on public spending.
- 1.7 The requirement to have regard for these matters does not mean that we must achieve them all. In reaching decisions on certain aspects of the cap, the weight to be given to each of these considerations is a matter of judgement. Often, a balance must be struck between competing considerations.

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- 1.8 In reaching the decisions put forward in this document, we have sought to achieve the objective set out in the Act to protecting existing and future default tariff customers. Through our regulatory judgement, we have balanced the various considerations set out in the Act (including the need to ensure suppliers who operate efficiently are able to finance their licensed activities).

Warm Home Discount

- 1.9 The WHD scheme aims to support low income and vulnerable consumers by providing an annual £150 annual discount on electricity bills for eligible households.
- 1.10 In Summer 2025, the government set out the decision to expand the WHD scheme for scheme year 2025 to 2026, providing the £150 discount to an additional 2.7 million households. The estimated additional cost of this expansion was £17 per customer.
- 1.11 On 30 September, [government consulted on proposals to continue the WHD scheme post April 2026](#). Under these proposals the eligibility criteria established for scheme year 2025 to 2026 would be continued post April 2026.
- 1.12 Our WHD October consultation set out a proposed change to the WHD cost allowance profile in the price cap. This proposal did not change the overall amount default customers are expected to contribute to the WHD scheme, which is ultimately a matter for government. However, it sought to smooth bill volatility for default customers and limit the extent of deferred revenues facing suppliers. We considered that this change would bring benefits to default consumers and take into account that suppliers had to deliver a greater number of WHD payments during the 2025 to 2026 scheme year than was expected when the relevant price cap allowances were set.

Our decision

Summary of our decision

- 1.13 Following careful consideration of the consultation responses, we have decided to proceed with our consultation proposal to amend the WHD allowance cost recovery profile.
- 1.14 We have therefore decided to:
- Bring the remaining outstanding 2025 to 2026 WHD scheme cost recovery period forward to 1 January 2026
 - Extend the period of outstanding 2025 to 2026 WHD scheme cost recovery to end March 2027

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- Implement the changes via amending the target spend figures in ‘Annex 4 – Policy cost allowance methodology’ which is published alongside [the price cap update for January to March 2026](#).

1.15 By making these changes, this will deliver the desired £6.82 uplift to the existing WHD allowance for the period of 1 January to 31 March 2026, and to any enduring future WHD allowance from 1 April 2026 should DESNZ proceed with their proposal to continue the WHD scheme.

Related publications

1.16 The key documents relating to this publication are:

- [DESNZ Impact Assessment on expansion](#)
- [Policy Update: Warm Home Discount and Contracts for Difference | Ofgem](#)
- [Continuing the Warm Home Discount Scheme: consultation document - GOV.UK](#)

Decision-making stages

Stage 1 Consultation open: 24 October 2025

Stage 2 Consultation closed (awaiting decision). Deadline for responses: 07 November 2025

Stage 3 Responses reviewed and published, and consultation decision published: 21 November 2025

Send us your feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this decision. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.

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2. Decision, stakeholder feedback and considerations

In our November consultation we sought views on the following questions:

- Q1. Do you agree with our proposal to amend the WHD cost allowance profile as described in section 2 from 1 January 2026?
- Q2. If you do not agree with the proposal, do you propose any alternative WHD profiling options?
- Q.3 Do you have any other views you would like to share in response consultation?

Decision

- 2.4 We have carefully considered all feedback provided as part of the consultation and have decided to proceed with our proposal to implement a £6.82 uplift to the cap to account for the remaining outstanding 2025 to 2026 expanded WHD scheme costs. As the WHD allowance currently applies to the 'nil consumption' benchmark in the price cap, this uplift will correspond to an increase on the fixed daily standing charge.
- 2.5 This uplift will be implemented by making the changes to the target spend inputs in 'Annex 4: Policy cost allowance methodology' of the price cap, to deliver the intended cost recovery profile. This uplift will be in place for a period of 15 months from 1 January 2026 to 31 March 2027.
- 2.6 This revised cost allowance profile is set out in the table below.

Revised annualised Warm Home Discount cost allowance profile (£/ dual fuel customer/ year)

Note - as most of the figures in the table show annualised costs, the columns should not be added together.

Annualised WHD cost allowance (£/dual fuel customer/year)	April 2025	July 2025	October 2025	January 2026	April 2026	July 2026	October 2026	January 2027	April 2027
Previous baseline WHD allowance	£21.96	£21.96	£21.96	£21.96					
WHD Winter 25/26 expansion costs			£17.05	£23.87	£6.82	£6.82	£6.82	£6.82	
New post April 2026 Scheme (illustrative)					£39.01	£39.01	£39.01	£39.01	£39.01

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Annualised WHD cost allowance (£/dual fuel customer/year)	April 2025	July 2025	October 2025	January 2026	April 2026	July 2026	October 2026	January 2027	April 2027
Total expected WHD annualised allowance	£21.96	£21.96	£39.01	£45.83	£45.83	£45.83	£45.83	£45.83	£39.01
Actual amount paid per customer, per period	£5.49	£5.49	£9.75	£11.46	£11.46	£11.46	£11.46	£11.46	£9.75

2.7 The decision does not alter the nominal contribution a default customer would pay for WHD costs compared with the do-nothing option position, so should be considered bill neutral over the period of cost recovery. However, the reprofiling will smooth bill changes by avoiding a more material (£17) uplift in standing charges that would otherwise take place over the six-month period from April to September 2026.

Summary of responses and considerations

2.8 We received thirteen responses to our consultation; nine from suppliers, three from consumer groups and one from a consumer. Our response focuses on the substantive points that are directly relevant to this particular decision. We have published non-confidential responses alongside this decision on our website. We set the overarching themes of stakeholder feedback below.

2.9 Broadly speaking, consumer groups welcomed our proposals noting that customers value stability. They understood that our proposal aims to smooth the cost profile by ensuring cost recovery is more gradual for default consumers.

2.10 More than half of suppliers who responded to our consultation signalled support for our minded to position, although views on the balance of consumer and financial resilience risks were nuanced and mixed. Suppliers generally recognised the difficult balancing act associated with limiting bill volatility versus limiting impacts on supplier financial resilience. Suppliers generally supported bringing cost recovery forward to January 2026 on the basis this would increase the revenues recoverable though the price cap within the same scheme year as the 2025 to 2026 WHD expansion costs will be incurred. Some suppliers felt our proposals still did not go far enough to bring all outstanding revenues forward to the current 2025 to 2026 scheme year and one supplier felt Ofgem could have acted more quickly to limit or prevent any deferred cost recovery from materialising.

2.11 A small number of suppliers expressed wider concerns around the cumulative impact of deferred cost recovery and noted that 2025 to 2026 WHD costs cannot

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be considered in isolation. On this issue, suppliers cited other examples of unexpected costs arising from government decisions, including the Network Charging Compensation (NCC) Scheme and Nuclear Regulated Asset Base (nRAB) where limited notice from government and a mismatch between costs being incurred and revenues being recoverable in the price cap was contributing to financial risks across the sector. To limit undue financial risks, suppliers encouraged Ofgem and government to work more closely to provide sufficient notice of prospective policy changes going forward and to prevent further mismatches between costs and revenue recovery under the price cap.

- 2.12 We note the feedback provided that suppliers (for both SVT and fixed customers) would benefit from sufficient notice around upcoming policy changes and in the case of SVT customers how these costs will be reflected in the price cap. We will continue to work with government to ensure a stable and predictable regulatory framework, increasing clarity and certainty for suppliers and consumers where we are able to do so.
- 2.13 We received one consumer response to our consultation who expressed general concerns on energy bill, consumer debt and advocated for ensuring that the responsibility for paying bills rests with those who consumed the energy. While we acknowledge these concerns, they relate to broader issues to debt recovery and market design and therefore fall outside of the scope of this consultation.

Views on balance of trade-offs and alternatives proposed

- 2.14 As noted above, all consumer groups signalled broad support for our proposal as did more than half of suppliers (five of the nine who responded).
- 2.15 One consumer group who supported our proposal did challenge our assumption that the price cap is stringent, noting numerous instances of changes to the price cap methodology which have generally increased allowances. We note the arguments put forward. We continually monitor supplier financial reporting and while it is a complex judgement, we do not consider that previous reviews imply that the price cap is not stringent, especially in the context of outturn EBIT being considerably lower than the notional cap allowance.
- 2.16 One consumer group signalled support for our proposal but made several detailed points around ways in which the WHD scheme could be amended to deliver additional benefits to vulnerable customers. We welcome the engagement however note that the overarching design of the WHD scheme is determined by government.
- 2.17 One other consumer group who signalled support for our proposal set out concerns around the distributional impacts of standing charges on vulnerable, low consumption households. The stakeholder felt that our current work on the Cost Allocation and Recovery Review (CARR) did not go far enough in considering reforms to how energy costs are allocated and recovered from bills. We welcome

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the feedback provided, noting our ongoing work on reviewing potential reform to standing charges and cost allocation remain ongoing.

Proposed alternatives raised by stakeholders

- 2.18 Five of nine suppliers supported our proposal and felt it represented an appropriate balance of competing trade-offs given the circumstances.
- 2.19 One supplier who supported our proposal felt if Ofgem wanted to go further to limit bills impacts, it would be appropriate to spread the costs further to 18 months (to end June 2027) as opposed to our 15-month proposal. This supplier noted this delivers further consumer benefits but is likely to increase complexities on supplier financial reporting by extending 2025 to 2026 costs into a further additional WHD scheme year (2027 to 2028).
- 2.20 One supplier who supported our proposal noted that if Ofgem wanted to adopt a position which placed greater emphasis on supplier financial risks over consumer benefit, it should retain the status quo.
- 2.21 Another supplier who supported the proposal signalled that further action is needed as there is more to be done to mitigate risks on suppliers, but no specific counter proposals were put forward. The supplier noted they were moving quickly to deliver rebates as early as possible for WHD scheme year 2025 to 2026 and our proposal would pose an even greater impact to suppliers seeking to be more proactive with rebate delivery timings. We note the interactions between delivering rebates, scheme reconciliation and cost recovery through the price cap - and that these will all have bearing on supplier cash flow. The timing of rebates and reconciliation is not the subject of this decision; however, their interaction has been a consideration throughout our decision-making process.
- 2.22 Two suppliers who did not support our proposal suggested that we recover outstanding 2025 to 2026 WHD costs over 12 months rather than 15 months to align with the 2026 calendar year. These suppliers also highlighted that this would still smooth bill impacts for consumers, allow suppliers to recover their costs in a timely manner and align with when WHD is paid to eligible consumers. This option would result in a greater bill uplift than our proposal but would have ensured suppliers could recover 2025 to 2026 WHD expansion costs by end December 2026 rather than by end March 2027. Through reaching our decision we recognise that a judgement needs to be made on competing trade-offs between further bill impacts and cost recovery. However, we consider our proposal strikes the right balance between our primary duty to protect domestic consumers on standard variable and default tariffs and the need to ensure that holders of supply licences who operate efficiently are able to finance activities authorised by the licence. This view was supported by the majority of stakeholders that responded to our consultation, including many suppliers. We also note that alignment with end March 2027 takes into account the flexibility suppliers have as to when they will

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incur relevant WHD rebate costs for any WHD scheme year 2026 to 2027, which would be until the end of March 2027.

- 2.23 Two of the suppliers that responded, noted the potential for deviation between supplier costs and revenues as a result of changes in customer base between costs being incurred and revenues being received. One supplier suggested that customers were unlikely to feel the smoothing impacts due to wider changes to bills and therefore we should not change the existing recovery profile. We acknowledge this concern and agree that we generally support an approach of revenues and costs matching within the relevant period. This is one reason we set an ex-ante cap. We consider this consultation an exception on the basis that the nature and timing of the scheme extension created a profiling challenge. Our role in this instance is therefore to find a solution that to that challenge which best balances our duties. We do not consider it possible for the price cap to mitigate this risk without creating new risks; however, we do note the ongoing interaction with scheme reconciliation.
- 2.24 One supplier who did not support our proposal suggested a 9-month recovery period from January 2026 to September 2026, rather than the 15-month recovery period proposed. The supplier outlined their view that this alternative proposal more closely aligns to representations previously made to Ofgem (in August 2026) on the issue of WHD cost recovery. This viewpoint places greater emphasis on swift recovery of deferred costs at the expense of mitigating consumer impacts and as noted throughout this decision, we consider our consulted on proposal remains the most appropriate and balanced position, as supported by the majority of stakeholders.

Wider feedback and considerations

- 2.25 Two suppliers provided feedback that Ofgem could have responded more quickly on this issue and noted that they engaged Ofgem in August 2025 on cost recovery concerns associated with the recovery of 2025 to 2026 WHD expansion costs. In general, the price cap takes a 12-month position on cost recovery, including in setting the WHD cost allowance. Given the government expansion of the WHD in 2025 to 2026 occurred part way through the scheme year, we felt it prudent to give clarity to stakeholders as part of our August 2025 policy update what the default arrangements within the price cap would be (in the absence of any decision to the contrary).
- 2.26 It is important to note that when we provided the August 2025 update to stakeholders, the government had not yet published its consultation to continue the WHD scheme beyond March 2026. On 25 September 2025, DESNZ published its consultation proposing to extend the WHD scheme post April 2026 at the expanded level of support. We have taken account of the evolving circumstances in deciding to consult on changes to the default WHD cost recovery position in a timely manner. Another supplier supported this viewpoint in their response,

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outlining that Ofgem itself is responding on relatively short notice to policy decisions beyond its control and that striking the right balance between competing objectives is challenging.

- 2.27 One supplier noted that if we do proceed with our proposal, we should also take forward an urgent review of the headroom allowance in the price cap. We note that we have set out our [proposed forward work plan](#) for price cap activities on our website to give stakeholders more clarity on the reform areas we expect to focus on over 2025 to 2026. However, we will continue to keep this under review as informed by the evidence.
- 2.28 Two suppliers referred to network cost changes expected to take effect from 1 April 2026 under our RIIO price control framework, citing that Ofgem should be seeking to mitigate April 2026 bill impacts by bearing down on any network cost allowance increases which may arise from our decisions on the RIIO-3 price control framework. We consider that the RIIO-3 Final Determinations, to be published in early December 2025, will strike an appropriate balance between the need to keep energy bills as low as possible in the short-term with enabling the network investment which will bring bills down in the medium- and long-term. In any case such decisions would be outside the scope of this consultation.

Implementation and next steps

- 2.29 We thank stakeholders for their feedback to our consultation, which has helped inform and support the decisions we have reached.
- 2.30 We will increase the WHD allowance by £6.82 from 1 January 2026. We also will implement the extension of remaining 2025 to 2026 expansion costs to the end of March 2027.